LVMH

MOËT HENNESSY • LOUIS VUITTON

DECEMBER 31, 2019

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

VERSION AS OF MARCH 27, 2020

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MANAGEMENT REPORT OF THE BOARD OF DIRECTORS: THE GROUP

The LVMH business model

The LVMH group was formed from the merger of Moët Hennessy and Louis Vuitton in 1987. Bernard Arnault became the leading shareholder and Chairman and Chief Executive Officer in 1989, with the ambition of making LVMH the world leader in luxury.

Today, the LVMH group has built its leading position through a unique portfolio of 75 exceptional Maisons, operating in six business groups. Each of them creates products that combine high-level expertise with a strong heritage, drawing their momentum from a spirit of innovation and openness to the world.

The Group helps its Maisons grow over the long term, based on respect for their specific strengths and individuality, underpinned by common values and a shared business model. Accordingly, it provides them with all of the resources they need to grow in terms of designing, manufacturing and selectively retailing their products and services.

1. BUSINESS OVERVIEW

LVMH is the only group that operates simultaneously, through its Maisons, in all the following luxury sectors:

Wines and Spirits: Based in Champagne, Bordeaux and other renowned wine-growing regions, the LVMH group's Maisons – some of which are hundreds of years old – all have their own unique character, backed by a shared culture of excellence. The activities of LVMH in Wines and Spirits are divided between the Champagne and Wines segment and the Cognac and Spirits segment. This business group focuses on growth in high-end market segments through a powerful, agile international distribution network. LVMH is the world leader in cognac, with Hennessy, and in champagne, with an outstanding portfolio of brands and complementary product ranges. It also produces high-end still and sparkling wines from around the world.

Fashion and Leather Goods: LVMH includes established Maisons with their own unique heritage and more recent brands with strong potential. Whether they are part of Haute Couture or luxury fashion, LVMH's Maisons have based their success on the quality, authenticity and originality of their designs, created by talented, renowned designers. All the Group's Maisons are focused on the creativity of their collections, building on their iconic, timeless lines, achieving excellence in their retail networks and strengthening their online presence, while maintaining their identity.

Perfumes and Cosmetics: LVMH is a key player in the perfume, makeup and skincare sector, with a portfolio of world-famous established names as well as younger brands with a promising future. Its Perfumes and Cosmetics business group boasts exceptional momentum, driven by growing and securing the long-term future of its flagship lines as well as boldly developing new products. The Maisons cultivate their individuality, a differentiating factor for their followers in a highly competitive global market. At the same time, they are all driven by the same values: the pursuit of excellence, creativity, innovation and complete control of their brand image.

Watches and Jewelry: The Maisons in Watches and Jewelry – LVMH's youngest business group – operate in the high-end watchmaking, jewelry and high jewelry sectors. It features some of the most dynamic brands on the market, positioned to complement each other's strengths. These Maisons rely on their outstanding expertise, creativity and innovation to surprise their customers all over the world and respond to their aspirations.

Selective Retailing: The Group's Selective Retailing brands all pursue a single objective: transforming shopping into a unique experience. From elegant interior design to a specialist selection of high-end products and services, combined with personalized relationships, customers are the focus of their attention on a daily basis. Operating all over the world, the Maisons are active in two spheres: selective retail and travel retail (selling luxury goods to international travelers).

Other activities: The Maisons in this business group are all ambassadors for culture and a certain *art de vivre* that is emblematic of LVMH. This approach is taken by Maisons including the Les Echos group, which – in addition to *Les Echos*, the leading daily financial newspaper in France – owns several business and arts titles; the Royal Van Lent shipyard, which builds and markets custom-designed yachts under the prestigious Feadship name; Belmond, which has a large portfolio of hotels, trains, cruise lines and safari lodges that combine heritage, expertise, authenticity and impeccable service; and the exceptional Cheval Blanc hotels, which operate worldwide.

Key figures

(as of December 31, 2019)

75 Maisons

25 Maisons over 100 years old

70 countries worldwide

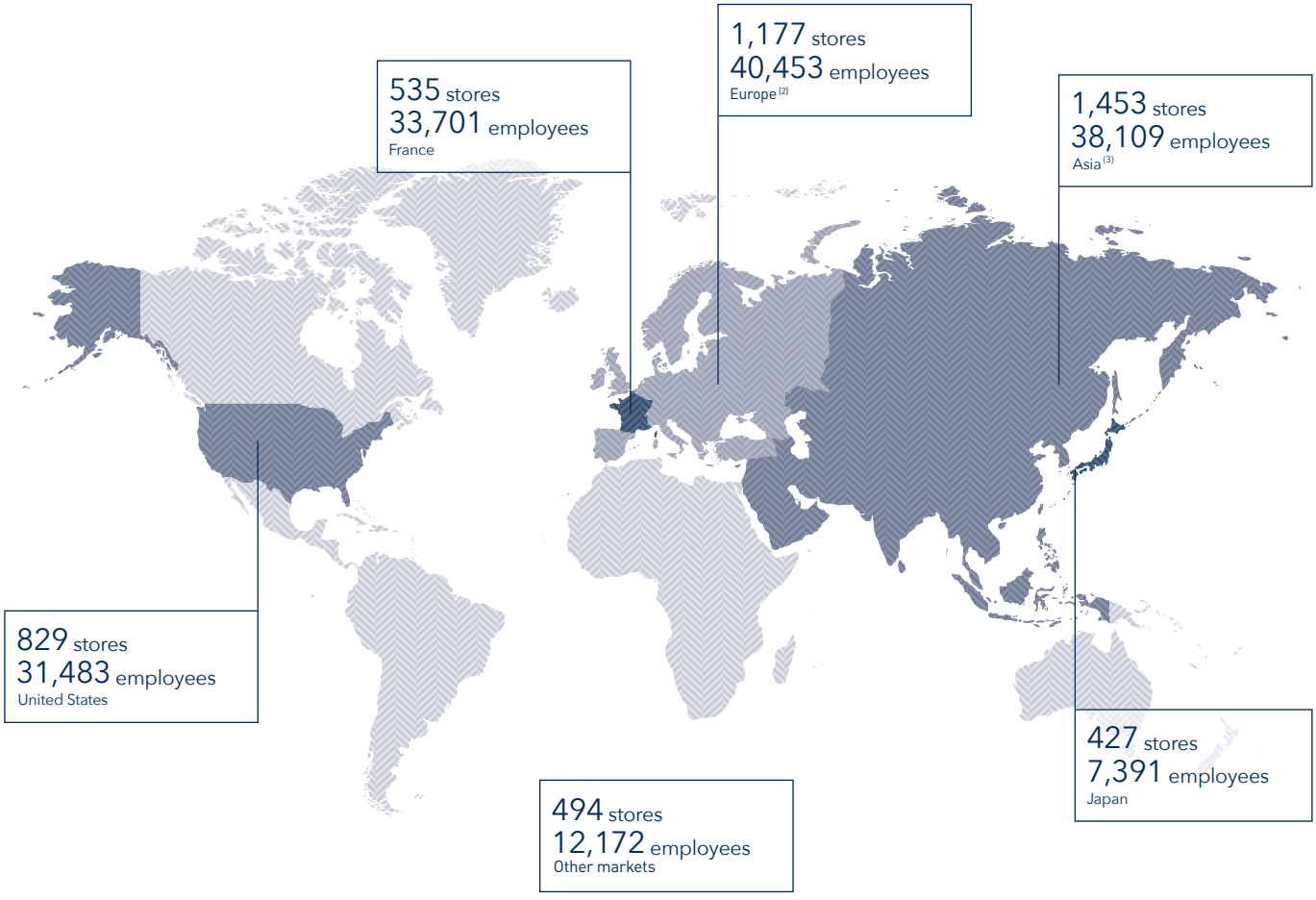
163,309 employees worldwide

41,287 joiners[1]

4,915 stores worldwide

Geographic presence

(as of December 31, 2019)



(1) Under permanent contracts.
(2) Excluding France.
(3) Excluding Japan.

2. GROUP VALUES

In its quest for excellence, there are three fundamental values that drive the Group's performance and ensure its long-term future. These are shared by everyone involved at LVMH, and inspire and guide their actions. They are one of its Maisons' keys to success, anchoring them in the modern world and the society in which they operate.

Being creative and innovative: Creativity and innovation are part of LVMH's DNA; throughout the years, they have been the keys to the Maisons' success and the basis of their solid reputations. These fundamental values of creativity and innovation are pursued in tandem by the Group's Maisons as they focus on achieving the ideal balance between continually renewing their offer while resolutely looking to the future, always respecting their unique heritage.

Delivering excellence: Within the Group, quality can never be compromised. Because the Maisons embody everything that is most noble and accomplished in the world of fine craftsmanship, they pay extremely close attention to detail and strive for perfection: from products to services, it is in this quest for excellence that the Group differentiates itself.

Cultivating an entrepreneurial spirit: The Group's agile, decentralized structure fosters efficiency and responsiveness. It encourages individuals to take initiative by giving everyone a significant level of responsibility. The entrepreneurial spirit promoted by the Group makes risk-taking easier and encourages perseverance. It requires a pragmatic approach and the ability to mobilize staff towards achieving ambitious goals.

Our Group and Maisons put heart and soul into everything they do. Each of our initiatives is meaningful and reflects our commitment to the environment, the community and diversity.

3. OPERATING MODEL

LVMH has implemented a unique operating model based on six pillars, which contributes to the Group's long-term success by combining profitable growth, sustainability and a commitment to excellence.

Decentralized organization: The structure and operating principles adopted by LVMH ensure that Maisons are both autonomous and responsive. As a result, they are able to build close relationships with their customers, make fast, effective and appropriate decisions, and motivate Group employees for the long term by encouraging them to take an entrepreneurial approach.

Internal growth: The LVMH group prioritizes internal growth and is committed to developing its Maisons, and encouraging and protecting their creativity. Staff play a critical role in a model of this kind, so supporting them in their career and encouraging them to exceed their own expectations is essential.

Vertical integration: Designed to cultivate excellence both up- and downstream, vertical integration ensures control of every stage of the value chain, from sourcing to production facilities and selective retailing. It also guarantees strict control of Maisons' brand image.

Creating synergies: Resources are pooled at Group level to create intelligent synergies while respecting each Maison's independence and autonomy. LVMH's shared strength as a Group is used to benefit each Maison individually.

Securing expertise for the long term: The Maisons that make up the Group cultivate a long-term vision. To protect their identity and excellence, LVMH and its Maisons have implemented numerous tools to pass on expertise and promote artisanal and creative skills in the next generation.

A complementary mix of activities and geographic locations: The LVMH group has equipped itself to grow steadily by balancing its activities and their geographical spread, helping to secure its position in the face of economic fluctuations.

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS: THE GROUP

Business overview, highlights and outlook

1. WINES AND SPIRITS

In 2019, revenue for the Wines and Spirits business group represented 10% of the LVMH group's total revenue. Champagne and wines made up 45% of this revenue, while cognacs and spirits accounted for 55%.

1.1 Champagne and Wines

1.1.1 Champagne and Wine brands

LVMH produces and sells a very broad range of high-quality champagnes. Beyond the Champagne region, the Group develops and distributes a range of high-end still and sparkling wines produced in nine countries spanning four continents: France, Spain, the United States (California), Argentina, Brazil, Australia, New Zealand, India and China.

Founded in 1743, **Moët & Chandon** is the Champagne region's leading wine grower, producer and exporter, renowned for its exceptional heritage and pioneering spirit. Steeped in tradition with its iconic *Moët Impérial* blend, its rosé versions the *Grand Vintage* collection, the Maison is also squarely positioned as an innovator, illustrated in particular by *Moët Ice Impérial*, the very first champagne exclusively designed to be served over ice in large glasses to reveal all its subtle nuances.

Dom Pérignon carries on the legacy of Dom Pierre Pérignon, the 17th-century Benedictine monk whose ambition was to make "the best wine in the world". Dom Pérignon only releases vintage champagnes. The Maison's Cellar Master has full control over the wine aging process, expressing a unique vision and a meticulously structured approach in the finished product. The wine evolves in successive phases, each one a window of expression, called *Plénitudes*. The first vintage of Dom Pérignon was produced by Moët & Chandon in 1936.

Veuve Clicquot, highly acclaimed for its work with Pinot Noir and its expertise in reserve wines, is currently ranked number-two in the profession. Veuve Clicquot embodies a bold, chic *art de vivre* cultivated by the Maison since it was founded in 1772. The Maison's iconic cuvées are *Brut Carte Jaune*, *Veuve Clicquot Rosé* (the first blended rosé champagne, created 200 years ago) and the prestige cuvée *La Grande Dame*, a blend based on the Maison's eight classic grands crus.

Ruinart, founded in 1729, is the oldest of the champagne houses. Each of its cuvées expresses the distinctive personality of Chardonnay, the Maison's dominant grape variety. **Krug**, established in 1843 and acquired by LVMH in January 1999, is the first and only champagne house to create an exclusively prestige cuvée every year: *Krug Grande Cuvée*. **Mercier**, which was founded by Eugène Mercier in 1858, has always had the aim of creating a champagne for all occasions, which is sold mainly in the French market.

LVMH's portfolio of wines from outside the Champagne region includes a number of prestigious appellations in France, Spain, America, Asia and Oceania.

LVMH's wineries outside France are **Cloudy Bay** in New Zealand; **Cape Mentelle** in Australia; **Newton Vineyard** and the iconic **Colgin Cellars** (founded by Ann Colgin 25 years ago and acquired by LVMH in 2017) in California; **Terrazas de Los Andes** and **Cheval des Andes** in Argentina; **Ao Yun** in China; and **Numanthia Termes** in Spain. The Chandon brand (created in 1959 in Argentina) includes the Moët Hennessy sparkling wines developed in California, Argentina, Brazil, Australia, India and China by Chandon Estates.

In France, since 1999 LVMH has owned **Château d'Yquem**, the most celebrated Sauternes and the only *Premier Cru Supérieur* in the 1855 classification. In 2009, the Group purchased a 50% stake in the prestigious winery **Château Cheval Blanc**, *Premier Grand Cru classé A* Saint-Émilion. In 2014, LVMH acquired **Domaine du Clos des Lambrays**, one of the oldest and most prestigious Burgundy vineyards, and Grand Cru of the Côte de Nuits. Lastly, **Château du Galoupet** (which has held the acclaimed Cru Classé des Côtes-de-Provence designation since 1955) and **Château d'Esclans** (the US market leader in Provence rosé wines, headed by Sacha Lichine) also joined the portfolio of wines in 2019.

1.1.2 Competitive position

In 2019, shipments of LVMH champagne brands were up 1% in volume, while shipments from the Champagne region as a whole were down 2% (source: CIVC). LVMH's market share was 22.1% of the total shipments from the region, compared to 21.6% in 2018.

Champagne shipments, for the whole Champagne region, break down as follows:

(in millions of bottles and percentage)	2019			2018			2017		
	Sales volume		Market share	Sales volume		Market share	Sales volume		Market share
	Region	LVMH	*(%)*	Region	LVMH	*(%)*	Region	LVMH	*(%)*
France	141.5	8.7	6.1	147.5	8.7	5.9	153.5	9.9	6.4
Export	156.0	57.2	36.7	154.8	56.7	36.6	153.9	57.3	37.3
Total	**297.5**	**65.9**	**22.1**	**302.3**	**65.4**	**21.6**	**307.4**	**67.2**	**21.9**

(Source: Comité Interprofessionnel du Vin de Champagne – CIVC).

The geographic breakdown of LVMH champagne sales in 2019 is as follows (as a percentage of total sales expressed in number of bottles):

(as %)	2019	2018	2017
Germany	5	5	5
United Kingdom	8	7	8
United States	20	19	19
Italy	4	4	4
Japan	11	10	10
Australia	4	5	5
Other	35	36	34
Total export	**87**	**87**	**85**
France	13	13	15
Total	**100**	**100**	**100**

1.1.3 The champagne production method

The Champagne appellation covers a defined geographic area classified A.O.C. *(Appellation d'Origine Contrôlée)*, which covers the 34,000 hectares that can be legally used for production. There are essentially three main types of grape varietals used in the production of champagne: Chardonnay, Pinot Noir and Pinot Meunier.

In addition to its effervescence, the primary characteristic of champagne is that it is the result of blending wines from different years and/or different varieties and land plots. The best brands are distinguished by their masterful blend and consistent quality, achieved thanks to the talent of their wine experts.

Weather conditions significantly influence the grape harvest from one year to the next. The production of champagne also requires aging in cellars for two years or more for premium, vintage and/or prestige cuvées. To protect themselves against crop variations and manage fluctuations in demand, but also to ensure consistent quality year after year, LVMH's champagne houses regularly adjust the quantities available for sale and keep reserve wines in stock, mainly in storage tanks. As maturation times vary, the Group constantly maintains significant champagne inventories in its cellars. An average of 219 million bottles are stored in LVMH's cellars in Champagne, equivalent to about 3 years of sales; in addition to this bottled inventory, the Group has wines still in storage tanks waiting to be drawn (equivalent to 94 million bottles), including the quality reserve withheld from sale in accordance with applicable industry rules (equivalent to 10 million bottles).

The making of champagne involves extremely rigorous processes in order to ensure absolute consistency in quality from year to year. Moët et Chandon continued development of its Mont Aigu site, with its fermentation room, bottling line, cellars, disgorging area and packaging workshop now supplementing the production capacity of Moët & Chandon's historic facilities in Épernay. The historic production sites of Veuve Clicquot, Ruinart and Krug are in Reims. Veuve Clicquot began construction on its new "Comète" production site located in Saint-Léonard, near Reims.

In order to drive innovation and develop expertise in its production processes, the Group has invested in a research and development facility in Oiry, which is open to all its Maisons.

1.1.4 Grape supply sources and subcontracting

The Group owns nearly 1,700 hectares under production, which provide almost 20% of its annual needs. In addition, the Group's Maisons purchase grapes and wines from wine growers and cooperatives on the basis of multi-year agreements; the largest supplier of grapes and wines represents less than 10% of total supplies for the Group's Maisons.

LVMH's champagne houses, along with their partner grape suppliers, are steadily building up their use of sustainable winegrowing practices.

Since 1996, industry agreements have established a qualitative reserve in order to cope with variable harvests. The surplus inventories stockpiled this way can be sold in years with a poor harvest. Each year, the INAO (the French governing body for appellations of origin) sets the maximum harvest that can be made into wine and sold under the Champagne appellation, as well as the ceiling known as the PLC *(plafond limite de classement)*, the quantity by which the appellation's marketable yield can be exceeded. For the 2019 harvest, the marketable yield for the Champagne appellation was set at 10,200 kg/ha and the PLC at 3,100 kg/ha. The maximum level of the stockpiled reserve is set at 8,000 kg/ha.

The price paid for each kilogram of grapes in the 2019 harvest ranged between 5.85 euros and 6.70 euros depending on the vineyard, an average increase of 1.9% compared to the 2018 harvest. Premiums may be paid on top of the basic price in line with the special conditions agreed under each partnership (including for sustainable winegrowing).

Dry materials (bottles, corks, etc.) and all other elements representing containers or packaging are purchased from non-Group suppliers. In 2019, the champagne houses used subcontractors for about 27 million euros of services, notably pressing, handling and storing bottles.

1.2 Cognac and Spirits

1.2.1 Cognac and Spirits brands

LVMH holds the most powerful brand in the cognac sector with **Hennessy**. The Company was founded by Richard Hennessy in 1765. Historically, the brand was most prominent in the Irish and British markets, but Hennessy rapidly expanded its presence in Asia, which represented nearly 30% of its shipments as early as 1925. The brand became the world cognac leader in 1890. Hennessy created *X.O (Extra Old)* in 1870, and since then it has developed a range of high-end cognac for which it is highly renowned.

In 2005, LVMH acquired **The Glenmorangie Company**, which owns the single malt whisky brands Glenmorangie, distilled in northeastern Scotland in Europe's tallest stills, and **Ardbeg**, distilled on the Isle of Islay in the southern Hebrides.

Since 2007, LVMH has owned the luxury vodka **Belvedere**, founded in 1993 in order to bring a luxury vodka for connoisseurs to the American market. It is made at the Polmos Zyrardów distillery in Poland, which was founded in 1910.

Since 2017, **Volcán De Mi Tierra** tequila, which was created in collaboration with the Mexican entrepreneur Juan Gallardo Thurlow, has been available at a limited number of points of sale in the United States and Mexico.

In 2017, the Group acquired **Woodinville Whiskey Company**, which was established in 2010 by Orlin Sorensen and Brett Carlile and is the largest craft whiskey distillery in Washington State.

1.2.2 Competitive position

In 2019, the volumes shipped from the Cognac region were up 6% from 2018 (source: *Bureau National Interprofessionnel du Cognac* – BNIC), while volumes of Hennessy shipped increased by 17%. Hennessy's market share was 51.7%, compared to 47.0% in 2018. The company is the world leader in cognac, with particularly strong positions in the United States and Asia.

The leading geographic markets for cognac, both for the industry and for LVMH, on the basis of shipments in number of bottles, excluding bulk, are as follows:

(in millions of bottles and percentage)	2019			2018			2017		
	Sales volume		Market share	Sales volume		Market share	Sales volume		Market share
	Region	LVMH	*(%)*	Region	LVMH	*(%)*	Region	LVMH	*(%)*
France	3.9	1.1	27.2	4.0	0.8	19.1	3.5	0.7	20.1
Europe (excluding France)	31.9	8.0	25.0	33.3	8.1	24.3	35.3	8.4	23.9
United States	101.9	68.7	67.4	86.9	53.6	61.6	82.4	53.4	64.8
Asia	61.1	23.5	38.5	61.9	22.9	36.9	58.1	23.0	39.7
Other markets	14.1	8.8	62.4	14.5	8.9	61.7	14.1	8.4	59.8
Total	**212.9**	**110.0**	**51.7**	**200.6**	**94.2**	**47.0**	**193.3**	**94.0**	**48.6**

The geographic breakdown of LVMH cognac sales, as a percentage of total sales expressed in number of bottles, is as follows:

(as %)	2019	2018	2017
United States	58	56	55
Japan	1	1	1
Asia (excluding Japan)	23	23	24
Europe (excluding France)	8	9	9
Other	11	11	11
Total export	**100**	**100**	**100**
France	-	-	-
Total	**100**	**100**	**100**

1.2.3 The cognac production method

The Cognac region is located around the Charente basin. The vineyard, which currently extends over about 78,000 hectares, consists almost exclusively of the Ugni Blanc varietal which yields a wine that produces the best *eaux-de-vie*. This region is divided into six vineyards, each of which has its own qualities: Grande Champagne, Petite Champagne, Borderies, Fins Bois, Bons Bois and Bois Ordinaires. Hennessy selects its *eaux-de-vie* essentially from the first four vineyards, where the quality of the wines is more suitable for the preparation of its cognacs.

Charentaise distillation is unique because it takes place in two stages: a first distillation *(première chauffe)* and a second distillation (*seconde chauffe*). The *eaux-de-vie* obtained are aged in oak barrels. Cognac results from the gradual blending of *eaux-de-vie* selected on the basis of vintage, origin and age.

Hennessy – which carries out all of its production in Cognac – inaugurated a state-of-the-art bottling and packaging plant named Pont Neuf in 2017. The new plant will ultimately boost the Maison's production capacity to 10 million cases per year. The design of this 26,000-square-meter facility reduces its environmental footprint and optimizes working conditions to an extent never achieved previously.

1.2.4 Supply sources for wines and cognac *eaux-de-vie* and subcontracting

Most of the cognac *eaux-de-vie* that Hennessy needs for its production are purchased from a network of approximately 1,600 independent producers, a collaboration which enables the company to ensure that exceptional quality is preserved as part of an ambitious sustainable winegrowing policy. Hennessy directly operates about 180 hectares, providing for less than 1% of its *eaux-de-vie* needs.

Purchase prices for *eaux-de-vie* are agreed on between the company and each producer based on supply and demand and the quality of the *eaux-de-vie*. In 2019, the price of *eaux-de-vie* from the harvest remained stable following the substantial price increase agreed upon in 2018.

With an optimized inventory of *eaux-de-vie*, the Maison can manage the impact of price changes by adjusting its purchases from year to year under the contracts with its partners. Hennessy continues to control its purchase commitments and diversify its partnerships to prepare for its future growth across the various quality grades.

Like the Champagne and Wine businesses, Hennessy obtains its dry materials (bottles, corks and other packaging) from non-Group suppliers. The barrels and casks used to age the cognac are also obtained from non-Group suppliers. Hennessy makes only very limited use of subcontractors for its core business: aging, blending and bottling *eaux-de-vie*.

1.2.5 The vodka production method, supply sources and subcontracting

Belvedere vodka is made using only two ingredients – Polish rye and pure water – and is produced at one of Poland's oldest distilleries, which has been making vodka since 1910. Belvedere contains no additives, and is produced according to Polish laws governing vodka production, which stipulate that nothing may be added. Belvedere, an expert in rye distilling, draws upon more than 600 years of Polish tradition to produce extraordinary vodka with a distinct flavor and character. Overall, Belvedere's top raw *eaux-de-vie* supplier represents less than 35% of the company's supplies.

1.2.6 The Scotch whisky production method

As required by law to receive the Scotch whisky designation, the Glenmorangie and Ardbeg single malt whiskies are produced in Scotland from water and malted barley, fermented using yeast, and distilled and matured in Scotland for at least three years, in oak casks whose capacity may not exceed 700 liters. As single malt whiskies, they are the product of only one distillery. Glenmorangie's stills are the tallest in Scotland at 5.14 meters and allow only the lightest vapors to ascend and condense. The spirit still at Ardbeg has a unique spirit purifier. Glenmorangie and Ardbeg are normally matured for a minimum of 10 years in very high-quality casks.

1.3 Wines and Spirits distribution

Moët Hennessy has a powerful and agile global distribution network, thanks to which the Wines and Spirits business group continues to expand the presence of its portfolio of brands in a balanced manner across all geographies. Part of this network consists of joint ventures with the Diageo [1] spirits group, governed by agreements that have been in place since 1987, which help strengthen the positions of the two groups, improve distribution control, enhance customer service and increase profitability by sharing distribution costs. This mainly involves Japan, China and France. In 2019, 27% of champagne and cognac sales were made through this channel.

(1) Diageo has a 34% stake in Moët Hennessy, which is the holding company of the LVMH group's Wines and Spirits businesses.

1.4 Highlights of 2019 and outlook for 2020

	2019	2018	2017
Revenue *(EUR millions)*	**5,576**	**5,143**	**5,084**
Of which: Champagne and wines	*2,507*	*2,369*	*2,406*
Cognac and spirits	*3,069*	*2,774*	*2,679*
Sales volume *(millions of bottles)*			
Champagne	64.7	64.9	65.6
Cognac	98.7	93.3	90.9
Other spirits	19.6	19.1	17.8
Still and sparkling wines	39.3	38.5	43.8
Revenue by geographic region of delivery *(%)*			
France	5	6	6
Europe (excluding France)	18	19	18
United States	33	32	32
Japan	7	6	6
Asia (excluding Japan)	24	23	22
Other markets	13	14	16
Total	**100**	**100**	**100**
Profit from recurring operations[1] *(EUR millions)*	**1,729**	**1,629**	**1,558**
Operating margin *(%)*	**31.0**	**31.7**	**30.6**
Operating investments of the period *(EUR millions)*	**325**	**298**	**292**

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

Highlights

The Wines and Spirits business group performed well, in keeping with its value-enhancing strategy, and reaffirmed its leadership position by pursuing balanced geographic expansion. It achieved particularly remarkable momentum in China and the United States. The Maisons maintained a strong innovation policy and stepped up their environmental and social commitments.

The champagne houses enhanced their value propositions in a particularly competitive market. With volumes remaining virtually stable with respect to the previous year, organic revenue growth was 4%. The increased value was driven by more rapid growth in prestige cuvées and a firm price increase policy. **Moët & Chandon** consolidated its global leadership position, celebrating the 150th anniversary of its iconic *Moët Impérial* with a limited-edition bottle and a highly memorable event at the Maison's Château de Saran, which reopened its doors after several years of restoration. The success of its *Ice Impérial Blanc* and *Rosé* cuvées, offering new tasting experiences, illustrated the Maison's ability to move upmarket. Continuing to reaffirm its unique model, **Dom Pérignon** achieved an exceptional performance in all its markets. Since January 2019, Vincent Chaperon has taken up the mantle of Richard Geoffroy – Dom Pérignon's cellar master since 1990 – after having worked alongside him for 15 years. The year saw the launch of the new *Plénitude 2 1998* vintage and an artistic collaboration with Lenny Kravitz for its *Vintage 2008* and *Rosé 2006*. As the most-visited champagne house, **Mercier** built on its tradition of inclusiveness by employing guides specially trained in sign language. **Veuve Clicquot** enjoyed a strong performance among its pillars, *Carte Jaune* and *Rosé*, driven in particular by the United States and Japan. Hailed by critics, *La Grande Dame 2008* continued its ascent with a global marketing campaign launched at the end of the year. Building on its commitment to empower women entrepreneurs, the Maison launched the "Bold by Veuve Clicquot" program. **Ruinart** continued its growth with another record year, driven by the excellence of its cuvées, in particular its iconic *Blanc de Blancs*. The carte blanche given to Brazilian artist Vik Muniz in 2019 to explore the world of wine, as well as the launch of the *Retour aux Sources* art installation in Reims, which is connected to the living world and celebrates the beginning of the countdown to Ruinart's 300th anniversary in 2029, once again illustrated the Maison's commitment to art and the environment. **Krug** confirmed its move upmarket with the introduction of its *Krug Grande Cuvée 167e Édition* and *Krug Rosé 23e Édition*, followed by the launch of *Les Créations de 2006*. After serving as Winemaking Director for 13 years, Julie Cavil became the Maison's Cellar Master in January 2020. The Maison created the "Fonds K pour la Musique" to support philanthropic projects.

Estates & Wines implemented a development strategy for a portfolio of powerful brands serving its key markets, the United States and China. With its unwavering focus on quality, the Maison won a number of awards in 2019. The acquisitions in 2019 of **Château du Galoupet** and **Château d'Esclans** marked Moët Hennessy's debut in the promising market of very high-end rosé. **Chandon** delivered an impressive performance, in particular in the United States and Latin America. Despite an uncertain economic environment, the Maison achieved a strong rebound in Argentina with the launch of its groundbreaking *Chandon Apéritif*, a highly innovative product in its category. Continuing in their quest for excellence in crafting sparkling wines, Chandon's six vineyards around the world took home a flurry of awards from major international competitions.

Hennessy confirmed its solid momentum in its key markets: the United States, China and travel retail. Organic revenue growth was 7%, with sales volumes up 6%. The Maison crossed the threshold of 8 million cases and continued to extend its lead in emerging markets (Africa and the Caribbean) thanks to the increase in its flagship *V.S*, *V.S.O.P* and *X.O* qualities. This solid performance added to its successful track record in recent years, in particular 2018, when Hennessy became the world's leading premium spirits brand by value, in addition to its longstanding title as the world leader in cognac. The "Hennessy X.O – The Seven Worlds" marketing campaign directed by Ridley Scott was one of the luxury industry's most-watched digital campaigns, with more than 120 million views. This exposure had a halo effect on Hennessy's entire portfolio. The brand's constantly growing appeal was reflected in its higher position in Interbrand's ranking of the 100 best global brands. Hennessy continued to invest to prepare for the future and ensure a constant level of excellence

in its cognacs, with the opening of seven wine cellars in 2019 and the construction of a new packaging line at its Pont Neuf site inaugurated in 2017, an exemplary model of sustainable design.

Glenmorangie Company reinforced its position in the single malt category, driven by growing global demand for exceptional whiskies, and continued investing in the extension of its two distilleries. Glenmorangie and Ardbeg continued to win a number of awards from professionals in the sector. Taking a proactive environmental approach, the Glenmorangie distillery worked with its partners to help restore mussel and oyster beds in the Dornoch Firth.

Belvedere vodka continued to innovate with the worldwide launch of *Single Estate Rye Series* of high-end Polish rye vodkas. Through this initiative, for which it won a number of awards for excellence from prestigious international competitions, the Maison showcased the importance of terroir in developing the aromas and flavors of a vodka.

Volcán De Mi Tierra tequila achieved solid growth in North America and prepared for its expansion into new markets.

Woodinville Whiskey Company continued its development in a number of US states. The distillery prepared to increase its production to meet growing demand and successfully launched its *Port Finished Bourbon*.

The **Clos 19** e-commerce platform continued to grow in the United Kingdom, Germany and the United States. It enriched its range of exclusive experiences, collaborations and limited-edition products while continuing to pursue its expansion strategy to reach new markets.

Outlook

Excellence, innovation and careful attention to customers' specific expectations in each country will continue to support growth and value creation in the Wines and Spirits business group in the coming months. In an uncertain business environment where global demand is nevertheless increasingly oriented toward quality, LVMH's Maisons have major strengths. They will rely on their highly dedicated staff, their innovative momentum and the strong appeal of their brands to continue securing and sustainably building their long-term future. The diverse range of tasting and hosting experience the Maisons have built up, thanks to the strength of their creative, high-quality product portfolios, will help them adapt to new lifestyles and win over the next generation of consumers. Moët Hennessy's powerful and agile global distribution network is a major asset, enabling it to react to changes in the economic environment and seize every opportunity to increase market share. Increasing production capacity remains a top priority, along with a very active sourcing policy. As part of their long-term vision, all Maisons aim to step up their sustainability commitment to protect the environment and preserve their expertise.

2. FASHION AND LEATHER GOODS

In 2019, the Fashion and Leather Goods business group represented 41% of the total revenue of LVMH.

2.1 The brands of the Fashion and Leather Goods business group

In the luxury Fashion and Leather Goods sector, LVMH holds a group of brands that are primarily French, but also include Italian, Spanish, British, German and American companies.

Ever since 1854, **Louis Vuitton**'s success has been based on the faultless craftsmanship of its trunk-making, on complete control of its distribution and on its exceptional creative freedom, a source of perpetual renewal and inventiveness. By ensuring the right balance between new designs and iconic leather goods lines, between constantly perfected unique artisanal expertise and the dynamics of fashion designed in perfect symbiosis with the brand universe, the Maison is committed to surprising its customers, and making its stores inspiring. For over 150 years, its product line has continuously expanded with new models – from luggage to handbags and more – and new materials, shapes and colors. Famous for its originality and the high quality of its creations, today Louis Vuitton is the world leader in luxury goods and offers a full range of products: fine and high-end leather goods, ready-to-wear for men and women, shoes and accessories, watches, jewelry, eyewear and, since 2017, a collection of women's and men's fragrances.

Christian Dior was founded in 1946. Ever since its first "New Look" show, the Maison has continued to assert its vision through elegant, structured and infinitely feminine collections, becoming synonymous around the world with French luxury. Christian Dior's unique vision is conveyed today with bold inventiveness throughout the Maison's entire range, from Haute Couture, leather goods and ready-to-wear to footwear and accessories for both men and women as well as Watches and Jewelry. Parfums Christian Dior is included in the Perfumes and Cosmetics business group.

Founded in Rome by Adele and Edoardo Fendi in 1925, **Fendi** initially seduced its clientele of elegant Italian women, before conquering the rest of the world. Fendi has been part of the Group since 2000. Particularly well-known for its skill and creativity in furs, the brand is also present in accessories – including the iconic *Baguette* bag and the timeless *Peekaboo* – as well as ready-to-wear and footwear.

Loewe, the Spanish Maison founded in 1846 and acquired by LVMH in 1996, originally specialized in very high-quality leather work. Today it operates in leather goods and ready-to-wear. Perfumes Loewe is included in the Perfumes and Cosmetics business group.

Marc Jacobs, created in New York in 1984, is named after its founder and has been part of the LVMH group since 1997. Through its collections of men's and women's ready-to-wear, leather goods and shoes, it aims to be the symbol of an irreverent urban fashion movement that is culturally driven but also socially engaged.

Celine, founded in 1945 by Céline Vipiana and owned by LVMH since 1996, offers ready-to-wear items, leather goods, shoes and accessories.

Kenzo, formed in 1970, joined the Group in 1993. Renowned for its lavish prints and vibrant colors, the Maison operates in the areas of ready-to-wear for men and women, fashion accessories and leather goods. Its perfume business is part of the Perfumes and Cosmetics business group.

Givenchy, founded in 1952 by Hubert de Givenchy and part of the Group since 1988, a company rooted in a tradition of excellence in Haute Couture, is also known for its collections of men and women's ready-to-wear and its fashion accessories. Givenchy perfumes are included in the Perfumes and Cosmetics business group.

Pink Shirtmaker, a brand formed in 1984 that joined the Group in 1999, is a recognized specialist in high-end shirts in the United Kingdom.

Emilio Pucci, an Italian brand founded in 1947, is a symbol of casual fashion in luxury ready-to-wear, a synonym of escape and refined leisure. Emilio Pucci joined LVMH in 2000.

Berluti, an artisan bootmaker established in 1895 and held by LVMH since 1993, designs and markets very high-quality men's shoes, as well as a line of leather goods and ready-to-wear items for men.

Loro Piana - an Italian company founded in 1924 and held by LVMH since 2013 – creates exceptional products and fabrics, particularly from cashmere, of which it is the world's foremost processor. The brand is famous for its dedication to quality and the noblest raw materials, its unrivalled standards in design and its expert craftsmanship.

Rimowa, founded in Cologne in 1898, is the first German brand to be owned by LVMH. Renowned for its prestigious luggage, its products feature an iconic design and reflect its constant quest for excellence.

Nicholas Kirkwood, the British luxury footwear company established in 2004 and named after its founder, in which LVMH acquired a 52% stake in 2013, is famous throughout the world for its unique, innovative approach to footwear design.

2.2 Competitive position

In the Fashion and Leather Goods sector, the luxury market is highly fragmented, consisting of a handful of major international groups plus an array of smaller independent brands. LVMH's brands are present all around the world, and it has established itself as one of the most international groups. All these groups compete in various product categories and geographic areas.

2.3 Design

Working with the best designers, while respecting the spirit of each brand, is a strategic priority: the creative directors promote the Maisons' identities, and are the artisans of their creative excellence and their ability to reinvent themselves. As a means to continually renew this precious resource, LVMH has always been committed to supporting young designers and nurturing tomorrow's talent, in particular through the LVMH Prize for Young Fashion Designers, which each year honors the work of an up-and-coming designer displaying exceptional talent and outstanding creativity.

LVMH believes that one of its essential assets is its ability to attract a large number of internationally recognized designers to its Maisons. In 2019, after the loss of Karl Lagerfeld, Silvia Fendi continued to drive the success of the Rome-based fashion house, and Felipe Oliveira Baptista took over as Creative Director of Kenzo, previously held by Humberto Leon and Carol Lim since 2011. 2018 saw four new arrivals to the Group: Virgil Abloh as Creative Director of Menswear at Louis Vuitton, with Kim Jones named to the same position at Christian Dior; Hedi Slimane as Artistic, Creative and Image Director at Celine; and Kris Van Assche as Creative Director at Berluti. In 2017, Clare Waight Keller

was made Creative Director of Givenchy with responsibility for Haute Couture, ready-to-wear and women's and men's accessories. Since 2016, Maria Grazia Chiuri has been the first female Creative Director of Dior's womenswear collections. At Louis Vuitton, Nicolas Ghesquière has been creating designs for women's collections in perfect symbiosis with the values and spirit of the brand since 2013. Jonathan Anderson has been Loewe's Creative Director since 2013. Marc Jacobs continues to lead the design team at the brand he founded in 1984.

2.4 Distribution

Controlling the distribution of its products is a core strategic priority for LVMH, particularly in luxury Fashion and Leather Goods. This control allows the Group to benefit from distribution margins, and guarantees strict control of the brand image, sales reception and environment that the brands require. It also gives the Group closer contacts with its customers so that it can better anticipate their expectations, thereby offering them unique shopping experiences.

In order to meet these objectives, LVMH has the premier international network of exclusive boutiques under the banner of its Fashion and Leather Goods brands. This network included more than 2,000 stores as of December 31, 2019.

2.5 Supply sources and subcontracting

In 2019, Louis Vuitton continued to increase its production capacity: in France, with the opening of a new workshop in the Maine-et-Loire department and a massive ongoing recruitment campaign for leather goods artisans; and in the United States, with the opening of its first workshop in Texas. Louis Vuitton's twenty-three leather goods workshops – sixteen in France, three in Spain, three in the United States and one in Italy – manufacture most of its leather goods products. Louis Vuitton's workshops in Italy handle all development and manufacturing processes for all types of footwear (in Fiesso d'Artico), as well as development for certain accessories (textiles, jewelry and eyewear). In Spain, Louis Vuitton's workshops also handle all leather goods accessories (belts and bracelets). Louis Vuitton uses external manufacturers only to supplement its manufacturing and achieve production flexibility in terms of volumes.

Louis Vuitton purchases its materials from suppliers located around the world, with whom the Maison has established partnership relationships. The supplier strategy implemented over the last few years has enabled volume, quality and innovation requirements to be met thanks to a policy of concentration and supporting the best suppliers while limiting Louis Vuitton's dependence on them. For this reason, the leading leather supplier accounts for only around 18% of Louis Vuitton's total leather supplies.

Christian Dior's production capacity and use of outsourcing vary very widely depending on the product. In leather goods, it works with companies outside the Group to increase its production capacity and provide greater flexibility in its manufacturing processes. In ready-to-wear and high jewelry, it purchases supplies solely from non-Group businesses.

Fendi and Loewe have leather workshops in their countries of origin, and in Italy for Celine and Berluti, which cover only a portion of their production needs. Rimowa manufactures a large proportion of its products in Germany. Generally, the subcontracting used by the business group is diversified in terms of the number of subcontractors and is located primarily in the brand's country of origin, France, Italy and Spain.

Loro Piana manages all stages of production, from the sourcing of natural fibers to the delivery of finished products to stores. Loro Piana procures its unique materials (Baby Cashmere from northern China and Mongolia, vicuña from the Andes, and extra-fine Merino wool from Australia and New Zealand) through exclusive partnerships with suppliers all over the world. Its exquisite textiles and products are then manufactured in Italy.

Moreover, in order to safeguard and develop the Fashion and Leather Goods companies' access to the high-quality raw materials and expertise they need, the LVMH Métiers d'Arts business segment created in 2015 invests in, and provides long-term support to, its best suppliers. In leather, for example, LVMH teamed up with the Koh brothers in 2011 to develop the business of the Heng Long tannery in Singapore. Founded in 1950, it is now a leading crocodile leather tannery. In 2012, LVMH acquired Tanneries Roux, founded in 1803 and one of the last French tanneries specializing in calfskin. In 2017, LVMH formed Thélios, a joint venture with Marcolin, combining the latter's expertise in the production of fashion eyewear with the know-how of LVMH Maisons.

Lastly, fabric suppliers for the different Maisons are often Italian, but on a non-exclusive basis.

The designers and style departments of each Maison ensure that manufacturing does not generally depend on patents or exclusive expertise owned by third parties.

2.6 Highlights of 2019 and outlook for 2020

	2019	2018	2017
Revenue *(EUR millions)*	**22,237**	**18,455**	**15,472**
Revenue by geographic region of delivery *(%)*			
France	8	9	9
Europe (excluding France)	23	23	24
United States	18	18	19
Japan	11	11	11
Asia (excluding Japan)	31	31	29
Other markets	9	8	8
Total	**100**	**100**	**100**
Type of revenue as a percentage of total revenue (excluding Louis Vuitton and Christian Dior)			
Retail	71	67	64
Wholesale	28	32	35
Licenses	1	1	1
Total	**100**	**100**	**100**
Profit from recurring operations[1] *(EUR millions)*	**7,344**	**5,943**	**4,905**
Operating margin *(%)*	**33.0**	**32.2**	**31.7**
Operating investments of the period *(EUR millions)*	**1,199**	**827**	**563**
Number of stores	**2,002**	**1,852**	**1,769**[2]

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.
(2) Including 198 stores for Christian Dior and 57 for Rimowa

Highlights

Louis Vuitton delivered an exceptional performance, driven by excellent momentum across all its product lines. The year featured a wealth of developments and creative collaborations, with revenue growth well balanced between iconic lines and new creations. While the *Capucines* model inspired new artists, giving birth to the *Artycapucines* collection, the immersive Louis Vuitton X exhibition in Los Angeles carefully retraced the long tradition of collaboration with artists and designers of all backgrounds that has shaped the Maison's history. In a show of its signature visionary innovation, Louis Vuitton invented a futuristic canvas that can display moving images on bags, and capped off the year with a groundbreaking partnership with an e-sport that has generated an unprecedented level of interest, designing the trophy case for the League of Legends World Championship, along with a ready-to-wear capsule collection by Nicolas Ghesquière. Associated as always with an iconic location, the Creative Director of Womenswear presented his Cruise collection at JFK Airport's legendary TWA Flight Center in New York, while the Spring/Summer runway show was held at the Cour Carrée of the Louvre. Virgil Abloh breathed new life into the world of menswear with the launch of the *Louis Vuitton Staples Edition* line, which revisits men's wardrobe essentials; revisited a number of iconic leather goods models, including the *Steamer*, designed in 1901; and held the poetic runway show for his Spring/Summer 2020 collection on the Place Dauphine in Paris. The quality-focused transformation of its retail network continued with the inauguration of Louis Vuitton Maison Seoul, for which Frank Gehry designed a fantastic glass vessel echoing the Fondation Louis Vuitton, and the reopening of the Maison's New Bond Street store in London, metamorphosized by architect Peter Marino. The Maison continued to reinforce its manufacturing capacity with the opening of a leather goods workshop with BREEAM "Very Good" environmental certification in the Maine-et-Loire department of western France and the launch of operations at a new workshop near Dallas in Texas. Strengthening Louis Vuitton's partnership with UNICEF, which it has pursued for more than three years to help the world's most vulnerable children, employee volunteers traveled to the sites of initiatives to witness this work firsthand and raise awareness on social media.

Christian Dior turned in solid growth in all its product categories and all its regions. Creativity and timeless elegance coupled with captivating runway shows and events ensured the ongoing success of the Womenswear, Menswear, Jewelry and Watch collections. Reaffirming the Maison's exceptional reach, the exhibition devoted to it at the Victoria and Albert Museum in London was a record-breaking success, drawing nearly 600,000 visitors. In Marrakesh, Maria Grazia Chiuri's Cruise collection – an homage to diversity – mixed African and European cultures and expertise. In Paris and Shanghai, where her ready-to-wear runway show was held, the designer imagined an ode to nature, with the trees used in the decor replanted afterward as part of a long-term project. While the spirit of Haute Couture infused the new *30 Montaigne* leather goods line and the ready-to-wear collection with the same name, the iconic *Lady Dior* inspired new artists in Dior Lady Art #4. For his *Dior Essentials* menswear collection, Creative Director of Menswear Kim Jones designed a wardrobe that reinterprets the essence and eternal modernity of the Dior silhouette. The end of the year also saw the launch of a luggage line created in collaboration with Rimowa and unveiled at Dior's Spring/Summer 2020 Menswear runway show at the Arab World Institute in Paris. The retail network continued to expand, including the opening of an exceptional store on the Champs-Élysées in Paris. Very well received by customers, it will take over from the Maison's historic location at 30 Avenue Montaigne during its transformation.

For **Fendi**, 2019 saw the last runway show in homage to Karl Lagerfeld, after 54 years of collaboration. In a culmination of the tributes paid by the Maison to this great designer, the 54 looks of the Haute Couture collection *The Dawn of Romanity* were presented in July on Palatine Hill, at the heart of the ruins of the Roman Forum. Illustrating its wealth of creativity, the Maison continued to pursue its partnerships with the world of art and music. It saw strong growth in all its product categories, driven by the ongoing success of its iconic *Peekaboo* and *Baguette* lines, and by a daring capsule collection, *Fendi Prints On*, designed in collaboration with rap artist Nicki Minaj. Fendi opened new stores in Monaco, China and Australia.

Loro Piana delivered solid growth, driven by the success of its iconic *Excellences* raw materials, in particular the vicuña wool collection. Its emblematic *Essenziali* lines were expanded and saw very strong momentum. Footwear turned in an excellent performance, boosted by the development of a bespoke service and the launch event for the opening of a pop-up store in New York's Meatpacking District. *Cashmere – The Origin of a Secret*, the first film in a trilogy directed by Luc Jacquet, celebrates the nobility and excellence of Loro Piana's iconic materials.

The first collections designed by Hedi Slimane for **Celine** were launched in stores, with the new store concept being gradually rolled out. The runway shows, which reflected the Maison's new identity, were very well received. Hedi Slimane revived the fashion house's perfume-making tradition with eleven fragrances that distill French high perfumery expertise. A Celine store devoted to high perfumery was opened on Rue Saint-Honoré in Paris. The Maison also strengthened its foothold in Italy with a new leather goods workshop in Tuscany, designed to the highest standards for sustainable development.

Loewe achieved excellent growth and met a key milestone in its development. Under the aegis of its Creative Director, Jonathan Anderson, the Maison accelerated its innovation process, enhanced its brand exposure and made its product range and its various points of customer contact more consistent with its clientele. Key initiatives included the launch of very successful products like the *Lazo* and *Cushion Tote* bags, the new *Paula's Ibiza* and *Eye/Loewe/Nature* capsule collections, and the ready-to-wear and accessories collection inspired by the enchanting art of William de Morgan. Significant improvements were also made to the retail network, with openings and extensions of *Casa Loewe* stores in London, Beijing, Tokyo and Madrid.

For **Givenchy**, the year featured the arrival of a powerful new menswear collection, presented in Florence in June; another initiative, the *Givenchy Atelier* collection, showcased Haute Couture techniques and expertise through ready-to-wear pieces reinterpreting the Maison's historic motifs.

Kenzo continued its growth, strengthened its positioning in ready-to-wear with designs mixing bold prints and high-impact hallmarks, and stood out in accessories with the launch of the *Tali* bag. In July the Maison announced the arrival of Felipe Oliveira Baptista as Creative Director, following eight years with Humberto Leon and Carol Lim at the helm. A significant expansion of the retail network took place, with stores returning to direct operation in China and the first openings in the United States.

Berluti achieved a good performance, which was especially strong in Japan and China. Kris Van Assche's first two runway shows and the store debut of his collections were very well received. A focus on the Maison's heritage inspired the design of its new logo as well as an emphasis on its *Scritto* motif and its art of patina. Ready-to-wear and new items like the *Gravity*, *Stellar* and *Shadow* sneakers sold very well. The Maison's unique expertise was on display in a collaboration with Laffanour Galerie Downtown to restore pieces of furniture with leather upholstery. Berluti continued the selective expansion of its store network and launched its e-commerce site in Japan.

Rimowa delivered an excellent performance, boosted by major innovation: the *Essential* luggage line added four new colors for its fully monochrome suitcases. An innovative combination of anodization techniques also allowed high-intensity pigments to be integrated into the aluminum core of the *Original* model's exterior, creating two vibrant, modern new colors for this iconic model. The Maison continued its creative collaborations, in particular with artists Daniel Arsham and Alex Israel, the label Supreme for a second time, and with Christian Dior for the *Dior X Rimowa* capsule collection designed with Kim Jones.

Marc Jacobs launched the new *The Marc Jacobs* line, which offers contemporary wardrobe essentials, while new features were introduced to its line of bags.

Fenty Couture, created in collaboration with singer Rihanna, launched its website in May and opened a series of pop-up stores.

Patou, acquired by LVMH, welcomed Guillaume Henry as Creative Director and unveiled its first ready-to-wear collection in September.

Outlook

Driven by its talented designers, masterful craftspeople and deeply committed teams throughout the world, **Louis Vuitton** will continue to enrich its fascinating universe. Future developments will fit within the Maison's steadfast aim of infusing its exceptional heritage with the best of modernity, enthralling its customers and offering them an ever-more-unique and innovative experience in its stores and online. The quality-focused transformation of the retail network will continue. The Maison will continue to reinforce its production capacity, with the opening in France in the first half of the year of a new workshop at the heart of Vendôme, a town in the Loir-et-Cher department with a rich history and leather-working tradition. With staff guided by its core values of excellence and creativity, **Christian Dior** will continue its growth momentum, driven by the ongoing success of its collections, strategic store openings. **Fendi** will continue to innovate across all its product lines and will finalize a number of ongoing projects aimed at enhancing its iconic stores, preserving expertise and protecting the environment. **Loro Piana** will open a flagship store in Tokyo and reinforce its presence in China. Drawing on its new impetus, **Loewe** will aim to bolster its positioning and brand image, continue expanding its retail network and boost its omnichannel performance. More generally, all of the fashion houses will maintain their focus on creativity in their collections, enhancing the appeal of their products and stores, and developing their digital presence.

3. PERFUMES AND COSMETICS

In 2019, the Perfumes and Cosmetics business group posted revenue of 6,835 million euros, representing 13% of LVMH's total revenue.

3.1 The brands of the Perfumes and Cosmetics business group

Parfums Christian Dior – which was born in 1947, the year Christian Dior held his first fashion show – introduced the revolutionary concept of "total beauty" with the launch of *Miss Dior* perfume, followed by makeup with *Rouge Dior* lipstick in 1953 and Dior's first line of skincare products in 1973. Today, Parfums Christian Dior allocates 1.2% of its revenue to research and is on the cutting edge of innovation. Today, Dior's perfumer François Demachy and Creative Director for makeup Peter Philips are building on Christian Dior's rich heritage and legacy by combining bold vision and unique expertise, in harmony with the Maison's couture collections.

Guerlain, founded in 1828 by Pierre-François-Pascal Guerlain, has created more than 700 perfumes since its inception, and enjoys an exceptional brand image in the world of perfume. Heir to an olfactory repository of some 1,100 fragrances, the Maison's perfumer Thierry Wasser travels the world today in search of the most exclusive raw materials. His spirit of daring is shared by Olivier Echaudemaison, Creative Director for makeup, who works to reveal and exalt the beauty of women. The Maison's iconic perfumes include *Mon Guerlain*, *La Petite Robe Noire*, *Shalimar*.

Founded in 1957, **Parfums Givenchy** continues to honor the values of its founder, Hubert de Givenchy, through its perfumes, makeup and skincare products. From *L'Interdit* to *Givenchy Gentleman*, the Maison's fragrances embody Givenchy's unique vision. Inspired by the avant-garde spirit and sensual aura of the Fashion house's couture collections, Nicolas Degennes, Givenchy's Creative Director for makeup, has perpetuated the label's singular inventiveness since 1999.

The first women's fragrance by **Kenzo Parfums** was released in 1988. Kenzo Parfums went on to create a series of fragrances whose unique and offbeat spirit has made its mark on the world of perfume, including *Flower by Kenzo*, *L'eau Kenzo*, and *Kenzo Homme*.

Benefit Cosmetics, founded in San Francisco in 1976 by twins Jean and Jane Ford, joined LVMH in late 1999. Benefit has forged its own distinctive identity among cosmetics brands, thanks to the relevance and effectiveness of its products, bursting on the scene with playful, plucky names, creative packaging, and custom services.

Fresh, which started out in 1991 as a humble apothecary shop, joined LVMH in September 2000. Remaining true to its roots by using natural ingredients like sugar, the Maison continues to develop its unique approach combining innovative ingredients with time-honored techniques to transform everyday routines into holistic sensorial experiences.

Perfumes Loewe introduced its first perfume in 1972. Perfumes Loewe embodies the quintessentially Spanish spirit: elegant, refined, strong and unpredictable, with floral, woody and lemony essences.

Make Up For Ever, which was created in 1984 and joined LVMH in 1999, is a professional makeup brand with an innovative range of exceptional products designed for stage actors and other performers, makeup artists, and makeup lovers around the world.

Founded in Parma in 1916, **Acqua di Parma** was acquired by LVMH in 2001. Through its fragrances and beauty products imbued with elegance, Acqua di Parma – synonymous with Italian excellence and fine living – embodies discreet luxury.

Kendo is a cosmetics brand incubator set up in 2010, which now houses five brands: KVD Vegan Beauty, Marc Jacobs Beauty, Ole Henriksen, Bite Beauty and Fenty Beauty by Rihanna, which was launched in 2017. These brands are primarily distributed by Sephora.

Maison Francis Kurkdjian was founded in 2009 by the renowned perfumer to explore new territories for perfume by creating custom fragrances for his private clientele and by collaborating with artists for installation projects involving scents. This acquisition, which was completed in 2017, has established the LVMH group in the fast-growing field of niche perfumes.

Patou, acquired by the Group in 2017, was founded by Jean Patou in 1914. The Maison, which became an iconic fashion label, went on to be run by a succession of designers including Marc Bohan, Karl Lagerfeld, Jean-Paul Gaultier and Christian Lacroix.

3.2 Competitive position

Worldwide, the LVMH group's brands achieved market-beating growth in 2019, enabling them to increase their market share in the main markets monitored by external panels such as the NPD panel and the Beauty Research sell-out panel.

3.3 Research

Innovation and the constant quest for performance have always been essential to the DNA of all the Group's Perfumes and Cosmetics brands. The Group's brands have pooled their resources in research and development since 1997, with a joint center in Saint-Jean-de-Braye (France), at the industrial site of Parfums Christian Dior. With the opening several years ago of Hélios, its new R&D facility, LVMH Recherche has been able to expand its activities under optimal conditions and become more involved in ambitious scientific projects. About 270 researchers work at Hélios, located at the heart of Cosmetic Valley, in some 20 key fields requiring cutting-edge expertise, such as molecular and cell biology, dermatology, and ethnobotany. The second largest cosmetics research center in France, its team consists of researchers, biologists and formulation scientists who work closely with colleagues at the world's most prestigious universities. Two other innovation centers, in Japan and China, focus on research to meet the specific needs of Asian women. Thanks to their knowledge of cell mechanisms, researchers at Hélios have discovered biological targets that promote beautiful, youthful skin: protection of skin stem cells, aquaporins to provide long-lasting hydration, and skin detoxification mechanisms, to name a few. More than 200 patents have been granted in recognition of their scientific innovations.

3.4 Manufacturing, supply sources and subcontracting

The five French production centers of Guerlain, Parfums Christian Dior and LVMH Fragrance Brands meet almost all the manufacturing needs of the four major French brands, including Kenzo Parfums, in fragrances as well as makeup and beauty products. Make Up For Ever also has manufacturing capacities in France. Benefit, Perfumes Loewe and Fresh have some of their products manufactured by the Group's other brands, with the remainder subcontracted externally.

Dry materials, such as bottles, stoppers and any other items that form the containers or packaging, are acquired from suppliers outside the Group, as are the raw materials used to create the finished products. In certain cases, these materials are available only from a limited number of French or foreign suppliers.

Most product formulas are developed at the LVMH Recherche laboratories in Saint-Jean-de-Braye (France), but the Group can also acquire or develop formulas from specialized companies, particularly for perfume essences.

3.5 Distribution and communication

The presence of a broad spectrum of brands within the business group generates synergies and represents a market force. The volume effect means that advertising space can be purchased at competitive rates, and better locations can be negotiated in department stores. The use of shared services by subsidiaries increases the effectiveness of support functions for worldwide distribution and facilitates the expansion of the newest brands. These economies of scale permit larger investments in design and advertising, two key factors for success in Perfumes and Cosmetics.

Excellence in retailing is key to the Group's Perfumes and Cosmetics Maisons. It requires expertise and attentiveness from beauty consultants, as well as innovation at points of sale. The Group's Perfumes and Cosmetics brand products are sold mainly through "selective retailing" channels (as opposed to mass-market retailers and drugstores), although certain brands also sell their products in their own stores.

Parfums Christian Dior mainly distributes its products to selective retail chains, such as Sephora, and department stores. Guerlain's products are distributed for the most part through its network of directly operated stores, supplemented by a network of partner retail outlets. In addition, its unique expertise is showcased in the new Guerlain Parfumeur boutiques, which immerse customers in the Maison's entrancing universe. In addition to sales through its 79 exclusive boutiques around the world, Benefit currently retails in some 50 countries worldwide. Make Up For Ever products are sold through exclusive boutiques in Paris, New York, Los Angeles and Dallas, and through a number of selective retailing circuits, particularly in France, Europe and the United States (markets developed in partnership with Sephora), as well as in China, South Korea and the Middle East. Now based in Milan, Acqua di Parma relies on an exclusive retailing network, including its directly operated stores. Kendo brands are primarily distributed by Sephora.

To meet the expectations of younger generations, who are looking for originality, as well as demand for a connected in-store and online experience, all brands are accelerating the implementation of their online sales platforms and stepping up their digital content initiatives. Our brands are actively incorporating digital tools to enhance the customer experience and attract new consumers.

3.7 Highlights of 2019 and outlook for 2020

	2019	2018	2017
Revenue *(EUR millions)*	**6,835**	**6,092**	**5,560**
Revenue by geographic region of delivery *(%)*			
France	10	11	11
Europe (excluding France)	20	22	24
United States	15	16	17
Japan	5	5	5
Asia (excluding Japan)	40	35	30
Other markets	10	11	13
Total	**100**	**100**	**100**
Profit from recurring operations[1] *(EUR millions)*	**683**	**676**	**600**
Operating margin *(%)*	**10.0**	**11.1**	**10.8**
Operating investments of the period *(EUR millions)*	**378**	**330**	**286**
Number of stores	**426**	**354**	**302**

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

Highlights

Perfumes and Cosmetics achieved organic revenue growth of 9%, spurred by the remarkable momentum of its historic brands. LVMH's Maisons performed well and were substantially boosted by surging demand in Asia, particularly in China. Profit from recurring operations rose 1% after taking into account an exceptional impairment expense relating to certain young brands' product lines.

Parfums Christian Dior continued to achieve market-beating growth, consolidating its leading position. With an unwavering focus on excellence and creativity in its products, the Maison was buoyed by the vitality of its flagship lines and the success of its innovations. In addition to the gradual rollout of *Joy* – the third-best-selling fragrance worldwide – the performance of women's fragrances was boosted by iconic lines: with its new Eau de Toilette version, *Miss Dior* consolidated its lead in Asia, and the ever-popular *J'adore* continued to grow. The *Sauvage* men's fragrance maintained its exceptional momentum in all regions and amplified its global leadership attained in 2018 with the launch of its *Intense* version. *Maison Christian Dior* saw strong growth, with an exceptional collection of fragrances available in dedicated stores, confirming its potential. Central to each of its fragrances, the Maison's roots in Grasse – the perfume capital of the world and an exceptional setting, with its fields of flowers used in perfume-making and its Master Perfumer's fragrance laboratory – enhanced the Maison's appeal. Makeup was boosted by the continued success of the Maison's *Rouge Dior* lipstick and its latest versions, as well as the new *Dior Addict Stellar Shine*. Other highlights included the momentum of its *Forever* foundation and growth in the *Dior Backstage* range, inspired by products used at fashion shows and widely shared on social media. Growth in skincare was driven by Asian markets and by strong demand for premium products. *Prestige*, whose core range continued to expand, achieved strong growth through its new *Micro-Lotion de Rose* and the continuing success of *Micro-Huile de Rose*.

Guerlain accelerated its growth and delivered an excellent performance. The *Orchidée Impériale* and *Abeille Royale* skincare lines, firmly backed by Guerlain's commitment to biodiversity and sustainable design, continued their exceptional growth. *Aqua Allegoria*, a collection of fresh fragrances that magnify the most beautiful raw materials, was a major success. Makeup was buoyed by the *Rouge G* lipstick and the new *L'Essentiel* foundation. Building on 12 years of its "In the Name of Beauty" environmental and social commitment, the Maison took this engagement a step further in 2019, launching a transparency and traceability platform for its creations and signing a partnership with UNESCO to create new beekeeping supply chains, thereby helping repopulate bee colonies around the world. Guerlain's commitment was illustrated by a film and inspired a groundbreaking online and TV media campaign.

Parfums Givenchy saw another year of strong revenue growth, with very impressive performance in China and in travel retail. The main drivers of this growth were its *Le Rouge* lipstick line and *Prisme Libre* powder. The Maison was also boosted by the major success in Europe of its new fragrance, *L'Interdit*, an iconic scent created in 1957 as an homage to Audrey Hepburn, and whose current brand ambassador is actress Rooney Mara.

At **Kenzo Parfums**, the momentum of *Flower by Kenzo* was spurred by a new version: *Flower by Kenzo Eau de Vie*. **Benefit** bolstered its position in the United States and the United Kingdom with growth in its brow collection, in particular its flagship *Gimme Brow* and *Precisely* products, along with the success of its brow bars. **Fresh** achieved solid growth, with very strong momentum in China, where its products – which combine natural ingredients and traditional rituals with cutting-edge scientific advances – generated major demand. The Maison strengthened its position in premium skincare with *Crème Ancienne*, a modern reinterpretation of a centuries-old formula, and in the essence category with the *Black Tea Kombucha* anti-pollution lotion. Online sales in particular were up significantly. **Make Up For Ever** successfully launched its long-lasting concealer within its flagship *Ultra-HD* range and its *Reboot* foundation, which corrects signs of fatigue. Confirming its global success, **Fenty Beauty by Rihanna** began its expansion in Asia. The brand added new categories – including concealers available in 50 different shades, gloss and bronzers – and continued to shine on social media. **Acqua di Parma**'s highlights of 2019 included the reopening of its iconic Milan store with a new concept, the creation of a new range of home fragrances and scented candles, and the launch of its *Signatures of the Sun* fragrance collection. **Perfumes Loewe** renewed its visual identity for a more youthful image and a more international audience. The *Loewe 001* fragrance was an unprecedented success

in China. **Maison Francis Kurkdjian** continued its robust growth, buoyed by the success of its *Baccarat Rouge 540* fragrance and by the launch of *Gentle Fluidity*, two different scents crafted using the same ingredients. **Ole Henriksen** pursued its development in the United States. The brand continued to win over young Americans with its *Banana Bright* range and was very popular on social media.

Outlook

In a competitive environment, the Perfumes and Cosmetics business group will maintain its goal of gaining market share, leveraging the complementarity and dynamism of its brand portfolio. The Maisons will continue to focus on their top growth drivers: ensuring excellence in their products, accelerating their innovation policy, marketing and promoting digital activation. **Parfums Christian Dior** will innovate heavily in all its product categories. Skincare will see a major breakthrough with the relaunch of the anti-aging collection around the flagship *Capture Totale Super Potent Serum* product and more rapid growth in premium skincare with *Prestige* and its leading product, *Micro-Huile de Rose*. Fragrances and makeup will be boosted by powerful initiatives focused on flagship lines. The Maison will also continue expanding its store network and its digital presence. **Guerlain** will continue to grow in China, France and travel retail, its key markets, while developing in Japan. Its flagship lines will benefit from an ambitious innovation and activation plan across all its product categories. The *Abeille Royale* skincare line will celebrate its 10th anniversary. **Parfums Givenchy** will enrich its fragrance range and continue expanding into makeup with major innovation in foundation. **Parfums Kenzo** will celebrate the 20th anniversary of its iconic *Flower by Kenzo*. **Benefit** will innovate with a mascara featuring unique technology. **Fresh** will continue making inroads in Asia and will focus marketing on its innovative moisturizing *Super Lotus* skincare line. At **Make Up For Ever**, the relaunch of *Rouge Artist* will be backed by a new marketing campaign. **Fenty Beauty by Rihanna** will expand its line of eye makeup. **Acqua di Parma** will launch a 100% natural cologne. **Maison Francis Kurkdjian** will continue the highly selective expansion of its retail network.

4. WATCHES AND JEWELRY

In 2019, the Watches and Jewelry business group represented 8% of the total revenue of LVMH.

4.1 The brands of the Watches and Jewelry business group

TAG Heuer, a pioneer of Swiss watchmaking since 1860, which was acquired by LVMH in November 1999, combines innovative technology with the ultimate in precision timekeeping and avant-garde designs to create extremely accurate watches. Its most coveted traditional and automatic watches and chronographs are the *Carrera*, *Aquaracer*, *Formula 1*, *Link* and *Monaco* lines. In 2010, TAG Heuer launched the first automatic movement developed and built in-house, followed, in 2015, by the launch of a smartwatch.

Hublot, founded in 1980 and part of the LVMH group since 2008, has always been an innovative brand, creating the first watch in the industry's history fitted with a natural rubber strap. Relying on a team of top-flight watchmakers, the brand is widely renowned for its original concept combining noble materials with state-of-the-art technology and for its iconic *Big Bang* model launched in 2005. Along with the many versions of this model, Hublot has launched the *Classic Fusion* and the more recent *Spirit of Big Bang* lines.

Zenith (founded in 1865 and established in Le Locle near the Swiss Jura region) joined LVMH in November 1999. Zenith belongs to the very select group of watch movement manufactures. In the watchmaking sector, the term "manufacture" designates a company that provides the entire design and manufacturing of mechanical movements. The two master movements of Zenith, the chronograph *El Primero* and the extra-flat movement *Elite*, absolute benchmarks for Swiss watchmaking, are provided on the watches sold under this brand.

Bvlgari, founded in 1884, stands for creativity and excellence worldwide and is universally recognized as one of the major players in its sector. The long-celebrated Italian brand occupies a strong leadership position in jewelry, with an outstanding reputation for its expertise in combining colored gemstones and watches, while also playing an important role in the fragrance and accessories segments. Iconic lines include *Serpenti*, *B.Zero1*, *Diva* and *Octo*.

Chaumet, a jeweler established in 1780, has maintained its prestigious expertise, which is reflected in all its designs, from high jewelry and fine jewelry to watch collections. Its major lines are *Joséphine* and *Liens*. The LVMH group acquired Chaumet in 1999.

Fred, founded in 1936 and part of the LVMH group since 1995, is present in high jewelry, fine jewelry and watchmaking. Since joining the Group, Fred has completely revamped its design, image and distribution. This revival can be seen in the bold, contemporary style exemplified by the brand's iconic *Force 10* line.

4.2 Competitive position

The jewelry market is highly fragmented, consisting of a handful of major international groups plus an array of smaller independent brands from many different countries. LVMH's brands are present all around the world, and it has established itself as one of the international leaders.

4.3 Distribution

The business group, which enjoys a strong international presence, has reaped the benefits of its excellent coordination and pooling of administrative, sales and marketing teams. A worldwide network of after-sale multi-brand services has been gradually put in place to improve customer satisfaction. LVMH Watches and Jewelry has a territorial organization that covers all European markets, the American continent, northern Asia, Japan, and the Asia-Pacific region.

This business group is focusing on the quality and productivity of its retail networks and is also developing its online sales. It selects multi-brand retailers very carefully and builds partnerships so that retailers become genuine brand ambassadors when interacting with end-customers. In an equally selective approach, the Maisons also continue to refurbish and open their own directly operated stores in buoyant markets in key cities.

The Watches and Jewelry brands' directly operated store network comprised 457 stores as of year-end 2019 at prestigious locations in the world's largest cities. The Watches and Jewelry business group also developed a network of franchises.

4.4 Supply sources and subcontracting

In watchmaking, manufacturing has been coordinated through the use of shared resources, such as prototype design capacities, and by sharing the best methods for preparing investment plans, improving productivity and negotiating purchasing terms with suppliers. In jewelry, centralized checking has been introduced for diamonds, alongside technical cooperation between brands for the development of new products.

At its Swiss workshops and manufacturing centers, located in Le Locle, La Chaux-de-Fonds, Neuchâtel, Cornol, Tramelan, Le Sentier, Chevenez and Nyon, the Group assembles a substantial proportion of the watches and chronographs sold under the TAG Heuer, Hublot, Zenith, Bvlgari, Montres Dior, Chaumet and Fred brands; it also designs and manufactures mechanical movements such as *El Primero* and *Elite* by Zenith, *Heuer 01* by TAG Heuer, *UNICO* by Hublot and *Solotempo* by Bvlgari; and it manufactures some critical components such as dials, cases and straps. Zenith's manufacturing facility in Le Locle underwent a major renovation in 2012. In 2013, TAG Heuer inaugurated a new movement manufacturing facility in Chevenez, and in 2015 Hublot opened a second one at its Nyon site.

Bvlgari opened a jewelry manufacturing facility in Valenza, Italy, at the end of 2016, and in 2019 inaugurated a new watch casing manufacturing facility in the Jura canton of Switzerland. It also operates a high jewelry workshop in Rome.

Overall, for the Group's watches and jewelry operations, subcontracting accounted for around 20% of the cost of sales in 2019.

Even though the Watches and Jewelry group can sometimes use third parties to design its models, they are most often designed in its own studios.

4.5 Highlights of 2019 and outlook for 2020

	2019	2018	2017
Revenue *(EUR millions)*	**4,405**	**4,123**	**3,805**
Revenue by geographic region of delivery *(%)*			
France	5	6	6
Europe (excluding France)	23	23	25
United States	8	9	9
Japan	12	12	13
Asia (excluding Japan)	38	35	31
Other markets	14	15	16
Total	**100**	**100**	**100**
Profit from recurring operations[1] *(EUR millions)*	**736**	**703**	**512**
Operating margin *(%)*	**16.7**	**17.1**	**13.5**
Operating investments of the period *(EUR millions)*	**296**	**303**	**269**
Number of stores	**457**	**428**	**405**

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

Highlights

Excellent momentum in jewelry generated market share gains and was a major growth driver for the Watches and Jewelry business group. The progress made by LVMH's Maisons was rooted in the vitality of their iconic lines, the strength of their innovations and the solid performance of their directly operated stores.

Bvlgari maintained its impressive momentum and continued to gain market share. Jewelry was boosted by the Maison's creative energy and international reach. Its iconic *Serpenti*, *B.Zero1* and *Diva's Dream* lines were enriched with a number of new pieces, and the *Fiorever* line, launched in late 2018, combining flowers and diamonds, was a significant growth driver. The 20th anniversary of the *B.Zero1* ring – whose design was inspired by the geometry of the Colosseum in Rome – was celebrated by an exhibition in Milan and the creation of new versions of rings and bracelets. The *Cinemagia* high jewelry collection, presented at events held in a number of cities around the world, illustrated Bvlgari's creativity and unique expertise, as well as its ties to the silver screen. In watchmaking, a new watch casing manufacturing facility was inaugurated in the Jura canton of Switzerland. The *Octo Finissimo Chrono GMT* and *Serpenti Misteriosi Roma* models won two new prizes at the Grand Prix d'Horlogerie de Genève awards ceremony. The *Serpenti Seduttori* watch, launched during the summer, was immediately very well received. Leather goods had several highlights, with the launch of the *Serpenti Through The Eyes of Alexander Wang* bag in New York and the *Fujiwara* capsule collection in Tokyo. An exhibition held at Castel Sant'Angelo in Rome presented a remarkable retrospective of the Maison's jewelry creations alongside Haute Couture dresses. Plans to improve the store network continued, with renovations in Monaco, Macao, Melbourne, Taipei and Toronto, and openings in Ibiza, Copenhagen and Le Bon Marché in Paris. A number of pop-up stores rounded out and energized the network. Already a certified member of the Responsible Jewellery Council, Bvlgari drew up a due diligence program in 2019 for responsible diamond sourcing. The Maison aims to share these criteria with its diamond suppliers, in line with the OECD Due Diligence Guidance for Responsible Supply Chains of Minerals from Conflict-Affected and High-Risk Areas.

TAG Heuer continued expanding its flagship *Carrera*, *Aquaracer* and *Formula 1* lines with new models and special series. New pieces included the *Carrera Calibre TAG Heuer 02T Nanograph*, which features a carbon spiral, one of the Maison's cutting-edge innovations. A Golf version rounded out its range of smartwatches. TAG Heuer celebrated the 50th anniversary of the iconic *Monaco* with limited editions and the creation of 50 exclusive box sets reserved for the brand's most devoted collectors. The store network saw renovations and openings, in particular in Tokyo, Shanghai, Moscow, Madrid and Toronto. In parallel, the Maison is continuing the work initiated with its retail partners to ensure an increasingly selective presence and enhanced commercial impact. TAG Heuer's team of brand ambassadors and its sports contracts have helped build brand awareness among target customers and develop its very active social media presence. This year, the Maison strengthened its ties with the Formula E championship, of which it is a founding partner, with the new TAG Heuer Porsche Formula E Team. The Maison also set up a partnership with NGO Wasser für Wasser (Water for Water) to help finance projects promoting access to clean water around the world.

Hublot continued to achieve strong growth, driven by its *Classic Fusion* and *Big Bang* lines, with *Spirit of Big Bang* – now the brand's third core collection – also contributing to its success. In each product line, original and highly technical new models illustrated the art of fusion, a core component of the Maison's identity, and its bold creativity. These creations included the *MP-11 14-Day Power Reserve Green SAXEM* model, which combines technical and aesthetic innovation, featuring a case made of SAXEM: a vivid green, extremely brilliant and resistant material never before used in watchmaking. New stores opened in Hong Kong, Monaco and Rome reinforced the network of directly operated stores, the number-one driver of revenue growth. Hublot's brand awareness was boosted by a marketing strategy combining prestigious partnerships, a strong digital presence, and sports and cultural events. In 2019, the Maison gained exposure through the Women's World Cup, for which it served as the official timekeeper.

While continuing to develop its iconic *Chronomaster*, *Pilot* and *Elite* collections, **Zenith** completed the launch of its *Defy* line with the *Inventor* model. The Maison celebrated the 50th anniversary of its legendary *El Primero* movement. It continued to consolidate its organization while leveraging synergies offered by LVMH's other watchmaking Maisons.

Chaumet's growth was driven by its iconic *Liens*, *Joséphine* and *Bee My Love* collections. Each one was enriched with new creations: engagement ring versions of *Splendeur Impériale* and *Éclat d'Éternité*, *Bee My Love* necklaces and new models of *Liens d'Amour* and *Jeux de Liens*. A brand new watch line, *Boléro*, was also launched during the year. With its *Les Ciels de Chaumet* high jewelry collection, the Maison showcased its creativity and the virtuosity of its artisans, while celebrating its eternal ties to the world of art. At the Grimaldi Forum in *Monaco*, the Chaumet in Majesty exhibition – which retraces the history of the jewels of sovereigns since 1780 – featured rare pieces on loan from museums, wealthy families and royalty, some of which were shown for the very first time in public. The historic Place Vendôme location underwent renovation work. New stores were opened in Madrid, Monaco and Seoul.

Fred's *Force 10* line and its new *8°0* collection were its main growth drivers. The Maison opened stores in Sydney, Taipei and Shanghai.

On November 25, 2019, LVMH announced that it had entered into an agreement with the iconic American jewelry Maison **Tiffany**, with a view to its acquisition. The transaction is expected to close in mid-2020.

Outlook

Against a backdrop of persistent geopolitical uncertainties, the Watches and Jewelry business group will maintain its ambition of gaining market share and its rigorously targeted investments. Thanks to their talented artisans and their powerful innovation capacity, the Watches and Jewelry Maisons will continue to renew and enrich their iconic lines while launching new collections, with an unwavering focus on creativity combined with excellence in their products and their supply chains. They will continue to raise their brand exposure in key regions throughout the world and online through events and selective partnerships. The same selective approach will be taken in the ongoing development of their retail networks. **Bvlgari** will open its new Parisian flagship store on the Place Vendôme, and will continue expanding its network in China. **Hublot** will bolster its presence in China, Australia and the United States. **TAG Heuer** will celebrate its 160th anniversary in 2020. A new version of its smartwatch will be unveiled and new models will enrich the *Carrera* line. In early 2020, **Chaumet** will inaugurate its fully renovated iconic location on the Place Vendôme and will continue rolling out its new store concept. The beginning of the year will also feature the first exhibition of LVMH's watchmaking Maisons at Bvlgari Resort Dubai, a new platform to raise brand awareness in addition to the Basel watch trade show. Lastly, the highlight of 2020 will be the arrival of the prestigious Maison **Tiffany**, which will substantially bolster the business group's standing in a very dynamic, highly promising market segment.

5. SELECTIVE RETAILING

In 2019, the Selective Retailing business group represented 28% of the total revenue of LVMH.

5.1 Travel retail

DFS

Duty Free Shoppers (DFS), which joined LVMH in 1997, is the pioneering world leader in the sale of luxury products to international travelers. Its activity is closely linked to tourism cycles.

Since it was formed in 1960 as a duty-free concession in the Kai Tak airport in Hong Kong, DFS has acquired an in-depth knowledge of the needs of traveling customers, built solid partnerships with Japanese and international tour operators as well as with the world's leading luxury brands, and has significantly expanded its business, particularly in tourist destinations in the Asia-Pacific region.

To accompany the rise of travel retail, DFS has also focused on the development of its city-center *Galleria* stores, which currently account for over 60% of its revenue. The 20 DFS *Gallerias*, each with a floor area of between 6,000 and 12,000 square meters, are centrally located in top tourist destinations for airline passengers in the Asia-Pacific region, the United States and Japan, but also in Europe, with the 2016 opening of *T Fondaco dei Tedeschi* in Venice, Italy. Each space combines in one site, close to the hotels where travelers are lodged, two different but complementary sales spaces: a general luxury product offering (including perfumes and cosmetics, fashion and accessories) and a gallery of prestigious boutiques, some of which belong to the LVMH group (including Louis Vuitton, Hermès, Bvlgari, Tiffany, Christian Dior, Chanel, Prada, Fendi, Celine, etc).

While continuing with the development of its *Gallerias*, DFS maintains its strategic interest in the airport concessions if these can be obtained or renewed under good financial terms. DFS is currently present at some fifteen international airport sites in the Asia-Pacific, the United States, Japan and Abu Dhabi.

Starboard Cruise Services

Starboard Cruise Services, acquired by LVMH in 2000, is an American company founded in 1958, the world leader in the sale of duty-free luxury items on board cruise ships. It provides services to around 80 ships representing several cruise lines. It also publishes tourist reviews, catalogs and advertising sheets available on board.

5.2 Selective retail

Sephora

Sephora, founded in 1969, has developed over time a perfume and beauty format that combines direct access and customer assistance. This concept led to a new generation of stores with a sober and luxurious architecture, divided into areas mainly dedicated to perfume, makeup and skincare. Based on the quality of this concept, Sephora has gained the confidence of selective perfume and cosmetics brands. In addition, Sephora has offered products sold under its own brand name since 1995 and has developed a line of exclusive products thanks to its close ties with brands selected for their bold ideas and creativity.

Since it was acquired by LVMH in July 1997, Sephora has recorded rapid growth in Europe by opening new stores and acquiring companies that operated perfume retail chains. Sephora is present in 16 European countries. The Sephora concept also crossed the Atlantic in 1998, with a strong presence in the United States, the sephora.com website, and a store network in Canada. Sephora entered the Chinese market in 2005. The retailer also has locations in the Middle East, Latin America, Russia – with directly operated stores and via the perfumes and cosmetics retail chain Ile de Beauté (wholly owned since 2016) – and Southeast Asia, in particular thanks to the 2015 acquisition of the e-commerce site Luxola, which operates in eight countries throughout the region.

Sephora is at the forefront of the retail industry's unstoppable digital transformation. Sephora builds on the complementarity of its in-store and online shopping offerings and its strong social media presence to maximize customer touchpoints and opportunities to build loyalty. With its websites, digitally equipped stores, customer mobile apps and beauty consultants, the Maison creates an omnichannel beauty experience that is increasingly innovative and personalized and offers customers an interactive, seamless, flexible shopping journey.

Le Bon Marché

Le Bon Marché Rive Gauche – the world's first department store – opened its doors in 1852, with Aristide Boucicaut at the helm. Both a forerunner and trendsetter, Le Bon Marché Rive Gauche presents a selection of sophisticated and exclusive labels, in a space with a strong architectural concept. Customers from around the world looking for a true Parisian experience rub shoulders with locals, all drawn to the department store's unique vibe and the quality of its service. The sole department store located on the Left Bank in Paris, it was acquired by LVMH in 1998.

La Grande Épicerie de Paris

Newly inaugurated in late 2013, **La Grande Épicerie de Paris** is a trailblazing gourmet food emporium. La Grande Épicerie de Paris offers its customers a culinary shopping experience like no other, made possible by the expertise of the artisans, architects and artists selected for this project, and has become an absolute must for food lovers. In 2017, La Grande Épicerie de Paris – historically located on the ground floor of Le Bon Marché – added a location on Rue de Passy in the 16th arrondissement of Paris, in premises formerly occupied by Franck et Fils.

5.3 Competitive position

Following the recent round of market consolidation, DFS is the fourth-largest travel retail operator (according to a Bain study based on data as of end-2016). In the United States, Sephora has been the market leader since the first quarter of 2016, and has since continued to make headway. In France, where the prestige beauty product market (excluding e-commerce) declined by 1.1% in 2019 compared with 2018 (data source: NPD – Brick-and-mortar sales to end-December), Sephora slightly increased its market share. In addition, Sephora continued to gain market share in Middle East and Canada, where it has led the market since 2015.

5.4 Highlights of 2019 and outlook for 2020

	2019	2018	2017
Revenue *(EUR millions)*	**14,791**	**13,646**	**13,311**
Revenue by geographic region of delivery *(%)*			
France	11	12	12
Europe (excluding France)	9	9	8
United States	37	38	39
Japan	2	2	1
Asia (excluding Japan)	27	27	28
Other markets	14	12	12
Total	**100**	**100**	**100**
Profit from recurring operations[1] *(EUR millions)*	**1,395**	**1,382**	**1,075**
Operating margin *(%)*	**9.4**	**10.1**	**8.1**
Operating investments of the period *(EUR millions)*	**659**	**537**	**570**
Number of stores			
Sephora	1,957	1,886	1,825
Other	54	54	55

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

Highlights

The 5% organic revenue growth posted by Selective Retailing was driven by Sephora's strong performance, while DFS was highly resilient thanks to steady demand from international travelers, partly offsetting the major slowdown observed in Hong Kong in the second half of the year.

Sephora once again recorded strong revenue growth and continued to gain market share. Asia, most European countries, the Middle East and Latin America were particularly buoyant, and online sales were up substantially worldwide. The Maison continued to cultivate close, personalized relationships with its customers, and to expand its range of new and exclusive items across all product categories. It achieved its best performance in skincare. Sephora continued to expand its store network, with 110 openings in 2019, including magnificent flagship stores featuring its new retail concept at Hudson Yards (New York) and China World (Beijing), and opened its first location in South Korea in October. Other highlights included the renovation and expansion of iconic stores at The Dubai Mall, Times Square in New York and La Défense in Paris. Sephora continued to innovate in digital and capitalize on its omnichannel synergies to continually improve how it serves its customers and offer them an unrivaled beauty experience. New marketing campaigns strengthened the Maison's brand image, in particular the "We Belong To Something Beautiful" campaign in North America. Sephora also continued to nurture and develop its community of loyal customers by offering more and more services and personalization.

After a very dynamic start to the year, featuring strong performances during the key periods of Chinese New Year and Golden Week, from July onwards **DFS** saw a very noticeable slowdown in tourist activity in Hong Kong. The Maison was backed by momentum at its other destinations and the continuous improvement of its product range to match each of its specific markets in the face of this slowdown. The sites operated at long-haul destinations in Australia and New Zealand as well as the *T Fondaco dei Tedeschi* in Venice saw significant increases in foot traffic, and DFS achieved an excellent performance at these locations. Business in Macao also increased, boosted by travelers from mainland China. After appearances in Venice, Chengdu, Beijing and Macao in 2018, the Masters of Time exhibition, featuring a prestigious collection of Watches and Jewelry, opened in Sydney and Hawaii. Two new *T Gallerias* opened in Macao, bringing their number on the island to seven, and a fourth one was inaugurated in Hong Kong. DFS made substantial progress in digital, with the significant expansion of its online product offering.

Starboard Cruise Services expanded its regional cruise line presence in Asia, in particular through a key partnership with DFS for the launch of the first *T Gallerias* on-board prestigious cruise ships. The Maison also consolidated its expertise in its historic markets – the Caribbean and the Mediterranean.

Le Bon Marché continued on its growth trajectory, driven by its unique selection of brands and products, beautiful architecture and top-quality service. For the iconic department store on Paris' Left Bank, these strengths continued to place it a cut above the rest with its French and international clientele, and its loyalty program was highly successful. Highlights of the first half of the year included an exhibition by Portuguese artist Joana Vasconcelos and the Geek mais Chic event, a shopping experience combining digital innovation with immersive discovery and featuring a range of fashion, beauty and decor brands. In June, Le Bon Marché opened its Salons Particuliers (private salons), a styling service highly appreciated by customers. The fall season featured the So Punk Rive Gauche exhibition, a joyous celebration of the spirit of punk, reinterpreted with a very Parisian sophistication. Now enjoying a dual presence on both banks of the Seine, La Grande Épicerie de Paris saw an increase in the number of visitors. The 24 Sèvres digital platform became 24S, in step with its increasingly international clientele.

Outlook

In 2020, **Sephora** will continue to offer its customers an unrivaled in-store and digital beauty experience through its ever-more-experiential stores and online shops. It will focus on the traditional drivers of its success: exclusive brands, innovation, personalization, and a range of unique services offered by highly engaged, expert teams. The Maison aims to accelerate its growth in the high-potential skincare product category, consolidate its lead in digital and continue expanding its store network. **DFS** will enter 2020 with an extremely vigilant approach given the ongoing situation in Hong Kong. The Maison will focus on diversifying

its locations, including the grand opening planned at La Samaritaine in Paris, which will take place in the spring. It will also actively prepare to seize other development opportunities in Asia, showcasing its expertise aboard large cruise ships. DFS will continue to pursue its digital initiatives. **Le Bon Marché** will continue to cultivate its uniqueness, its creative and exclusive offerings, and its dual identity as both a trendsetting department store and a venue for art and culture, both in-store and on its 24S digital platform. La Grande Épicerie de Paris will accentuate its program of exclusive events that enhance its appeal and build customer loyalty on both sides of the Seine.

6. OTHER ACTIVITIES

Les Echos group

LVMH acquired the **Les Echos** group in 2007. The Les Echos group includes *Les Echos*, France's leading financial newspaper, *LesEchos.fr*, the top business and financial website in France, the business magazine *Enjeux-Les Echos*, as well as other specialized business services. *Les Echos* group also holds several other financial and cultural media titles that were previously owned directly by LVMH: *Investir – Le Journal des finances*, resulting from the 2011 merger of two financial weeklies; *Connaissance des Arts*; a nd the French radio station *Radio Classique*. Les Echos group also publishes trade journals, with titles produced by SID Presse, and is active in the business-to-business segment, with the organizations *Les Echos Formation* and *Les Echos Conférences*, the trade show *Le Salon des Entrepreneurs*, and *Eurostaf* market studies. Since late 2015, *Les Echos* has also encompassed the *Le Parisien* daily newspaper and its *Aujourd'hui en France* magazine.

La Samaritaine

La Samaritaine is a real estate complex located at the heart of Paris, beside the Seine river. It comprised a department store in addition to leased office and retail space until 2005 when the department store was closed for safety reasons. La Samaritaine is undergoing a large-scale renovation project which adheres to an innovative environmental approach and views diversity, a concept dear to the department store's founders, as central to its raison d'être. Several activities will be grouped together in its buildings on the two blocks between the Quai du Louvre and the Rue de Rivoli: a department store, a Cheval Blanc luxury hotel, 96 social housing units, a daycare center and offices.

Royal Van Lent

Founded in 1849, **Royal Van Lent** designs and builds luxury yachts according to customers' specifications and markets them under the Feadship brand, one of the most prestigious in the world for yachts over 50 meters.

LVMH Hotel Management

LVMH Hotel Management is the spearhead of the LVMH group's business development in hotels, under the Cheval Blanc brand. The Cheval Blanc approach, based on the founding values of craftsmanship, exclusivity, creativity and hospitality, is applied at all of its hotels, whether proprietary or independently managed. Cheval Blanc has locations in Courchevel (France), Saint-Barthélemy (French Antilles) with the hotel acquired in 2013, the Maldives and Saint-Tropez.

Belmond

Founded in 1976, with the acquisition of Hotel Cipriani in Venice, **Belmond** is a pioneer in luxury tourism. For more than 40 years, the Maison has aimed to offer its customers one-of-a-kind trips and experiences in inspirational locations. Belmond has a large portfolio of hotels, trains, cruises and safaris that bring together heritage, expertise, authenticity and exacting customer service.

Le Jardin d'Acclimatation

Imagined as an emblem of modern Paris by Napoleon III and opened in 1860, the **Jardin d'Acclimatation** is the oldest leisure and amusement park in France. LVMH has held the concession to the park since 1984. Following the renewal of this concession in 2016, an ambitious modernization project was launched, culminating in the reopening of the entirely refurbished and redesigned park in June 2018.

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS: THE GROUP

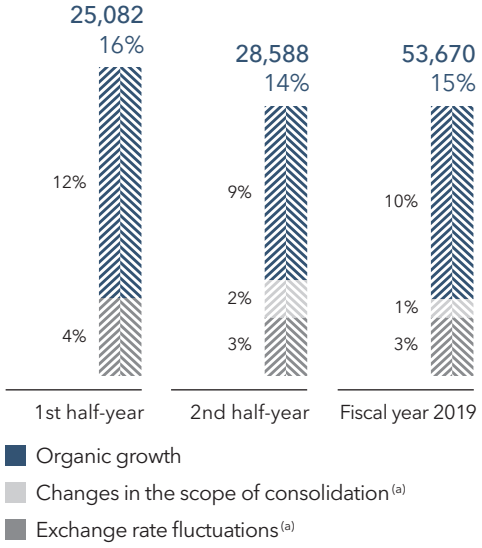
Business and financial review

1. COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

1.1 Breakdown of revenue

Change in revenue per half-year period

(EUR millions and percentage)



(a) The principles used to determine the impact of exchange rate fluctuations on the revenue of entities reporting in foreign currencies and the impact of changes in the scope of consolidation are described on page 39.

Revenue for fiscal year 2019 was 53,670 million euros, up 15% over the previous fiscal year. The Group's main invoicing currencies strengthened against the euro – in particular the US dollar, which rose 5% – boosting revenue growth.

The main change to the Group's consolidation scope since January 1, 2018 related to the full consolidation of Belmond hotel group within "Other activities" as of April 2019. This change in the scope of consolidation made a positive 1 point contribution to revenue growth.

On a constant consolidation scope and currency basis, revenue increased by 10%.

Revenue by invoicing currency

(as %)	2019	2018	2017
Euro	22	22	23
US dollar	29	29	30
Japanese yen	7	7	7
Hong Kong dollar	5	6	6
Other currencies	37	36	34
Total	**100**	**100**	**100**

The breakdown of revenue by invoicing currency changed very little with respect to the previous fiscal year: the contributions of the euro, the US dollar and the Japanese yen remained stable at 22%, 29% and 7%, respectively. The contribution of the Hong Kong dollar fell by 1 point to 5%, while that of "Other currencies" rose by 1 point to 37%.

Revenue by geographic region of delivery

(as %)	2019	2018	2017
France	9	10	10
Europe (excluding France)	19	19	19
United States	24	24	25
Japan	7	7	7
Asia (excluding Japan)	30	29	28
Other markets	11	11	11
Total	**100**	**100**	**100**

By geographic region of delivery, the relative contribution of Asia (excluding Japan) to Group revenue rose by 1 point to 30%, while that of France fell by 1 point to 9%. The relative contributions of the United States, Europe (excluding France), Japan and other markets remained stable at 24%, 19%, 7% and 11%, respectively.

Revenue by business group

(EUR millions)	2019	2018	2017
Wines and Spirits	5,576	5,143	5,084
Fashion and Leather Goods	22,237	18,455	15,472
Perfumes and Cosmetics	6,835	6,092	5,560
Watches and Jewelry	4,405	4,123	3,805
Selective Retailing	14,791	13,646	13,311
Other activities and eliminations	(174)	(633)	(596)
Total	**53,670**	**46,826**	**42,636**

By business group, the breakdown of Group revenue changed more appreciably. The contribution of Fashion and Leather Goods rose 2 points to 41%, while that of Selective Retailing decreased by 1 point to 28%. The contributions of Watches and Jewelry, and Wines and Spirits decreased by 1 point each to 8% and 10%, respectively, while that of Perfumes and Cosmetics remained stable at 13%.

Revenue for Wines and Spirits increased by 8% based on published figures. Boosted by a positive exchange rate impact of 2 points, revenue for this business group increased by 6% on a constant consolidation scope and currency basis. Champagne and wines achieved growth of 6% based on published figures and 4% on a constant consolidation scope and currency basis, while cognac and spirits grew by 11% based on published figures and 7% on a constant consolidation scope and currency basis. This performance was largely driven by higher prices as well as an increase in sales volumes. Demand remained very strong in the United States and in Asia, particularly China, which maintained its status as the second-largest market for the Wines and Spirits business group.

Fashion and Leather Goods posted organic growth of 17%, equating to 20% based on published figures. This business group's performance was driven by the very solid momentum achieved by Louis Vuitton and Christian Dior, as well as by Loewe, Rimowa,

Loro Piana and Fendi, which confirmed their potential for strong growth.

Revenue for Perfumes and Cosmetics increased by 9% on a constant consolidation scope and currency basis, and by 12% based on published figures. This performance confirmed the effectiveness of the value-enhancing strategy resolutely pursued by the Group's brands in the face of competitive pressures. The Perfumes and Cosmetics business group saw significant revenue growth in Asia, particularly in China.

Revenue for Watches and Jewelry increased by 3% on a constant consolidation scope and currency basis, and by 7% based on published figures. The business group was boosted by continued strong momentum at Bvlgari and Hublot. TAG Heuer continued its repositioning. Asia and Europe were the most buoyant regions.

Revenue for Selective Retailing increased by 5% on a constant consolidation scope and currency basis, and by 8% based on published figures. This performance was driven by Sephora, whose revenue increased substantially in every region around the world, and to a lesser extent by DFS, which dealt with the slowdown in Hong Kong by drawing on momentum at other destinations.

1.2 Profit from recurring operations

(EUR millions)	**2019**	**2018 (1)**	**2017 (1)**
Revenue	53,670	46,826	42,636
Cost of sales	(18,123)	(15,625)	(14,783)
Gross margin	35,547	31,201	27,853
Marketing and selling expenses	(20,207)	(17,755)	(16,395)
General and administrative expenses	(3,864)	(3,466)	(3,162)
Income/(loss) from joint ventures and associates	28	23	(3)
Profit from recurring operations	**11,504**	**10,003**	**8,293**
Operating margin *(%)*	**21.4**	**21.4**	**19.5**

IFRS 16 Leases was applied as of January 1, 2019. In accordance with the standard, data for fiscal years 2018 and 2017 was not restated.

The Group achieved a gross margin of 35,547 million euros, up 14% compared to the prior fiscal year. As a percentage of revenue, the gross margin was 66%, 0.4 points lower than in 2018.

Marketing and selling expenses totaled 20,207 million euros, up 14% based on published figures and up 10% on a constant consolidation scope and currency basis. This increase was mainly due to the development of retail networks but also to higher communications investments, especially in Perfumes and Cosmetics. The level of these expenses expressed as a percentage of revenue remained stable at 38%. Among these marketing and selling expenses, advertising and promotion costs amounted to 12% of revenue, increasing by 11% on a constant consolidation scope and currency basis.

The geographic breakdown of stores was as follows:

(number)	**2019**	**2018**	**2017**
France	535	514	508
Europe (excluding France)	1,177	1,153	1,156
United States	829	783	754
Japan	427	422	412
Asia (excluding Japan)	1,453	1,289	1,151
Other markets	494	431	393
Total	**4,915**	**4,592**	**4,374**

General and administrative expenses totaled 3,864 million euros, up 11% based on published figures and up 8% on a constant consolidation scope and currency basis. They amounted to 7% of revenue, down 0.2 points relative to 2018.

Profit from recurring operations by business group

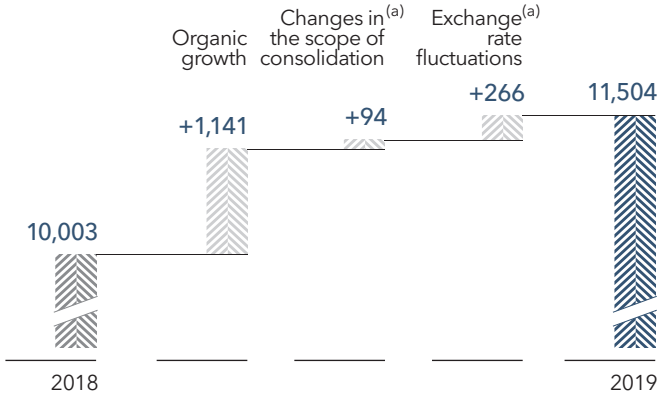
(EUR millions)	**2019**	**2018 (1)**	**2017 (1)**
Wines and Spirits	1,729	1,629	1,558
Fashion and Leather Goods	7,344	5,943	4,905
Perfumes and Cosmetics	683	676	600
Watches and Jewelry	736	703	512
Selective Retailing	1,395	1,382	1,075
Other activities and eliminations	(383)	(330)	(357)
Total	**11,504**	**10,003**	**8,293**

The Group's profit from recurring operations was 11,504 million euros, up 15%. Restated for the positive 155 million euro impact of the initial application of IFRS 16, this increase amounted to 13%. The Group's operating margin as a percentage of revenue was 21.4%, stable with respect to 2018.

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

Change in profit from recurring operations

(EUR millions)



(a) The principles used to determine the impact of exchange rate fluctuations on the profit from recurring operations of entities reporting in foreign currencies and the impact of changes in the scope of consolidation are described on page 39.

Exchange rate fluctuations had a positive overall impact of 266 million euros on profit from recurring operations compared to the previous fiscal year. This total comprises the following three items: the impact of exchange rate fluctuations on export and import sales and purchases by Group companies, the change in the net impact of the Group's policy of hedging its commercial exposure to various currencies, and the impact of exchange rate fluctuations on the consolidation of profit from recurring operations of subsidiaries outside the eurozone.

Wines and Spirits

	2019	2018	2017
Revenue *(EUR millions)*	5,576	5,143	5,084
Profit from recurring operations *(EUR millions)*[1]	1,729	1,629	1,558
Operating margin *(%)*	31.0	31.7	30.6

Profit from recurring operations for Wines and Spirits was 1,729 million euros, up 6% compared with 2018. Champagne and wines contributed 690 million euros, while cognacs and spirits accounted for 1,039 million euros. This performance was the result of both sales volume growth and a robust price increase policy. The operating margin as a percentage of revenue for this business group decreased by 0.7 points to 31.0%.

Fashion and Leather Goods

	2019	2018	2017
Revenue *(EUR millions)*	22,237	18,455	15,472
Profit from recurring operations *(EUR millions)*[1]	7,344	5,943	4,905
Operating margin *(%)*	33.0	32.2	31.7

Fashion and Leather Goods posted profit from recurring operations of 7,344 million euros, up 24% compared to the previous fiscal year, and up 23% restated for the positive impact of the initial application of IFRS 16. Louis Vuitton maintained its exceptional level of profitability while continuing its robust investment policy. Christian Dior achieved a record performance, and Loewe, Loro Piana, Rimowa and Fendi confirmed their growth momentum. The other fashion brands continued to strengthen their positions. The business group's operating margin as a percentage of revenue grew by 0.8 points to 33.0%.

Perfumes and Cosmetics

	2019	2018	2017
Revenue *(EUR millions)*	6,835	6,092	5,560
Profit from recurring operations *(EUR millions)*[1]	683	676	600
Operating margin *(%)*	10.0	11.1	10.8

Profit from recurring operations for Perfumes and Cosmetics was 683 million euros, up 1% compared to 2018. This growth was driven by Parfums Christian Dior, Guerlain and Parfums Givenchy, which posted improved results thanks to the success of their flagship product lines and strong innovative momentum. The business group's operating margin as a percentage of revenue fell by 1.1 points to 10.0%.

Watches and Jewelry

	2019	2018	2017
Revenue *(EUR millions)*	4,405	4,123	3,805
Profit from recurring operations *(EUR millions)*[1]	736	703	512
Operating margin *(%)*	16.7	17.1	13.5

Profit from recurring operations for Watches and Jewelry was 736 million euros, up 5% relative to the previous fiscal year, and up 3% restated for the positive impact of the initial application of IFRS 16. This increase was the result of strong performance at Bvlgari and Hublot. The operating margin as a percentage of revenue for the Watches and Jewelry business group fell by 0.4 points to 16.7%.

Selective Retailing

	2019	2018	2017
Revenue *(EUR millions)*	14,791	13,646	13,311
Profit from recurring operations *(EUR millions)*[1]	1,395	1,382	1,075
Operating margin *(%)*	9.4	10.1	8.1

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

Profit from recurring operations for Selective Retailing was 1,395 million euros, up 1% compared to 2018, and down 6% restated for the positive impact of the initial application of IFRS 16. This performance was driven by Sephora, which achieved strong results while DFS dealt with the situation in Hong Kong. The business group's operating margin as a percentage of revenue fell by 0.7 points to 9.4%.

Other activities

The loss from recurring operations of "Other activities and eliminations" increased with respect to 2018, totaling 351 million euros. In addition to headquarters expenses, this heading includes the results of the hotel and media divisions, Royal Van Lent yachts, and the Group's real estate activities.

1.3 Other income statement items

(EUR millions)	**2019**	**2018**[1]	**2017**[1]
Profit from recurring operations	11,504	10,003	8,293
Other operating income and expenses	(231)	(126)	(180)
Operating profit	11,273	9,877	8,113
Net financial income/(expense)	(559)	(388)	(59)
Income taxes	(2,932)	(2,499)	(2,214)
Net profit before minority interests	**7,782**	**6,990**	**5,840**
Minority interests	(611)	(636)	(475)
Net profit, Group share	**7,171**	**6,354**	**5,365**

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

"Other operating income and expenses" amounted to a net expense of 231 million euros, compared with a net expense of 126 million euros in 2018. As of December 31, 2019, "Other operating income and expenses" included 100 million euros in pledged donations for the reconstruction of Notre-Dame de Paris cathedral, 57 million euros in restructuring costs, 45 million euros in transaction costs relating to the acquisition of consolidated companies, and 26 million euros in depreciation, amortization and impairment charges for brands, goodwill and real estate assets.

The Group's operating profit was 11,273 million euros, up 14% from fiscal year 2018.

The net financial expense was 559 million euros, compared with a net financial expense of 388 million euros as of December 31, 2018. This item comprised the following:

- the aggregate cost of net financial debt, which totaled 107 million euros, versus a cost of 117 million euros as of December 31, 2018, representing a reduction of 11 million euros;
- interest on lease liabilities recognized as part of the initial application of IFRS 16, which amounted to an expense of 290 million euros;
- other financial income and expenses, which amounted to a net expense of 162 million euros, compared to a net expense of 271 million euros in 2018. The expense related to the cost of foreign exchange derivatives was 229 million euros, versus an expense of 160 million euros a year earlier. Lastly, other income and expenses related to financial instruments – which mainly arose from the change in the market value of available for sale financial assets – amounted to net income of 82 million euros, compared to a net expense of 108 million euros for 2018.

The Group's effective tax rate was 27.4%, up 1 point relative to 2018.

Profit attributable to minority interests was 611 million euros, compared to 636 million euros in 2018; this total mainly includes profit attributable to minority interests in Moët Hennessy and DFS.

The Group's share of net profit was 7,171 million euros, compared with 6,354 million euros in 2018. This represented 13.4% of revenue in 2019, compared to 13.6% in 2018. The Group's share of net profit for fiscal year 2019 was up 13% compared to 2018.

Comments on the determination of the impact of exchange rate fluctuations and changes in the scope of consolidation

The impact of exchange rate fluctuations is determined by translating the financial statements for the fiscal year of entities with a functional currency other than the euro at the prior fiscal year's exchange rates, without any other restatements.

The impact of changes in the scope of consolidation is determined as follows:
- for the fiscal year's acquisitions, by deducting from revenue for the fiscal year the amount of revenue generated during that fiscal year by the acquired entities, as of their initial consolidation;
- for the prior fiscal year's acquisitions, by deducting from revenue for the fiscal year the amount of revenue generated over the months during which the acquired entities were not consolidated in the prior fiscal year;
- for the fiscal year's disposals, by adding to revenue for the fiscal year the amount of revenue generated by the divested entities in the prior fiscal year over the months during which those entities were no longer consolidated in the current fiscal year;
- for the prior fiscal year's disposals, by adding to revenue for the fiscal year the amount of revenue generated in the prior fiscal year by the divested entities.

Profit from recurring operations is restated in accordance with the same principles.

2. COMMENTS ON THE CONSOLIDATED BALANCE SHEET

(EUR millions)	2019	2018[1]	Change
Intangible assets	33,246	30,982	2,264
Property, plant and equipment	18,533	15,112	3,421
Right-of-use assets	12,409	-	12,409
Other non-current assets	5,810	4,656	1,154
Non-current assets	**69,997**	**50,749**	**19,248**
Inventories	13,717	12,485	1,232
Other current assets	12,793	11,066	1,727
Current assets	**26,510**	**23,551**	**2,959**
Assets	**96,507**	**74,300**	**22,207**

(EUR millions)	2019	2018[1]	Change
Equity	38,365	33,957	4,408
Long-term borrowings	5,101	6,005	(904)
Non-current lease liabilities	10,373	-	10,373
Other non-current liabilities	20,045	17,505	2,540
Non-current liabilities	**73,884**	**57,467**	**16,417**
Short-term borrowings	7,610	5,027	2,583
Current lease liabilities	2,172	-	2,172
Other current liabilities	12,841	11,806	1,035
Current liabilities	**22,623**	**16,833**	**5,790**
Liabilities and equity	**96,507**	**74,300**	**22,207**

LVMH's consolidated balance sheet as of year-end 2019 totaled 96.5 billion euros, 22.2 billion euros higher than at year-end 2018, including 12.0 billion euros related to the application of IFRS 16 as of January 1, 2019, with right-of-use assets relating to the fixed portion of lease payments recognized as assets in the balance sheet, offset against lease liabilities which were recognized as liabilities in the balance sheet. See Note 1.2 to the condensed consolidated financial statements for details on the impact of the application of IFRS 16. Consequently, non-current assets grew significantly by 19.2 billion euros and amounted to 73% of total assets, compared with 68% as of year-end 2018.

Intangible assets grew by 2.3 billion euros, of which 1.2 billion euros resulted from changes in scope, mainly related to the consolidation of Belmond, plus 1.2 billion euros due to the impact on goodwill of the revaluation of purchase commitments for minority interests, and 0.2 billion euros due to foreign currency fluctuations. Conversely, the application of IFRS 16 resulted in a decrease of 0.4 billion euros in intangible assets, due to the reclassification of leasehold rights as right-of-use assets.

Property, plant and equipment increased by 3.4 billion euros, including the 2.4 billion euro impact of changes in scope, mainly arising from the inclusion of Belmond in the scope of consolidation. Investments for the year, net of depreciation charges as well as disposals, generated an additional increase of 1.2 billion euros; the comments on the cash flow statement provide further information on investments. Lastly, the application of IFRS 16 resulted in the reclassification of 0.3 billion euros to "Right-of-use assets", corresponding to assets held under finance leases.

Right-of-use assets amounted to 12.4 billion euros as of year-end 2019, including 12.0 billion euros related to the recognition of right-of-use assets for the fixed portion of lease payments, and 0.4 billion euros related to the reclassification of leasehold rights, previously presented within "Intangible assets". Store leases represented the majority of right-of-use assets, for a total of 9.9 billion euros.

Other non-current assets increased by 1.2 billion euros, amounting to 5.8 billion euros, including 0.5 billion euros resulting from the change in the market value of derivatives, 0.4 billion euros related to the inclusion in the balance sheet of Belmond's joint ventures and of the stake acquired in Stella McCartney, and 0.3 billion euros related to the increase in deferred tax assets.

Inventories were up 1.2 billion euros, an increase related to the development of the Group's activities (see "Comments on the consolidated cash flow statement").

Other current assets increased by 1.7 billion euros, mainly due to the 1.1 billion euro increase in cash and cash equivalents, as well as the 0.5 billion euro increase in operating receivables related to growth in the Group's activities.

The application of IFRS 16 resulted in the recognition of lease liabilities for a total of 12.5 billion euros, including 10.4 billion euros in non-current lease liabilities and 2.2 billion euros in current lease liabilities, offset against right-of-use assets.

Other non-current liabilities totaled 20.0 billion euros, up 2.5 billion euros from 17.5 billion euros as of year-end 2018. This growth was due, for 1.5 billion euros, to the increase in liabilities in respect of purchase commitments for minority interests; for 0.5 billion euros, to the increase in deferred tax liabilities; and for 0.4 billion euros, to the increase in the market value of derivatives.

Lastly, other current liabilities increased by 1.0 billion euros, amounting to 12.8 billion euros. This change was mainly due to the 0.5 billion euro increase in trade accounts payable.

Net financial debt and equity

(EUR millions or as %)	2019	2018[(1)(a)]	Change
Long-term borrowings	5,101	6,005	(904)
Short-term borrowings and derivatives	7,641	5,157	2,484
Gross borrowings after derivatives	**12,742**	**11,162**	**1,580**
Cash and cash equivalents	(6,536)	(5,675)	(861)
Net financial debt	**6,206**	**5,487**	**719**
Equity	**38,365**	**33,957**	**4,408**
Net financial debt/Equity ratio	**16.2%**	**16.2%**	**-**

(a) Net financial debt as of December 31, 2018 was adjusted to take into account Belmond shares, presented within "Non-current available for sale financial assets". See Note 18.1 to the 2018 consolidated financial statements.

The ratio of net financial debt to equity as of December 31, 2019 amounted to 16.2%, stable with respect to December 31, 2018.

Total equity amounted to 38.4 billion euros as of year-end 2019, up 4.4 billion euros compared to year-end 2018. Net profit for the fiscal year, after the distribution of dividends, contributed 4.2 billion euros to this increase. In addition, exchange rate fluctuations had a positive impact of 0.3 billion euros on the reserves of entities reporting in foreign currencies; this mainly concerned the reserves of entities reporting in US dollars. As of year-end 2019, total equity was equal to 40% of total assets, compared to 46% as of year-end 2018.

Gross borrowings after derivatives totaled 12.7 billion euros as of year-end 2019, up 1.6 billion euros compared with year-end 2018. Bond debt was stable, with amounts repaid equivalent to amounts issued. Two bond issues were completed during the year, totaling 1.0 billion euros. Conversely, the 0.3 billion euro bond issued in 2014, the 0.6 billion euro bond issued in 2013 and the 0.15 billion Australian dollar bond issued in 2014 were repaid. Commercial paper outstanding issued under the US dollar-denominated commercial paper program increased by 1.7 billion euros. Bank borrowings increased slightly, up 0.2 billion euros. Following the application of IFRS 16, finance lease liabilities were reclassified as lease liabilities, which are excluded from net financial debt, resulting in a decrease of 0.3 billion euros in net financial debt. Cash, cash equivalents, and current and non-current available for sale financial assets used to hedge financial debt totaled 6.5 billion euros as of year-end 2019, up 0.9 billion euros from 5.7 billion euros at year-end 2018. Net financial debt thus increased by 0.7 billion euros.

As of end-December 2019, the Group's undrawn confirmed credit lines amounted to 21.1 billion euros, including 15.2 billion euros in credit lines set up to secure financing for the acquisition of Tiffany. This amount exceeded the outstanding portion of its euro- and US dollar-denominated commercial paper programs, which came to 4.9 billion euros as of December 31, 2019.

3. COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

(EUR millions)	2019	2018[(1)]	Change
Cash from operations before changes in working capital	**16,105**	**11,965**	**4,140**
Cost of net financial debt: Interest paid	(124)	(113)	(11)
Lease liabilities: Interest paid	(239)	-	(239)
Tax paid	(2,940)	(2,275)	(665)
Change in working capital	(1,154)	(1,087)	(67)
Net cash from operating activities	**11,648**	**8,490**	**3,158**
Operating investments	(3,294)	(3,038)	(256)
Repayment of lease liabilities	(2,187)	-	(2,187)
Operating free cash flow	**6,167**	**5,452**	**715**
Financial investments and purchase and sale of consolidated investments	**(2,575)**	**(401)**	**(2,174)**
Equity-related transactions	**(3,644)**	**(3,531)**	**(113)**
Change in cash before financing activities	**(53)**	**1,520**	**(1,573)**

Cash from operations before changes in working capital totaled 16,105 million euros, up 4,140 million euros from 11,965 million euros a year earlier.

(1) The financial statements as of December 31, 2018 and 2017 have not been restated to reflect the application of IFRS 16 Leases. See Note 1.2 regarding the impact of the application of IFRS 16.

After tax and interest paid on net financial debt and lease liabilities, and after the change in working capital, net cash from operating activities amounted to 11,648 million euros, up 3,158 million euros from fiscal year 2018, including 2,168 million euros related to the application of IFRS 16, for an increase of 14% excluding the impact of the application of IFRS 16. The impact of the application of IFRS 16 consisted of the cancellation of depreciation of right-of-use assets for 2,408 million euros partially offset by the recognition of interest paid on lease liabilities for 239 million euros. Since IFRS 16 was only applied to the 2019 fiscal year, net cash from operating activities for fiscal year 2019 is not comparable to fiscal year 2018.

Interest paid on net financial debt totaled 124 million euros, up 11 million euros from 113 million euros in 2018, mainly due to the increase in the proportion of US dollar-denominated debt within the Group's average borrowings between 2018 and 2019, as the interest rates for US dollars are higher than those for euros.

Tax paid came to 2,940 million euros, 29% higher than 2,275 million euros paid a year earlier, mainly due to the increase in the Group's earnings in all the geographic regions in which it operates.

The 1,154 million euro working capital requirement was largely in line with the 1,087 million euro requirement observed a year earlier. The cash requirement relating to the increase in inventories amounted to 1,604 million euros, close to the 1,722 million euros recorded in 2018. The increase in inventories mainly concerned the Fashion and Leather Goods and Wines and Spirits business groups. The increase in trade account payables and tax and social security liabilities helped cover the financing requirement related to the increase in inventories for 561 million euros, versus 806 million euros in 2018.

Operating investments net of disposals resulted in an outflow of 3,294 million euros in 2019, up 8% compared to the outflow of 3,038 million euros in 2018. These mainly included investments by the Group's brands – in particular Louis Vuitton, Sephora, DFS, Christian Dior and Celine – in their retail networks. They also included investments related to the La Samaritaine project as well as investments by the champagne houses, Hennessy, Parfums Christian Dior and Louis Vuitton in their production facilities.

Repayment of lease liabilities totaled 2,187 million euros in 2019.

As of year-end 2019, operating free cash flow amounted to 6,167 million euros, increasing by 13% from 5,452 million euros recorded in 2018. This indicator is defined in the consolidated cash flow statement. In addition to net cash from operating activities, it includes operating investments and repayment of lease liabilities, both of which the Group considers as related to its operating activities.

In 2019, financial investments accounted for an outflow of 2,575 million euros, including 2,478 million euros for purchases of consolidated investments and 104 million euros for the purchase and proceeds from sale of non-current available for sale financial assets. Purchases of consolidated investments primarily comprised the acquisition of Belmond, but also included a 49% stake in Stella McCartney and a 55% stake in Château d'Esclans.

Equity-related transactions generated an outflow of 3,644 million euros. A portion of this amount, 3,119 million euros, arose from dividends paid during the fiscal year by LVMH SE, excluding the amount attributable to treasury shares, of which 2,012 million euros were for the final dividend payment in respect of fiscal year 2018 and 1,108 million euros were for the interim dividend payment in respect of fiscal year 2019, as well as tax related to dividends paid for 130 million euros. Dividends paid to minority interests in consolidated subsidiaries amounted to 429 million euros. Conversely, other equity-related transactions generated an inflow of 33 million euros, including 21 million euros related to the exercise of share subscription options.

The financing requirement after all transactions relating to operating activities, investing activities and equity-related transactions was virtually canceled out, at 53 million euros. Proceeds from borrowings after repayments and changes in the value of current available for sale financial assets came to 1,098 million euros, after which the fiscal year-end cash balance was 1,084 million euros higher than at year-end 2018, including a positive 39 million euro impact of the change in the cumulative translation adjustment on cash balances. It totaled 5,497 million euros.

4. FINANCIAL POLICY

During the fiscal year, the Group's financial policy focused on the following areas:

- Improving the Group's financial structure and flexibility, as evidenced by the following key indicators:
  - level of equity: Equity before appropriation of profit was up 13% to 38.4 billion euros as of year-end 2019, versus 34.0 billion euros a year earlier;
  - the Group's access to liquidity, notably through its euro- and US dollar-denominated commercial paper programs, which benefit from extremely favorable rates and spreads, as well as the option to call on bond markets on a regular basis over medium/long-term maturities, with issue spreads that remained low in 2019. The assignment of a second rating for the Group by Moody's during the year confirmed LVMH's credit quality (A1/P1 with Moody's and A+/A1 with Standard & Poor's) and bolstered LVMH's credit profile in these markets;

In 2019, the Group was therefore able to take advantage of increasingly favorable market conditions and maintained a good balance of short- and long-term debt;

- maintaining the necessary level of cash and cash equivalents with a diversified range of top-tier banking partners and short-term money market funds. Special attention was paid to the return on these investments to avoid any potential negative yields, a corollary of the quantitative easing policy of the European Central Bank;
- the Group's financial flexibility, facilitated by a significant reserve of undrawn confirmed credit lines for 21.1 billion euros, including 15.2 billion euros in credit lines set up to secure financing for the acquisition of Tiffany and a 2.5 billion euro syndicated loan with a remaining term to maturity of five years.

• Maintaining a prudent foreign exchange and interest rate risk management policy designed primarily to hedge the risks generated directly and indirectly by the Group's business activity and to hedge its debt.

With regard to foreign exchange risks, the Group continued to hedge the risks of its exporting companies by buying options or collars, which protect against the negative impact of currency depreciation while retaining some of the gains in the event of currency appreciation. The US dollar and the Japanese yen strengthened throughout the year. The optional hedging strategies allowed the Group to benefit from the reinforcement of the US dollar and the Japanese yen.

• Greater concentration of Group liquidity owing to the rollout of cash pooling practices worldwide, ensuring the fluidity of cash flows across the Group and optimal management of surplus cash.

• Pursuing a dynamic policy of dividend payouts to shareholders, to enable them to benefit from the very strong performance over the year:

- an interim dividend for 2019 of 2.20 euros was paid in December 2019;
- a dividend payment of 6.80 euros per share is proposed for the fiscal year (i.e. a final dividend of 4.60 euros available for distribution in 2020). As a result, total dividend payments to shareholders by LVMH in respect of 2019 amounted to 3.4 billion euros, before the impact of treasury shares.

Net debt came to 6.2 billion euros as of year-end 2019, as against 5.5 billion euros a year earlier. The increase in net debt was limited to 0.7 billion euros, owing to high levels of net cash from operating activities and operating investments (free cash flow) in 2019, which covered most of the Group's financial investments in 2019, first and foremost the acquisition of Belmond.

5. OPERATING INVESTMENTS

5.1 Communication and promotion expenses

Over the last three fiscal years the Group's total investments in communication, in absolute values and as a percentage of revenue, were as follows:

Communication and promotion expenses:	2019	2018	2017
- in millions of euros	6,265	5,518	4,831
- as % of revenue	11.6	11.8	11.3

These expenses mainly correspond to advertising campaign costs, especially for the launch of new products, public relations and promotional events, and expenses incurred by marketing teams responsible for all of these activities.

5.2 Research and development costs

The Group's research and development investments in the last three fiscal years were as follows:

(EUR millions)	2019	2018	2017
Research and development costs	140	130	130

Most of these amounts cover scientific research and development costs for skincare and makeup products of the Perfumes and Cosmetics business group.

5.3 Investments in production facilities and retail networks

Apart from investments in communication, promotion and research and development, operating investments are geared towards improving and developing retail networks as well as guaranteeing adequate production capabilities.

Acquisitions of property, plant and equipment and intangible assets for the last three fiscal years were as follows, in absolute values and as a percentage of the Group's cash from operations before changes in working capital:

Acquisitions of intangible assets and property, plant and equipment:	2019	2018	2017
- in millions of euros	3,287	2,990	2,299
- as % of cash from operations	20	25	22

Following the model of the Group's Selective Retailing companies, which directly operate their own stores, Louis Vuitton distributes its products exclusively through its own stores. The products of the Group's other brands are marketed by agents, wholesalers, or distributors in the case of wholesale business, and by a network of directly operated stores or franchises for retail sales.

In 2019, apart from acquisitions of property assets, operating investments mainly related to points of sale, with the Group's total store network increasing from 4,592 to 4,915 stores.

In Wines and Spirits, in addition to necessary replacements of barrels and production equipment, investments in 2019 were related to ongoing investments in the Champagne region (initiated in 2012) as well as the construction of cognac cellars for Hennessy.

6. MAIN LOCATIONS AND PROPERTIES

6.1 Production

Wines and Spirits

The surface areas of vineyards in France and abroad that are owned by the Group are as follows:

(in hectares)	2019		2018	
	Total	*Of which: under production*	Total	*Of which: under production*
France				
Champagne appellation	1,867	*1,693*	1,851	*1,759*
Cognac appellation	189	*161*	187	*160*
Vineyards in Provence	120	*120*		
Vineyards in Bordeaux	194	*156*	194	*156*
Vineyards in Burgundy	11	*11*	12	*12*
International				
California (United States)	450	*294*	461	*305*
Argentina	1,660	*948*	1,661	*945*
Australia, New Zealand	684	*626*	685	*626*
Brazil	197	*110*	198	*110*
Spain	116	*83*	116	*80*
China	68	*60*	68	*60*
India	4	*2*	4	*2*

In the table above, the total number of hectares owned is determined exclusive of areas not usable for winegrowing. The difference between the total number of hectares owned and the number of hectares under production represents areas that are planted but not yet productive, and areas left fallow.

The Group also owns industrial and office buildings, wineries, cellars, warehouses, offices and visitor and customer centers for each of its main Wines and Spirits brands or production operations in France, the United Kingdom, the United States, Argentina, Australia, China, New Zealand, Brazil, India and Spain, as well as distilleries, warehouses and offices in the Cognac region of France, Poland and Mexico. The total surface area is approximately 848,000 square meters in France and 314,000 square meters abroad.

Fashion and Leather Goods

Louis Vuitton owns twenty-seven leather goods and shoe production facilities, in addition to its fragrance laboratory. Most of them are in France, but there are also major workshops located in Spain (near Barcelona), Italy (in Fiesso) and the United States (in San Dimas, California, and near Dallas, Texas). Overall, production facilities and warehouses owned by the Group represent approximately 208,000 square meters.

Fendi owns its manufacturing facility near Florence, Italy, as well as the Palazzo Fendi building in Rome, which houses its historic boutique and a hotel.

Celine also owns manufacturing and logistics facilities near Florence, Italy. In 2019, Celine opened its second workshop in Radda in Chianti, Italy.

Berluti's shoe production factory in Ferrara, Italy is owned by the Group.

Rossimoda owns its office premises and its production facility in Vigonza, Italy.

Loro Piana has several manufacturing workshops in Italy as well as a site in Ulaanbaatar, Mongolia.

Rimowa owns its offices, production facilities and warehouses in Germany, the Czech Republic and Canada. Overall, this property represents approximately 70,300 square meters.

Christian Dior owns four manufacturing workshops (three in Italy and one in Germany) and a warehouse in France. This property represents approximately 30,000 square meters.

LVMH Métiers d'Arts owns several farms in Australia and the United States, with a total surface area of about 220 hectares, as well as a tannery covering about 13,500 square meters in France. Thélios owns an eyewear production factory spanning around 9,600 square meters in Italy.

The other facilities used by this business group are leased.

Perfumes and Cosmetics

Buildings located near Orléans and in Chartres, France, housing the Group's Research and Development operations for Perfumes and Cosmetics as well as the manufacturing and distribution activities of Parfums Christian Dior, are owned by Parfums Christian Dior and total around 157,500 square meters.

Guerlain has a 20,000-square-meter production site in Chartres. The brand also owns another production site in Orphin, France, measuring 10,500 square meters.

Parfums Givenchy owns two plants in France – one in Beauvais and the other in Vervins – with a total surface area of 19,000 square meters. The Vervins plant handles the production of Givenchy and Kenzo product lines. The company also owns distribution facilities in Hersham, in the United Kingdom.

Make Up For Ever owns a 2,300-square-meter warehouse in Gennevilliers, France.

Watches and Jewelry

TAG Heuer has two workshops in Switzerland, one in Cornol and the other in Chevenez, together totaling about 4,700 square meters.

Zenith owns the manufacture which houses its movement and watch manufacturing facilities in Le Locle, Switzerland.

Hublot owns its production facilities in Switzerland and its office premises.

Bvlgari owns its production facilities in Italy and Switzerland. In 2019, Bvlgari acquired land totaling around 42,800 square meters to expand its production workshop in Italy.

The facilities used by the business group's other brands (Chaumet and Fred) are leased.

6.2 Distribution

Retail distribution of the Group's products is most often carried out through exclusive stores. Most of the stores in the Group's retail network are leased and only in exceptional cases does the LVMH group own the buildings that house its stores.

Fashion and Leather Goods

Louis Vuitton owns certain buildings that house its stores in Tokyo, Hawaii, Guam, Seoul, Cannes, Saint-Tropez and Genoa, for a total surface area of approximately 8,900 square meters.

Christian Dior owns certain buildings that house its stores in France, South Korea, Japan, England, Australia and Spain, for a total surface area of approximately 5,400 square meters.

Celine, Fendi and Berluti also own stores in Paris and Italy.

Selective Retailing

Le Bon Marché owns some of its stores, for a total area of approximately 78,000 square meters.

DFS owns its stores in Guam, the Mariana Islands, and Hawaii.

Other activities

the Group owns the Cheval Blanc hotel in Saint-Barthélemy and the Résidence de la Pinède in Saint-Tropez, France.

Belmond owns 25 hotels, 7 of which are in Italy.

As of December 31, 2019, the Group's store network broke down as follows:

(number of stores)	**2019**	**2018**	**2017**
France	535	514	508
Europe (excluding France)	1,177	1,153	1,156
United States	829	783	754
Japan	427	422	412
Asia (excluding Japan)	1,453	1,289	1,151
Other markets	494	431	393
Total	**4,915**	**4,592**	**4,374**

(number of stores)	**2019**	**2018**	**2017**
Fashion and Leather Goods	2,002	1,852	1,769
Perfumes and Cosmetics	426	354	302
Watches and Jewelry	457	428	405
Selective Retailing	2,011	1,940	1,880
Of which: Sephora	*1,957*	*1,886*	*1,825*
Other, including DFS	*54*	*54*	*55*
Other	19	18	18
Total	**4,915**	**4,592**	**4,374**

6.3 Administrative sites and investment property

Most of the Group's administrative buildings are leased, with the exception of the headquarters of certain brands, particularly those of Louis Vuitton, Christian Dior, Parfums Christian Dior, and Zenith.

The Group holds a 40% stake in the company that owns the building housing its headquarters on Avenue Montaigne in Paris. It also owns three buildings in New York with about 19,200 square meters of office space and three buildings in London with about 3,200 square meters of office space. These buildings are occupied by Group entities.

The Group also owns investment properties with office space in Paris, New York, Osaka and London, which total about 17,000, 1,000, 3,000 and 2,000 square meters, respectively. These buildings are leased to third parties.

The group of properties previously used for the business operations of the La Samaritaine department store in Paris are the focus of a redevelopment project, which will transform it into a complex mainly composed of offices, shops and a luxury hotel.

7. OPTION PLANS SET UP BY SUBSIDIARIES

None.

8. SUBSEQUENT EVENTS

No subsequent events occurred between December 31, 2019 and January 28, 2020, the date on which the financial statements were approved for publication by the Board of Directors.

Event subsequent to the Board of Director's meeting: on February 4, 2020, at an Extraordinary Shareholders' Meeting, the shareholders of Tiffany & Co. (NYSE: TIF) voted with a very large majority in favor of the agreement announced on November 25, 2019 on the proposed acquisition of Tiffany by LVMH. Several bonds have been issued in February 2020 for a total amount of 9.3 billion euros, in order to finance this acquisition.

9. RECENT DEVELOPMENTS AND PROSPECTS

In a particularly uncertain environment, the Group will maintain a strategy focused on the preservation of the value of its brands, supported by the exceptional quality of its products and reactivity of its teams. In the short term, the measures taken by public authorities to combat the Covid-19 pandemic have resulted in the closure of production sites and stores in several countries which will have an impact on the group's results. This impact cannot be accurately calculated at this time without knowing the timing of a return to normal in these countries.

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS: THE GROUP

Ethics and responsibility

1. BACKGROUND

LVMH has always sought to:

- ensure that its practices reflect the highest standards of integrity, responsibility and respect for its partners;
- offer a working environment that allows its employees to fully express their talents and implement their skills and expertise;
- ensure that its Maisons define and adapt their production processes, habits and behaviors in order to continuously improve their response to the environmental challenges they face;
- participate in the regional development of the areas in which it operates through its activities;
- mobilize resources and skills to serve philanthropic initiatives and projects of general interest, and promote access to art and culture for as many people as possible.

As a responsible and committed stakeholder, the Group seeks to anticipate and meet the expectations of civil society in relation to corporate social and environmental responsibility, which include the following:

- taking into account changing career expectations and helping employees navigate, in particular, new unique career paths, technological changes and new demographics;
- responding to environmental challenges in light, in particular, of urgent changes called for by climate change;
- greater transparency in supply management to ensure that every stakeholder in the value chain offers satisfactory living and working conditions and uses environmentally friendly production methods;
- a demand for integrity in business at a time of growing global emphasis on the obligation for major groups to detect and prevent financial crime;
- sensitivity to the use of personal data, a key issue in safeguarding the fundamental right to privacy.

In recent years, a number of regulations in these areas applicable to businesses have been passed at the French and European levels. These include the law on parent companies' duty of care with regard to social and environmental issues, the "Sapin II" Act on the prevention of corruption and influence-peddling, the European Directive on disclosure of non-financial information and measures to transpose it into domestic law, and Europe's General Data Protection Regulation.

Information about the Group's Vigilance Plan and Statement of Non-Financial Performance can be found in the cross-reference tables at the end of this section.

2. STANDARDS

The LVMH group stays true to its uniqueness through a meticulous dedication to excellence. This dedication requires an unwavering commitment to the highest standards in terms of ethics, corporate social responsibility and respect for the environment.

In recent years, the Group has supported or signed up for a number of international standards, implementation of which it promotes within its sphere of influence, as well as putting in place its own internal standards.

2.1 International instruments

For many years now, the LVMH group has demonstrated its desire to act as a responsible corporate citizen and align its operations and strategy to support various internationally recognized benchmarks, including the following:

- the United Nations Global Compact, to which the Group signed up in 2003, as well as the Caring for Climate initiative;
- the Universal Declaration of Human Rights;
- OECD Guidelines;
- the International Labor Organization's Fundamental Conventions;
- the 17 Sustainable Development Goals drawn up and developed by the United Nations;

- the French Diversity Charter, signed by the Group in 2007;
- the United Nations Women's Empowerment Principles, signed by the Group in 2013;
- France's national biodiversity protection strategy;
- the Kimberley Process, an international system for certifying rough diamonds;
- the Convention on International Trade in Endangered Species of Wild Fauna and Flora (CITES);
- UNESCO's intergovernmental scientific program, "Man and the Biosphere" (MAB), aimed at protecting global biodiversity;
- the United Nations' standards of conduct for business tackling discrimination against lesbian, gay, bi, trans and intersex (LGBTI) people.

2.2 Internal standards

LVMH Code of Conduct

In 2009, LVMH drew up its first Code of Conduct, designed to serve as a common ethical foundation for the Group and its Maisons. In 2017, the Code was fine-tuned and updated to reflect changes in country-specific contexts, business lines and cultures.

The LVMH Code of Conduct outlines the rules to be followed by all employees as they go about their work.

It is based on the following six core principles:

- acting responsibly and compassionately;
- offering a fulfilling work environment and valuing talent;
- committing to protect the environment;
- winning the trust of customers;
- winning the trust of shareholders;
- embodying and promoting integrity in the conduct of business.

Supported by the members of the Executive Committee and Presidents of the Maisons, it promotes consistency and continuous improvement across the Group's various entities. It does not replace existing codes and charters within Maisons, but serves as a shared foundation and source of inspiration. Where appropriate, its policies are defined in greater detail by Maison according to its business sector or location. Furthermore, locally applicable codes and charters are implemented where this is appropriate in the light of local laws and regulations.

The Code has been translated into more than 10 languages and is widely disseminated across the Group. Supplementary tools have also been developed to help employees better understand and apply the principles set out in the Code, including an e-learning module and various communication materials.

Supplier Code of Conduct

In 2008, the Group implemented a Supplier Code of Conduct, which sets out its requirements for its partners in the fields of corporate social responsibility, the environment and the fight against corruption. Like the LVMH Code of Conduct, the Supplier Code of Conduct was revised in 2017 to fine-tune and supplement the requirements set out in it.

The Supplier Code of Conduct has been disseminated across the Group's Maisons; providers subject to the Code are required to comply with the principles laid down in it.

This Code specifies requirements relating to labor (prohibition of forced labor, child labor, harassment and discrimination; provisions regarding pay, working hours, freedom of association, health and safety), environmental provisions, business conduct (in particular relating to legality, customs, security and subcontracting) and measures to prevent and combat corruption and influence-peddling that must be respected by suppliers and any subcontractors in managing their business.

The Supplier Code of Conduct states that suppliers to LVMH and its Maisons must take responsibility for work undertaken by their own subcontractors and suppliers, and make sure that they comply with the principles laid down in the Code and any other relevant obligations.

It also gives LVMH an audit right that allows it, as far as possible, to ensure that these principles are effectively observed.

If the Supplier Code of Conduct is violated by one of its suppliers – or by a supplier or subcontractor of one of its suppliers – LVMH or the Maison concerned reserve the right to end the commercial relationship, subject to the conditions provided by law and depending on the severity of the violations identified.

Environmental Charter

Adopted in 2001, the Environmental Charter is the founding document for LVMH's five main aims with regard to the environment:

- striving for high environmental performance;
- encouraging collective commitment;
- managing environmental risks;
- designing products that factor in innovation and environmental creativity;
- making a commitment that goes beyond the Company.

It encourages the President of each Maison to demonstrate commitment to this approach through concrete actions.

The Charter was given a significant boost by the strategic LIFE (LVMH Initiatives for the Environment) program, launched in 2011, described in the "Environment and sustainability" section.

Recruitment Code of Conduct

The LVMH Recruitment Code of Conduct, implemented in 2009, has been widely disseminated to all employees involved in recruitment processes across the Group. It sets forth the ethical hiring principles to be observed at LVMH in the form of fourteen commitments. Special emphasis is placed on preventing any form of discrimination and on promoting diversity.

Animal-Based Raw Materials Sourcing Charter

In 2019, the Group launched its Animal-Based Raw Materials Sourcing Charter. This charter is the result of a long process of scientific research and collaboration between LVMH's environmental experts, its Maisons and their suppliers. The exhaustive charter covers the full range of issues concerning the sourcing of fur, leather, exotic leather, wool and feathers. It allows the Group to make long-term commitments to achieving progress in three areas: full traceability in supply chains; animal farming and trapping conditions; and respect for local populations, the environment and biodiversity. Under the charter, a scientific committee has been formed, and each year it will support and supervise a number of research projects aimed at driving progress in this area.

Charter on Working Relations with Fashion Models

In 2017, the Group drew up a Charter on Working Relations with Fashion Models in consultation with the Kering group and sector professionals motivated by a shared desire to promote dignity, health and well-being among fashion models.

The Charter, which applies to all Maisons worldwide, aims to bring about genuine change in the fashion world by rooting out certain behaviors and practices not in keeping with the Group's values and raising awareness among fashion models that they are full-fledged stakeholders in these changes.

To help spread the principles laid down in the Charter, the LVMH and Kering groups have set up a dedicated website, wecareformodels.com. The site provides fashion models with best practice and advice from independent nutritionists and coaches.

Internal Competition Law Compliance Charter

In 2012, the Group formalized its commitment to uphold free and fair competition by adopting an Internal Competition Law Compliance Charter. The Charter aims to help develop a true culture of compliance with competition rules within the Group. The Charter sets out the main rules that should be known by all employees in conducting commercial relationships on a day-to-day basis, and defines in a pragmatic way the standards of conduct expected of them. In particular, LVMH prohibits any abuse of dominant position, concerted practice or unlawful agreement, through understandings, projects, arrangements or behaviors which have been coordinated between competitors concerning prices, territories, market shares or customers. The Charter is available on the Ethics & Compliance Intranet.

3. GOVERNANCE

Dedicated governance arrangements are in place to ensure the Group's values and ethical standards are put into practice.

The Board of Directors' Ethics & Sustainable Development Committee – the majority of whose members are Independent Directors – ensures compliance with the individual and shared values on which the Group bases its actions. The Committee provides leadership on matters of ethics as well as environmental, workforce-related and social responsibility. The mapping of non-financial risks established at Group level in 2018 was notably submitted to it for review.

The Group's Executive Management coordinates the efforts of LVMH's Audit & Internal Control, Operations, Purchasing, Environment, Social Development, Ethics & Compliance and Financial Communications Departments, which work together to raise awareness and help the Maisons make progress – especially in the areas of risk management and supplier relations – with regard to environmental, social and integrity issues.

The Ethics & Compliance Department is led by the Group's Ethics & Compliance Director, who reports to the Group Managing Director. The department draws up behavioral standards and makes available various tools designed to help Group entities implement applicable regulations. It has its own budget and headcount and is also supported by representatives from various Group departments so as to promote coordination on cross-functional projects led by it.

Around this central function, a network of Ethics & Compliance Officers, designated by the President of each Maison, coordinate implementation of the compliance program within each Maison and help share best practice across the Group.

This governance structure is also supported by the following:

- the network of CSR Officers at Maisons, who help organize the measures to be implemented and facilitate their application by the Maisons, who will then make the necessary adjustments in line with their own values, their environment, and the expectations of their employees and customers;
- the Environment Committee, which brings together a network of Environment Officers from the Maisons. This body provides a forum for reflection and discussion about major objectives (LIFE program), environmental challenges and opportunities;
- Maison representatives in charge of purchasing, certain supply chains and supplier relations, who come together at the Responsible Purchasing seminar to review priority issues, launch new initiatives and share best practices within the Group;
- the network of Internal Control Officers led by the Audit & Internal Control Department, which coordinates the implementation of internal control and risk management systems. These officers are responsible, within the Maisons, for ensuring compliance with the Group's internal control procedures and preparing controls tailored to their business.

4. RISK IDENTIFICATION

The Group's activities involve exposure to various risks that are the object of regular risk management and identification within the context of primarily regulatory reforms. The approach to identifying risks that the Group's business might generate for its stakeholders has been systematized through a comprehensive risk-mapping exercise covering the fight against corruption, respect for human rights and environmental protection, based on a shared methodology covering the whole Group.

This non-financial risk-mapping exercise was undertaken in 2018 with the assistance of global risk and strategic consulting firm Verisk Maplecroft, which specializes in analyzing political, economic, social and environmental risks. It will be updated in 2020.

The risk map was based on an assessment comparing external benchmarking indicators provided by Verisk Maplecroft with qualitative and quantitative information provided internally by various Group entities, such as their level of activity, the amount of purchases by category, the number of production, logistics and retail sites, and the number of employees.

The exercise analyzed a wide variety of factors by geography and sector, including corruption indices, child labor, decent pay and working hours, workplace discrimination, freedom of association and trade union membership, health and safety, forced labor, air quality, waste management, water stress, water quality, deforestation, climate change and risk of drought.

The resulting risk map separates out administration, production and distribution activities across these various risks, highlighting the severity of potential risks arising from the Group's own activities and those of its supply chain.

Based on an array of data – including this mapping work, feedback from the Maisons' networks of Ethics & Compliance, CSR and Environment Officers, and an assessment of the impact and probability of occurrence of the various risks identified – the following have been classified by representatives of the Group's central functions and senior management as "key risks" in light of the Group's activities:

- impact on ecosystems and depletion of natural resources;
- setting up and maintaining responsible supply chains;
- safeguarding health and safety at work;
- loss of key skills and expertise;
- implementation of a policy to promote employee inclusion and fulfillment;
- shortcomings in the implementation of rules governing the protection of personal data;
- shortcomings in the implementation of business practice compliance arrangements.

5. RISK MANAGEMENT

In keeping with its aim of constantly improving its management of non-financial risks, the Group has set up a system for regularly monitoring risks relating to ethical, social and environmental responsibility.

The comprehensive risk-mapping exercise (described in the previous section) helps the Maisons identify which countries and types of purchases are particularly at risk with respect to anti-corruption, respect for human rights, environmental protection and the scale of their business activities there (revenue, amount of purchases, number of employees). This helps make audit programs and risk mitigation measures more effective and efficient.

This information is taken into account in letters of representation concerning risk management and internal control arrangements under the "ERICA" approach, an overview of which can be found in the "Financial and operational risk management and internal control" section.

Each year, the Ethics & Compliance Department reports to the Ethics & Sustainable Development Committee of the Board of Directors on the implementation of the Group's ethics and compliance policy.

The policies put in place to manage the key risks identified above, together with their results, where relevant, are set out in this section. Readers are referred to the "Attracting and retaining talent" and "Environment and sustainability" sections where applicable.

5.1 Comprehensive program to protect ecosystems and natural resources

Because its businesses celebrate nature at its purest and most beautiful, LVMH sees preserving the environment as a strategic imperative. The fact that this imperative is built into all the Group's activities constitutes an essential driver of its growth strategy, enabling it to respond to stakeholders' expectations and constantly stimulate innovation.

Built around nine key aspects of the Group's environmental performance, the global LIFE (LVMH Initiatives for the Environment) program provides a structure for this approach, from design through to product sale. It is presented in detail in the "Environment and sustainability" section.

5.2 Supplier assessment and support

The LVMH group considers it very important that the Maisons and the Group's partners abide by a shared body of rules, practices and principles in relation to ethics, corporate social responsibility and environmental protection. The complexity of global supply chains means there is a risk of exposure to practices that run counter to these rules and values.

The Group's responsible supply chain management approach therefore aims to motivate suppliers and every link in the supply chains involved to meet ethical, social and environmental requirements.

Supporting suppliers has long been a strategic focus for LVMH, with a view to maintaining sustainable relationships based on a shared desire for excellence. The Group pursues an overarching approach aimed at ensuring that its partners adopt practices that are environmentally friendly and respect human rights.

This approach is based on a combination of the following:

- identifying priority areas, informed in particular by the non-financial risk-mapping exercise covering the activities of the Group and its direct suppliers by type of activity;
- site audits of our suppliers (Tier 1 and higher) to check that the Group's requirements are met on the ground;
- supplier support and training;
- actively participating in cross-sector initiatives covering high-risk areas.

To a large extent, actions implemented address issues connected with both the environment and human rights.

Identifying priority areas

The non-financial risk-mapping exercise described under §4 helps determine which suppliers should be audited as a priority. It takes into account risks related to the country, purchasing category and amount of purchases in question.

In 2019, the Group also continued to expand its use of the EcoVadis platform, which helps identify the most at-risk suppliers by assessing their ethical, social and environmental performance through the collection of documentary data, external intelligence and online research. More than 1,000 suppliers were invited to join the platform in 2019. Two-thirds of suppliers improved their score upon reassessment, with an average 12-point improvement since the first assessment. Following sign-on by the Group Purchasing Department, Louis Vuitton and the Perfumes and Cosmetics business group, new Maisons came on board in 2019: Sephora in Europe and the United States, as well as the Wines and Spirits business group.

Assessment and corrective action plans

LVMH is unique in that it undertakes much of its own manufacturing in-house, with subcontracting accounting for only a small proportion of the cost of sales. The Group is therefore able to directly ensure that working conditions are safe and human rights respected across a significant part of its production.

The Maisons apply reasonable due diligence measures and audit their suppliers – and, above Tier 1, their subcontractors – to ensure they meet the requirements laid down in the LVMH Supplier Code of Conduct.

Contracts entered into with suppliers of raw materials and product components with whom the Group maintains a direct relationship include a clause requiring them to be transparent about their supply chain by disclosing their subcontractors.

For some Maisons, the majority of audits are above Tier 1: at Givenchy Couture, for example, more than two-thirds of audits completed in 2019 were of subcontractors of direct suppliers.

Maisons maintain collaborative working relationships with direct suppliers, helping them conduct audits and draw up any corrective action plans that might be required.

The Group uses specialist independent firms to conduct these audits. In 2019, 1,589 audits (not including EcoVadis assessments) were undertaken at 1,261 suppliers and subcontractors. Half of these audits cover both workforce-related aspects (health and safety, forced labor, child labor, decent pay, working hours, discrimination, freedom of association and collective bargaining, the right to strike, etc.) and environmental aspects (environmental management system, water usage and pollution, gas emissions and air pollution, management of chemicals, waste management, types of raw materials used, etc.). Some cover workforce-related aspects only (36%) or environmental aspects only (14%).

The Maisons continue to focus their efforts on follow-up audits (which accounted for 23% of audits completed in 2019) and pre-production audits of potential suppliers. In 2019, 15 potential business relationships were not initiated as a result of unsatisfactory audit findings.

	Europe	Asia	North America	Other
Breakdown of suppliers – all categories *(as %)*	66	13	14	7
Breakdown of audits *(as %)*	76	22	1	1

Some Maisons have supplemented their audits using measures to directly ask their suppliers' employees about their working conditions. These surveys help gain a clearer vision of working conditions at the sites concerned and check for problems such as forced labor or harassment, which may not be detected during audits. These fully anonymous, confidential surveys are carried out on WeChat. In 2019, Sephora USA teamed up with audit firm Elevate to pilot four such surveys (one in China and three in the United States) during site audits.

In 2019, 36% of suppliers audited failed to meet the Group's requirements based on a four-tier performance scale that takes into account the number and severity of compliance failures observed; 6% were found to have critical compliance failures. In such cases, the Group always works with the supplier to draw up a corrective action plan, implementation of which is monitored by the buyer responsible for the relationship within the relevant Maison. Support from specialized external consultants is sometimes offered: this is always the case for Fendi, Loro Piana and Bvlgari's jewelry business.

When, in spite of the support offered by LVMH, a supplier or its subcontractors prove unwilling to make the effort required to meet the relevant requirements, the relationship is terminated. In 2019, 21 such relationships were terminated, the vast majority of them with Tier 2 subcontractors, in agreement with the direct supplier.

Supplier and buyer training

In keeping with its aim of providing continuous support and fostering continuous improvement, the Group regularly offers its suppliers training opportunities. For example, in 2019:

- in February, the second "Chemical Management" training session was held in Milan in partnership with the Polytechnic University of Milan. This sector-focused initiative was spearheaded by the Group's main fashion Maisons based in Italy. 80 Group suppliers took part in the event, which helped identify a number of areas to focus on in the future;
- in September, 40 participants representing 27 Group suppliers based in Italy took part in training held in Milan on responsible cotton sourcing, in partnership with members of the Better Cotton Initiative (BCI);
- Bvlgari's Jewelry branch invited 97 suppliers (manufacturers, gem cutters and producers of semi-finished goods) to three group training sessions on key issues and action plans relating to corporate social responsibility;
- in December, Sephora's branches in the United States and Europe along with several other Maisons (including Givenchy, Kenzo and TAG Heuer) held training in Shenzhen for 59 managers of supplier sites based in China. This training focused on human rights, health and safety, and the environment. New sessions will be held in 2020.

At the same time, the Group ensures that its buyers receive training in issues relating to responsible purchasing. For example, in 2019:

- Christian Dior held a training session for its buyers on chemical management. This training was led by an outside audit firm;
- Loewe brought together all its raw materials buyers to raise their awareness of key issues and check compliance among all their suppliers;
- around 130 people took part in the annual full-day Responsible Purchasing seminar held in November by the Group Purchasing Department, in cooperation with the Environment and Ethics & Compliance Departments. The seminar's "marketplaces" served as a forum for attendees from different Maisons to share experience and best practices on social and environmental responsibility-related issues.

Participation in multi-party initiatives covering high-risk areas

In addition to its actions aimed at direct suppliers, LVMH takes part in initiatives intended to improve visibility along supply chains and throughout subcontractor networks, to ensure that it can best assess and support all stakeholders.

Working groups have been put in place and targeted programs rolled out to address issues specific to each of the industry sectors in which the Group operates. To maximize efficiency and optimize influence over subcontractors' practices, preference is generally given to sector-specific initiatives covering multiple purchasing entities.

For Maisons in the Watches and Jewelry business group, the mining sector, which is highly fragmented and relies substantially on the informal economy, carries significant risks to human rights. As such, the Maisons have formally committed under the LIFE 2020 program to ensuring that all gold supplies are certified by the Responsible Jewellery Council (RJC). Alongside suppliers and other pioneering competitors, LVMH also participates in the Coloured Gemstones Working Group run by sustainable development consultancy The Dragonfly Initiative, aimed at optimizing oversight of supply arrangements for colored gemstones.

Maisons in the Perfumes and Cosmetics business group have signed up for the Responsible Beauty Initiative run by EcoVadis, working with major sector players to develop action plans in response to business-specific issues. The business group is also involved in the Responsible Mica Initiative, which aims to pool sector stakeholders' resources to ensure acceptable working conditions in the sector by 2022. Work to map Indian mica supply chains began in 2015, followed by a program of audits down to the individual mine level. Over 80% of the supply chain has been covered to date.

The business group also joined Action for Sustainable Derivatives (ASD), a collaborative initiative jointly managed and overseen by BSR and Transitions. ASD brings together large companies in the cosmetics sector and the oleochemical industry to achieve their shared goal of improving traceability, working conditions and practices throughout the entire palm derivatives supply chain.

For Maisons in the Fashion and Leather Goods business group, specific traceability requirements applicable to the leather and cotton sectors have been incorporated into the LIFE 2020 program. Leather traceability is taken into account via the score resulting from audits of the Leather Working Group standard. Meanwhile, 70% of cotton supplies must meet responsible criteria (such as the GOTS, Certified Recycled or BCI standards) by 2020.

For all Maisons, particular attention is paid to purchases of packaging materials due to fragmentation of production processes in this sector. Specific tools are used to assess and improve the environmental performance of packaging.

5.3 Unrelenting focus on quality and safety

LVMH is continuously looking to offer products of the highest quality, through research and innovation and high standards in the selection of materials and the implementation of expertise in its activities. The Group is motivated by a constant desire to protect the health and safety of its stakeholders.

As regards its own employees, LVMH pursues a health, safety and well-being policy that is set out in the "Attracting and retaining talent" section.

As regards its suppliers' employees, the assessment criteria used in workforce audits of suppliers at Tier 1 and above include aspects related to health and safety (see §5.2).

As regards its customers, the Group is particularly attentive to two key issues: prudent use of chemical compounds in production processes and promoting responsible consumption of wines and spirits.

Prudent use of chemical compounds in production processes

LVMH is committed to safeguarding against risks inherent in the use of chemical compounds, and complies with regulations, industry group recommendations and opinions issued by scientific committees in this field. The Group is constantly seeking to anticipate changes in this area, drawing on its employees' expertise to produce only the safest products.

The Group's experts regularly take part in working groups set up by domestic and European authorities and play a very active role within industry groups. Their ongoing monitoring of changes in scientific knowledge and regulations has regularly led LVMH to prohibit the use of certain substances and make efforts to reformulate some of its products.

The Group's Maisons have customer relations departments that analyze customer complaints, including those relating to adverse effects.

The Perfumes and Cosmetics business group has a dedicated team of specialists who provide the Maisons with access to a European network of healthcare professionals able to quickly respond to help consumers experiencing side effects. Such post-market surveillance makes it possible to explore new avenues of research and constantly improve the quality and tolerance with respect to the Group's products. The Maisons in this business group comply with the most stringent international safety laws, including the EU regulation on cosmetic products. Their products must meet very strict internal requirements covering development, quality, traceability and safety.

Maisons in the Fashion and Leather Goods, and Watches and Jewelry business groups abide by the LVMH Restricted Substances List, an in-house standard that prohibits or restricts the use of certain substances in products placed on the market, as well as their use by suppliers. This standard, which notably applies to metal parts, goes beyond regulatory requirements and is regularly updated in response to ongoing monitoring of scientific developments. In 2019, LVMH joined the ZDHC (Zero Discharge of Hazardous Chemicals) trade association, which aims to promote best practices concerning the use of dangerous substances at textile and leather manufacturing sites.

To help suppliers eliminate the substances on this list, the Group's Environment Department has produced specific technical guides suggesting alternatives. Training is regularly offered on this subject.

Another in-house tool, the LVMH Testing Program, reinforces the control system of Maisons in the Fashion and Leather Goods business group, allowing them to test the highest-risk substances for different materials at five partner laboratories.

Moët Hennessy: an ambassador for responsible consumption of wines and spirits

The LVMH group's Maisons specializing in wines and spirits are committed to combating practices that encourage inappropriate drinking. For many years, Moët Hennessy has promoted the responsible enjoyment of its champagnes, wines and spirits. This commitment takes shape through a diverse range of initiatives aimed at its employees and customers, as well as guests and visitors to its Maisons.

Not only does Moët Hennessy scrupulously adhere to local regulations, it also self-regulates across the entire spectrum of its communications and marketing practices, as well as following strict digital media guidelines, for example by using filters to keep underage viewers from visiting its Maisons' websites.

On the labels of all its wine and champagne bottles sold in the European Union (except in France for legal reasons), Moët Hennessy provides links to websites that provide consumers with information on responsible drinking, such as www.wineinmoderation.com for wines, www.responsibledrinking.eu for spirits and www.drinkaware.co.uk in the United Kingdom. Links to these websites are also available on the websites of the Maisons in this business group.

Raising awareness also means educating consumers. For example, every year, Moët Hennessy's teams teach hundreds of consumers the rituals for tasting its exceptional products.

Moët Hennessy continues to provide its employees with training on the importance of responsible drinking, notably through an in-house mobile app, as well as running an internal communications campaign reminding employees that they are "all ambassadors for responsible drinking".

In recognition of the fact that responsible drinking is something the whole sector should be concerned about, Moët Hennessy has developed a fully digital training program for students at partner hotel management schools. The aim is to ensure that those who are likely to serve Moët Hennessy products will be familiar with and keen to pass on the principles of responsible drinking.

Lastly, Moët Hennessy continued to actively support responsible drinking programs run by the industry associations it belongs to around the world. In particular, Moët Hennessy is one of three ambassador companies of Wine in Moderation, a nonprofit that actively supports a wine culture based on a healthy and balanced lifestyle.

5.4 Ongoing efforts to attract and support talent

The pursuit of LVMH's strategy of growth, international expansion and digitalization relies on the Group's ability to identify talented individuals with the skills it needs and attract them in a highly competitive environment. In particular, the highly specific and demanding nature of the luxury goods industry means the Group must recruit staff with outstanding craftsmanship. Promoting the Group's business lines, passing on skills and training the designers and craftspeople of the future are therefore key issues for LVMH.

This is why innovative recruitment initiatives, academic partnerships and professional education programs are key components of the Group's human resources policy, detailed in the "Attracting and retaining talent" section.

5.5 Constant focus on employee inclusion and fulfillment

LVMH is constantly seeking to create conditions that enable its employees to achieve their full potential and succeed within the business. At a time of shifting career expectations, it is vitally important to foster employees' aspirations and their fulfillment and to promote diversity.

This is why workplace well-being, career guidance, reducing gender inequality, promoting employment for people with disabilities and retaining older employees are all priorities within the Group's human resources policy, detailed in the "Attracting and retaining talent" section.

5.6 Integrity in business

LVMH requires its employees and partners to conduct their work with exemplary integrity.

Any lapse in prevention and detection in its operations, or any practices contrary to applicable regulations, may bring serious harm to LVMH's reputation, cause disruptions in its business activities, and, in certain cases, expose the Group to various types of administrative and judicial penalties (such as fines, withdrawals of authorizations or lawsuits filed against employees or senior executives).

Due to their extraterritorial aspects, laws relating to the prevention of bribery and other forms of financial crime as well as policies regarding international sanctions are increasingly giving rise to enforcement actions and the announcement of judicial and financial penalties.

The Group's senior executives may now be held personally liable for any breach of their obligation to put in place adequate prevention and detection measures, possibly even in the absence of any noted illicit activity.

Given the global reach of its business, LVMH has operations in many countries around the world, including some with a level of maturity in the adoption of ethical business practices deemed unsatisfactory by organizations producing popular indices that rank countries worldwide.

The Group pays taxes in the countries and regions where it operates, and endeavors to fully comply with all its tax obligations. The risk management measures taken in connection with its tax policy are described in §1.3.2 of the "Financial and operational risk management and internal control" section.

Due to the nature of its business model, the Group does not enter into any significant contracts with governments. Consequently, it is not exposed to the corruption risks associated with public procurement procedures.

However, the Group's business activities involve contacts with government agencies, for the granting of various authorizations and permits. Similarly, out of a willingness to discuss and cooperate with authorities and decision-makers, LVMH contributes to public debate in countries where to do so is authorized and relevant. The Group's contributions in the public space always abide by the laws and regulations applicable to the institutions and organizations in question, and LVMH is registered with interest representatives where its activities so require.

Furthermore, the Group may be exposed, in the same way as any other private company, to the risk of corruption in its dealings with private business partners.

Given the diversity of the LVMH ecosystem and its decentralized organizational model, Maisons have developed their own policies adapted to their specific business contexts. At a central level, the Ethics & Compliance Department develops and coordinates the rollout of cross-departmental initiatives to strengthen compliance programs already in place within the Group and ensure their consistency.

Communications, awareness and training efforts aiming to improve employee vigilance are implemented. Common rules, procedures and tools are also in place to facilitate day-to-day detection and prevention of prohibited conduct by operational staff.

Communications, awareness and training

Serving as the central information resource for the Group's ethics and compliance policy, the LVMH Ethics & Compliance Intranet provides access for all employees to a set of documents, tools and information relating to business ethics.

Specific information is provided by the relevant human resources departments to newly hired employees concerning the Code of Conduct and the whistleblowing system. An online training tool, available to all employees on the Ethics & Compliance Intranet, is designed to help them understand and better assimilate the rules, practices and values presented in the LVMH Code of Conduct. This module is available in around ten languages.

Awareness initiatives are coordinated by the Ethics & Compliance Department, which holds in-house events in various regions, aimed at staff in various roles. In 2019, these included initiatives aimed at the community of internal controllers in New York, Hong Kong and Paris; heads of legal departments in Paris; and the responsible purchasing community in Milan and New York.

At the annual seminar on the Group's ethics and compliance policy, held on October 10 and 11, 2019, Group Managing Director Antonio Belloni delivered a powerful message to the Ethics & Compliance Officers, which they shared with the Presidents of the Group's Maisons, reaffirming the Group's commitment in this area and accelerating the implementation of measures to prevent and detect data integrity risks throughout the entire Group.

The Group has also developed a specific 45-minute online anti-corruption training module, which is available to all Maisons and serves as a common core that supplements existing training materials. This module is aimed at staff identified as particularly exposed to corruption risk, and its results are regularly assessed. Since it was launched in late 2018, the module has been completed by several thousand employees throughout the Group.

Available in three languages (French, English and Chinese, with other languages coming soon), this module:

- reiterates LVMH's zero-tolerance policy on corruption;
- expresses the Group Chairman and Chief Executive Officer and Group Managing Director's commitment to promoting exemplary, responsible behavior;
- defines and illustrates the notions of corruption and influence-peddling;
- provides an overview of the policies, governance and tools involved in the Group's anti-corruption compliance program;
- illustrates the negative consequences of corruption on civil society and companies;
- provides information on anti-corruption laws in force around the world and obligations for businesses in combating corruption;
- introduces the concept of due diligence on third parties to combat corruption and the main items to check;
- includes a number of case studies and questionnaires to ensure that employees have fully understood the key concepts involved.

Rules, procedures and tools

The LVMH Code of Conduct defines and illustrates prohibited behaviors, in particular those that may constitute corruption or influence-peddling. It reaffirms the Group's zero-tolerance stance on this issue.

In addition to the LVMH Code of Conduct, the Group has internal guiding principles – a set of documents that apply to all entities intended to be used as a reference guide to help employees adopt appropriate behaviors in various areas to do with business ethics. In particular, these principles cover the following:

- preventing corruption and influence-peddling, including basic definitions of these concepts and information about how to identify various suspicious behaviors against which staff should be on their guard;
- mandatory rules on gifts and entertainment;
- preventing money laundering, including information on cash payment limits and formalities for reporting large payments;
- rules for preventing, reporting and resolving conflicts of interest; in this regard, an annual conflict of interest reporting campaign is undertaken within the governing bodies of the Group and the Maisons;
- use of assets belonging to the Group and the Maisons, including the fact that such assets are made available only for a temporary period and the requirement that they be used in a professional and conscientious manner;
- loans of clothes and accessories by Maisons to employees or individuals outside the Group;
- Group policy on travel and security, which includes rules on authorization of travel and payment of travel expenses.

These in-house guidelines help employees recognize risky situations and act responsibly and appropriately, by drawing their attention to a number of key points to watch out for. It includes a number of everyday examples to illustrate how to react in risky situations.

These guidelines provide a common core that can be adjusted to fit each entity's specific situation.

LVMH's internal control framework includes a set of minimum requirements for ethics and compliance, which are checked through self-assessments and audits at the Group's various entities (as described in the "Financial and operational risk management and internal control" section).

In addition to the usual existing communication and warning channels within the Group and Maisons, LVMH has set up a centralized whistleblowing system, available in around ten languages, to collect and process reports from all employees concerning infringements or serious risks of infringement of laws, regulations, the provisions of the LVMH Code of Conduct and other principles, guidelines and internal policies.

The system covers the following behaviors:

- corruption and influence-peddling;
- money laundering, fraud and falsification of accounting records;
- embezzlement;
- anti-competitive practices;
- data protection breaches;
- discrimination, harassment, violence and threatening behavior;
- infringements of workers' rights and labor law, illegal employment;
- infringements of occupational health and safety regulations, violation of environmental protection laws;
- practices contrary to ethical principles.

Alerts handled through dedicated whistleblowing systems can be used to help improve risk identification and prevention procedures, as part of a continuous improvement approach.

No instances of alleged corruption or influence-peddling were reported through the Group's whistleblowing system in respect of fiscal year 2019.

If employees fail to abide by rules laid down in the Code of Conduct, the guiding principles or, more generally, the Rules of Procedure (or equivalent document) of their employing Maison, the Group will take appropriate and timely steps to put an end to the infringement in question, including appropriate disciplinary sanctions proportionate to the severity of the infringement, in accordance with the provisions of the Rules of Procedure (or equivalent document) and applicable laws and regulations.

5.7 Responsible management of personal data

In order to offer their customers exceptional products and experiences that meet their expectations, the LVMH group's Maisons must have access to high-quality customer data, and are committed to ensuring that all data collected is kept secure.

In an era of innovation for the LVMH group – which is moving ahead with an ambitious digital strategy, resolutely focused on its customers and their aspirations – every Maison in the LVMH group takes steps to comply with the regulations applicable to personal data, including the General Data Protection Regulation (GDPR).

Ensuring full compliance with data protection regulation requires adequate governance arrangements to be implemented within the LVMH group. Accordingly, each Group Maison has appointed a Data Protection Officer (DPO) to ensure that its operations are compliant, with support from the legal and cybersecurity departments and in close cooperation with staff in a range of roles (including IT, digital, marketing and HR).

This also means building and promoting a personal data protection culture that permeates all the Group's business lines and activities as well as taking into account technical and methodological developments. To this end, LVMH and its Maisons regularly hold in-person and/or e-learning training and awareness sessions on personal data protection-related issues. The privacy policies for customers and employees of the LVMH group's Maisons were updated to inform these individuals of their rights and obligations regarding personal data, pursuant to the principle of transparency required by the GDPR.

A strict cybersecurity policy is also applied within the Group to ensure a fresh customer experience without compromising on data security, privacy, integrity or availability requirements. Under this policy, LVMH and its Maisons monitor not only the security of their own information systems but also the security levels of the products and services offered by the third-party providers used by LVMH and its Maisons. Providers that have access to LVMH and/or its Maisons' data are assessed to ensure that the technical and organizational measures they have implemented provide a level of security that is sufficient and well suited to their work. Specific cybersecurity incident management and prevention policies are also applied within the Group.

As a general rule, projects carried out by LVMH and/or its Maisons are subject to a Security and Privacy Risk Assessment to check that any personal data protection and security-related issues have been adequately addressed by the business lines involved (Security and Privacy by Design), that only personal data that is necessary for the project's purposes is actually collected and processed (Privacy by Default), and that any data protection-related impact analyses that must be completed have been identified.

To ensure a consistent, effective approach, a data protection policy is proposed to all Maisons in order to provide them with a common framework of rules and recommendations, helping ensure that appropriate measures are taken to protect personal data within the LVMH group, in compliance with applicable regulations.

This policy defines a Group compliance program on the protection of personal data, aimed at putting in place clear and transparent governance arrangements to manage issues concerning data protection, together with a range of common directives, bodies and processes. Sample data processing records, impact analyses, privacy notices, security questionnaires and personal data clauses to be added to contracts signed with subcontractors who process personal data are also provided to the Maisons by the Group, which each Maison then adapts to its own context.

The LVMH group also has Binding Corporate Rules (BCR) approved by France's Commission Nationale de l'Informatique et des Libertés (CNIL), which govern international transfers within the LVMH group of the personal data of employees and job candidates.

An annual audit and assessment campaign is run as part of internal control or the Maisons' internal audit work, in order to assess compliance with their personal data protection obligations.

Lastly, communities to share experience and exchange ideas – made up of the DPOs and their local representatives as well as the heads of security and legal directors of the Group's Maisons – meet regularly to discuss shared issues related to personal data protection, with the goal of continuously improving practices in this area.

INDEPENDENT VERIFIER'S REPORT ON THE CONSOLIDATED STATEMENT OF NON-FINANCIAL PERFORMANCE

To the Shareholders' Meeting,

In our capacity as an Independent Verifier accredited by COFRAC (Accreditation No. 3-1681; scope of accreditation available at www.cofrac.fr and belonging to the network of a Statutory Auditor of your Company (hereinafter "Entity"), we hereby present our report on the consolidated statement of non-financial performance for the fiscal year ended December 31, 2019 (hereinafter "Statement"), as set out in the Management Report pursuant to the provisions laid down in Articles L.225-102-1, R.225-105 and R.225-105-1 of the French Commercial Code.

Responsibility of the Entity

It is the Board of Directors' responsibility to prepare a Statement compliant with legal and regulatory requirements, including an overview of the business model, a description of key non-financial risks and an overview of the policies adopted in light of those risks, together with the results of those policies, including key performance indicators.

The Statement was prepared by applying the Entity's procedures (hereinafter "Guidelines"), the significant components of which are set out in the Statement and are available on request from your Group's Environment and Human Resources Departments.

Independence and quality control

Our independence is defined by the provisions of Article L.822-11-3 of the French Commercial Code and the Code of Ethics of our profession. In addition, we have implemented a quality control system, including documented policies and procedures designed to ensure compliance with ethical standards, professional guidelines and applicable laws and regulations.

Responsibility of the Independent Verifier

It is our responsibility, on the basis of our work, to express a reasoned opinion reflecting a limited assurance conclusion that:

- the Statement complies with the requirements laid down in Article R.225-105 of the French Commercial Code;
- the information provided is fairly presented in accordance with Point 3 of Sections I and II of Article R.225-105 of the French Commercial Code, namely the results of policies, including key performance indicators, and actions in relation to key risks, hereinafter "Information".

It is also our responsibility to express, at the Entity's request and outside the scope of our accreditation, a conclusion of reasonable assurance that the information selected by the Entity and identified by a check mark (✓) in Appendix 1 (hereinafter "Selected Environmental Information") was prepared, in all material respects, in accordance with the Guidelines.

It is not our responsibility, however, to express an opinion on whether the Entity complies with other applicable legal and regulatory provisions, notably concerning the vigilance plan and the prevention of corruption and tax evasion, or whether products and services comply with applicable regulations.

1. Reasoned opinion on the compliance and fair presentation of the Statement

Nature and scope of work

The work described below was carried out in accordance with the provisions of Articles A.225-1 *et seq.* of the French Commercial Code, the professional guidelines of the French National Institute of Statutory Auditors *(Compagnie Nationale des Commissaires aux comptes)* applicable to this engagement, and ISAE 3000.

- we familiarized ourselves with the business of all entities falling within the scope of consolidation and the key risks;
- we assessed the suitability of the Guidelines in terms of their relevance, completeness, reliability, objectivity and comprehensible nature, taking the sector's best practices into consideration, where applicable;
- we checked that the Statement covers each category of information laid down in Section III of Article L.225-102-1 of the French Commercial Code on workforce-related and environmental issues, as well as compliance with human rights and the prevention of corruption and tax evasion;

- we checked that the Statement provides the information required by Section II of Article R.225-105 wherever relevant with respect to the key risks and, where applicable, includes an explanation of the reasons for the absence of information required by Section III, Paragraph 2 of Article L.225-102-1 of the French Commercial Code;
- we checked that the Statement provides an overview of the business model and a description of the key risks associated with the business of all entities falling within the scope of consolidation, including, where relevant and proportionate, risks arising from business relationships, products and services as well as policies, actions and results, including key performance indicators related to key risks;
- we consulted source documents and conducted interviews to:
  - assess the process used to select and validate key risks, as well as the consistency of results, including key performance indicators related to the key risks and policies presented, and
  - corroborate what we considered the most important qualitative information (actions and results) set out in Appendix 1. For all risks, work was carried out at the level of the consolidating Entity and on a selection of the entities listed below:
    - for environmental risks: Wines and Spirits: MHCS (France), Hennessy (France), Glenmorangie (Ardbeg, Scotland), Chandon Argentina (Argentina); Perfumes and Cosmetics: Parfums Christian Dior (Saint-Jean-de-Braye, France), Guerlain La Ruche (Chartres, France); Fashion and Leather Goods: Loro Piana (Quarona, Italy), Christian Dior (Paris, France), Tanneries Roux (Romans-sur-Isère, France), Loewe (Maison and stores) (Getafe, Spain); Watches and Jewelry: Bvlgari (Valenza, Italy), Hublot (Nyon, Switzerland); Selective Retailing: Sephora North America (Sephora BDC, Canada and Sephora USA); Sephora North Asia, Southeast Asia, Middle East (Neuilly, France); Le Bon Marché (Paris, France); DFS (Hong Kong); Other activities: headquarters of Les Echos – Le Parisien (Paris, France),
    - for workforce-related risks: Wines and Spirits: Glenmorangie (Edinburgh, Scotland); Perfumes and Cosmetics: Benefit Cosmetics UK (London, United Kingdom), Parfums Christian Dior UK (London, United Kingdom); Fashion and Leather Goods: Christian Dior (Paris, France); Watches and Jewelry: Bvlgari Gioielli S.p.A. (Valenza, Italy); Selective Retailing: Sephora SAS (Neuilly, France), DFS (Singapore); Other activities: Les Echos (Paris, France),
    - for social risks:
      - responsible supply chains: Moët-Hennessy (Paris, France), Parfums Christian Dior (Neuilly, France), Christian Dior (Paris, France), Sephora Europe Middle East (Neuilly, France),
      - protection of personal data: Louis Vuitton Malletier (Paris, France), Sephora SAS (Neuilly, France),
      - compliant business practices: Fendi (Rome, Italy), Moët-Hennessy (Paris, France);
- we checked that the Statement covers the scope of the consolidated Group, i.e. all companies falling within the scope of consolidation in accordance with Article L.233-16, within the limits set out in the Statement;
- we reviewed the internal control and risk management procedures put in place by the Entity and assessed the collection process aimed at ensuring that the Information is complete and fairly presented;
- for key performance indicators and those other quantitative results we considered the most significant, set out in Appendix 1, we carried out the following:
  - analytical procedures that consisted in checking that all data collected had been properly consolidated, and that trends in that data were consistent,
  - detailed, sample-based tests that consisted in checking that definitions and procedures had been properly applied and reconciling data with supporting documents. This work was carried out on a selection of contributing entities listed above and covers between 8% and 84% of the consolidated data selected for these tests (10% of the workforce, 48% of energy consumption and an average of 27% of certified supplies);
- we assessed the Statement's overall consistency with our knowledge of all the entities falling within the scope of consolidation.

We consider that the work we performed using our professional judgment allow us to formulate a limited assurance conclusion; an assurance of a higher level would have required more extensive verification work.

Means and resources

Our work was undertaken by a team of twelve people between September 2019 and February 2020, for a period of fourteen weeks.

We conducted around fifteen interviews with those responsible for preparing the Statement, notably representing Executive Management and the Administration and Finance, Risk Management, Ethics and Compliance, Human Resources, Environment and Purchasing Departments.

Conclusion

On the basis of our work, we found no material misstatements that might have led us to believe that the consolidated statement of non-financial performance is not compliant with applicable regulatory requirements or that the Information, taken as a whole, is not fairly presented, in accordance with the Guidelines.

2. Reasonable assurance report on the Selected Environmental Information

Nature and scope of work

Concerning the Selected Environmental Information identified by a check mark (✓) in Appendix 1, we carried out the same type of work as set out in Section 1 above for what we considered the most important key performance indicators and other quantitative results, though in greater depth, particularly as regards the extent of tests.

The sample selected represents on average 53% of the Selected Environmental Information.

We consider that this work allows us to express a reasonable assurance conclusion on the Selected Environmental Information.

Conclusion

In our opinion, the Selected Environmental Information provided by the Entity has been established, in all material aspects, in compliance with the Guidelines.

Paris-La Défense, February 3, 2020

The Independent Verifier

EY & Associés

Eric Duvaud	Jean-François Bélorgey
Sustainable Development Partner	Partner

This is a free translation into English of the Independent Verifier's report issued in French and is provided solely for the convenience of English-speaking users. This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

Appendix 1: Information considered the most important

Workforce-related information

Quantitative information (including key performance indicators)

- Breakdown of the workforce as of December 31 by gender and professional category.
- Recruitment on permanent contracts from January 1 to December 31 (breakdown by gender).
- Turnover among employees on permanent contracts from January 1 to December 31 (breakdown by reason).
- Proportion of employees on permanent contracts trained, by professional category.
- Number of days' training for employees on permanent contracts
- Absence rate by reason.
- Work-related accident frequency rate.
- Work-related accident severity rate.

Qualitative information (actions and results)

- Attracting and training students and recent graduates.
- Preventing discrimination during the recruitment process.
- Training and support for employees throughout their careers.
- Workplace health and safety.

Environmental information

Quantitative information (including key performance indicators)

- Proportion of manufacturing sites certified ISO 14001 (%). ✓
- Total energy consumption (MWh). ✓
- Energy-related greenhouse gas emissions (metric tons of CO_2 equivalent). ✓
- Total water consumption for process requirements (m^3). ✓
- Chemical Oxygen Demand after treatment (metric tons/year). ✓
- Total waste produced (metric tons). ✓
- Total hazardous waste produced (metric tons). ✓
- Waste recovery rate *(%)*. ✓
- Total packaging that reaches customers (metric tons). ✓
- Environmental Performance Index for packaging (value).
- Greenhouse gas emissions avoided per year by projects under the banner of the Carbon Fund (metric tons of CO_2 equivalent avoided).

Qualitative information (actions and results)

- Organization of the environmental approach, particularly governance and commitments, including the LIFE program.
- Environmental impact of packaging and monitoring of the LIFE "Products" target.
- Environmental standards applied to the supply chain and monitoring of the LIFE "Sourcing" targets.
- Combating climate change and monitoring the LIFE "Climate change" target.
- Environmental management of sites and monitoring of the LIFE "Sites" targets.

Social information

Quantitative information (including key performance indicators)

- Proportion of grape supplies (in kg) with sustainable winegrowing certification (%).
- Proportion of palm oil derivative supplies (in kg) certified RSPO Mass Balance or Segregated (%).
- Proportion of leather supplies (in m^2) sourced from LWG-certified tanneries (%).
- Proportion of gold supplies (in kg) certified RJC CoC.
- Proportion of gold supplies (in kg) sourced from RJC CoP-certified suppliers.
- Proportion of diamond supplies (in carats) sourced from RJC CoP-certified suppliers.
- Proportion of cotton supplies (in metric tons) certified BCI, organic, etc. (%).

Qualitative information (actions and results)

- Implementation of the Charter on Working Relations with Fashion Models and Their Well-Being.
- Supplier assessment and support.
- Management of personal data.
- Business conduct and ethics.

6. CROSS-REFERENCE TABLES

6.1 Statement of non-financial performance

Like any other economic actor, the LVMH group is exposed to a number of non-financial risks that may affect its performance, cause harm to its reputation, and impact its stakeholders and/or the environment. The following risks have been classified by representatives of the Group's central functions and senior management as "key risks" in light of the Group's activities (see §3 of the "Ethics and responsibility" section):

- impact on ecosystems and depletion of natural resources;
- setting up and maintaining responsible supply chains;
- safeguarding health and safety at work;
- loss of key skills and expertise;
- implementation of a policy to promote employee inclusion and fulfillment;
- shortcomings in the implementation of rules governing the protection of personal data;
- shortcomings in the implementation of business practice compliance arrangements.

LVMH is committed to addressing each of these risks by putting the appropriate policies in place. The cross-reference tables below provide a summary presentation of the information constituting the Group's statement of non-financial performance, as required by Article L.225-102-1 of the French Commercial Code, indicating for each item the location in the *Management Report of the Board of Directors* where further details may be found. They include cross-references to the specific disclosures required by this article with regard to respect for human rights and measures to combat corruption, climate change, and discrimination.

The remaining disclosures required by this article may be found in the following locations:

- with regard to the Group's business model, in the sections entitled "The LVMH business model" and "Business overview, highlights and outlook" in the introduction to this report;
- with regard to the presentation of the workforce for each business group and geographic region, in §1.3 of the "Attracting and retaining talent" section;
- with regard to collective bargaining agreements signed at the level of companies across the Group, in §3.2 of the "Attracting and retaining talent" section;
- with regard to efforts to promote the circular economy, in §1.2.2 and §5.4 of the "Environment and sustainability" section;
- with regard to combating food waste, in §5.4.2 of the "Environment and sustainability" section;
- with regard to social commitments to promote sustainable development, apart from the topics covered by the cross-reference tables below in terms of social consequences, respect for human rights and the environment, in §1 and §2 of the "Corporate philanthropy" section;
- with regard to protecting animal welfare, in §3.1 and §3.3 of the "Environment and sustainability" section;

Lastly, given the nature of the Group's business activities, topics relating to the fight against food insecurity or efforts to promote responsible and sustainable food production as well as fair food systems are not discussed in this Management Report.

6.1.1 Social consequences

Risk	Policies	Results
Loss of key skills and expertise	- Academic partnerships (§2.2 of the "Attracting and retaining talent" section) - Institut des Métiers d'Excellence (§2.2 of the "Attracting and retaining talent" section) - Employee training and support (§3.1 of the "Attracting and retaining talent" section) - EXCELLhanCE initiative to promote training and employment for people with disabilities (§2.3 of the "Attracting and retaining talent" section) - Support for high-potential female employees to help them move into key positions (§3.1 of the "Attracting and retaining talent" section)	- Joiners by business group and geographic region (§2.1 of the "Attracting and retaining talent" section) - Investment in training (§3.1 of the "Attracting and retaining talent" section) - Internal mobility data (§2.1 of the "Attracting and retaining talent" section) - Awards, recognition and rankings obtained as an employer (§2.1 of the "Attracting and retaining talent" section)
Health and safety issues faced in the Group's business activities	- LVMH Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Whistleblowing system (§5.6 of the "Ethics and responsibility" section) - Charter on Working Relations with Fashion Models (§2.2 of the "Ethics and responsibility" section) - Investments in health, safety and security (§3.2 of the "Attracting and retaining talent" section) - Employee training in health, safety and security (§3.2 of the "Attracting and retaining talent" section) - Social audits of suppliers and subcontractors including a health and safety dimension (§5.2 of the "Ethics and responsibility" section) - Measures relating to the use of chemicals and cosmetovigilance (§5.3 of the "Ethics and responsibility" section) - Promoting responsible consumption of wines and spirits (§5.3 of the "Ethics and responsibility" section)	- Breakdown, frequency and severity of work-related accidents (§3.2 of the "Attracting and retaining talent" section) - Data relating to social audits that include a health and safety dimension (§5.2 of the "Ethics and responsibility" section) - Training for employees and suppliers focusing on the LVMH Restricted Substances List (§5.3 of the "Ethics and responsibility" section)
Implementation of a policy of employee inclusion and fulfillment (aspects related to fulfillment at work)	- LVMH Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Whistleblowing system (§5.6 of the "Ethics and responsibility" section) - DARE program (§3.1 of the "Attracting and retaining talent" section) - Employee induction seminars (§3.1 of the "Attracting and retaining talent" section) - Specific training for managers (§3.1 of the "Attracting and retaining talent" section) - Group Works Council and SE Works Council (§3.2 of the "Attracting and retaining talent" section)	- Number of meetings held by employee representative bodies in 2019 (§3.2 of the "Attracting and retaining talent" section)

6.1.2 Respect for human rights

Risk	Policies	Results
Setting up and maintaining responsible supply chains (aspects relating to respect for human rights)	- LVMH Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Supplier Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Charter on Working Relations with Fashion Models (§2.2 of the "Ethics and responsibility" section) - Whistleblowing system (§5.6 of the "Ethics and responsibility" section) - Risk mapping (§4 of the "Ethics and responsibility" section) - Social audits of suppliers and subcontractors (§5.2 of the "Ethics and responsibility" section) - Collection of information on suppliers' social and ethical performance via the EcoVadis platform (§5.2 of the "Ethics and responsibility" section) - Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the "Ethics and responsibility" section)	- Breakdown of suppliers and audits (§5.2 of the "Ethics and responsibility" section) - Data on combined audits and audits examining only social aspects carried out at suppliers (§5.2 of the "Ethics and responsibility" section) - Data on follow-up audits (§5.2 of the "Ethics and responsibility" section) - Proportion of suppliers not meeting the Group's standards (§5.2 of the "Ethics and responsibility" section) - Number of contracts terminated following audits (§5.2 of the "Ethics and responsibility" section) - Number of business relationships not initiated following audits (§5.2 of the "Ethics and responsibility" section)
Implementation of a policy of employee inclusion and fulfillment (aspects relating to the fight against discrimination and the promotion of diversity)	- LVMH Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Whistleblowing system (§5.6 of the "Ethics and responsibility" section) - Recruitment Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Specific training for recruiters (§2.3 of the "Attracting and retaining talent" section) - Independent review of hiring practices (§2.3 of the "Attracting and retaining talent" section) - EXCELLhanCE initiative to promote training and employment for people with disabilities (§2.3 of the "Attracting and retaining talent" section) - Support for high-potential female employees to help them move into key positions (§3.1 of the "Attracting and retaining talent" section)	- Proportion of employees with disabilities (§2.3 of the "Attracting and retaining talent" section) - Proportion of women among joiners and in the Group's workforce (§3.1 of the "Attracting and retaining talent" section) - Number of participants in the EXCELLhanCE initiative (§2.3 of the "Attracting and retaining talent" section)
Shortcomings in theimplementation of rules governing the protection of personal data	- LVMH Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Data protection policy (§5.7 of the "Ethics and responsibility" section)	- Creation of a network of Data Protection Officers (§5.7 of the "Ethics and responsibility" section)

6.1.3 Environmental consequences

Risk	Policies	Results
Business impacts on ecosystems and depletion of natural resources (including aspects relating to the fight against climate change)	- LVMH Environmental Charter (§1.1 of the "Environment and sustainability" section) - LIFE program and LIFE 2020 targets (§1.1 and §1.2 of the "Environment and sustainability" section) - Combating climate change and the LVMH Carbon Fund (§4 of the "Environment and sustainability" section)	- Improvement in the Environmental Performance Index scores of product packaging for Wines and Spirits companies and Perfumes and Cosmetics companies (§2.3 of the "Environment and sustainability" section) - Accelerated and expanded rollout of sustainable and organic winegrowing (§3.6 of the "Environment and sustainability" section) - Certification of materials used in products: leather, cotton, fur, palm oil derivatives, diamonds and precious metals (§3.6 of the "Environment and sustainability" section) - Achievement of targets set for the LVMH Carbon Fund (§4.2 of the "Environment and sustainability" section) - Increase in the proportion of renewable energy in the Group's energy mix (§4.5 of the "Environment and sustainability" section) - Implementation of an environmental management system at manufacturing sites (§5.5 of the "Environment and sustainability" section)
Setting up and maintaining responsible supply chains (environmental aspects)	- LVMH Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Supplier Code of Conduct (§2.2 of the "Ethics and responsibility" section) - LVMH Environmental Charter (§1.1 of the "Environment and sustainability" section) - LIFE program and LIFE 2020 targets (§1.1 and §1.2 of the "Environment and sustainability" section) - Whistleblowing system (§5.6 of the "Ethics and responsibility" section) - Risk mapping (§1.2 of the "Environment and sustainability" section) - Collection of information on suppliers' environmental performance via the EcoVadis platform (§5.2 of the "Ethics and responsibility" section) - Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the "Ethics and responsibility" section)	- Data on environmental audits carried out at suppliers, both combined audits and audits examining only environmental aspects (§5.2 of the "Ethics and responsibility" section) - LIFE 2020 program – "Sourcing" target, particularly relating to supply chains for grapes, leather, skins and pelts, gemstones and precious metals, palm oil derivatives and regulated chemicals (§3 of the "Environment and sustainability" section)

6.1.4 Fight against corruption

Risk	Policies	Results
Shortcomings in the implementation of business practice compliance arrangements	- LVMH Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Supplier Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Whistleblowing system (§5.6 of the "Ethics and responsibility" section) - Group Ethics and Compliance Intranet site (§5.6 of the "Ethics and responsibility" section) - Risk mapping (§4 of the "Ethics and responsibility" section) - Role of the Ethics & Compliance Department (§3 and §5.6 of the "Ethics and responsibility" section) - Internal guiding principles (§5.6 of the "Ethics and responsibility" section) - Anti-corruption training (§5.6 of the "Ethics and responsibility" section) - Compliance rules included in the internal audit and control framework (§5.6 of the "Ethics and responsibility" section)	- No instances of alleged corruption or influence-peddling were reported through the Group's whistleblowing system in 2019 (§5.6 of the "Ethics and responsibility" section) - Several thousand people throughout the Group have completed the anti-corruption training module (§5.6 of the "Ethics and responsibility" section)

6.2 Vigilance plan

As a responsible, actively engaged corporate citizen on a global scale, the LVMH group strives to exert a positive influence on the communities, regions and countries where it operates and to minimize the potential adverse impacts of its activities, as well as those of its suppliers and subcontractors, for its stakeholders and the environment.

The cross-reference tables below provide a summary presentation of the information constituting the Group's vigilance plan, as required by Article L.225-102-4 of the French Commercial Code, indicating for each item the sections within the *Management Report of the Board of Directors* where further details may be found.

6.2.1 Human rights and fundamental freedoms

	Group's own operations	Suppliers' and subcontractors' activities
Risk mapping	- Risk mapping by the Group (§4 of the "Ethics and responsibility" section)	- Additional risk assessment for certain suppliers via the EcoVadis platform (§5.2 of the "Ethics and responsibility" section) - Risk mapping by the Group (§4 of the "Ethics and responsibility" section)
Frequent risk assessments	- Internal control and audit framework (§3.2 of the "Financial and operational risk management and internal control" section)	- Audits and follow-up audits (§5.2 of the "Ethics and responsibility" section) - Corrective action plans following audits (§5.2 of the "Ethics and responsibility" section)
Mitigation and prevention measures	- Specific training for recruiters to prevent discrimination (§2.3 of the "Attracting and retaining talent" section) - Independent review of hiring practices (§2.3 of the "Attracting and retaining talent" section)	- Supplier Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Training for suppliers and buyers (§5.2 of the "Ethics and responsibility" section) - Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the "Ethics and responsibility" section) - Supply chain certification targets (§5.2 of the "Ethics and responsibility" section)
Whistleblowing system	- Centralized whistleblowing system (§5.6 of the "Ethics and responsibility" section)	- Group employees can use the whistleblowing system to report violations committed by suppliers or subcontractors (§5.6 of the "Ethics and responsibility" section) - Some Maisons have implemented measures to directly ask their suppliers' employees about their working conditions (§5.2 of the "Ethics and responsibility" section)
Follow-up and assessment measures	- Action plans implemented by the Maisons in countries identified as priorities during the risk mapping exercise (§5 of the "Ethics and responsibility" section) - Action plans included as part of the ERICA approach (§5 of the "Ethics and responsibility" section) - Risk mapping exercise carried out regularly	- Remediation plans to address shortcomings identified during audits (§5.2 of the "Ethics and responsibility" section) - Follow-up audits of suppliers (§5.2 of the "Ethics and responsibility" section)

6.2.2 Individuals' health and safety

	Group's own operations	Suppliers' and subcontractors' activities
Risk mapping	- Risk mapping by the Group (§4 of the "Ethics and responsibility" section)	- Risk mapping by the Group (§4 of the "Ethics and responsibility" section) - Additional risk assessment for certain suppliers via the EcoVadis platform (§5.2 of the "Ethics and responsibility" section)
Frequent risk assessments	- Internal control and audit framework (§3.2 of the "Financial and operational risk management and internal control" section) - Accident analysis and prevention (§3.2 of the "Attracting and retaining talent" section)	- Audits and follow-up audits (§5.2 of the "Ethics and responsibility" section) - Corrective action plans following audits (§5.2 of the "Ethics and responsibility" section)
Mitigation and prevention measures	- LVMH Restricted Substances List (§5.3 of the "Ethics and responsibility" section) - LVMH Testing Program (§5.3 of the "Ethics and responsibility" section) - Promoting responsible consumption of Wines and Spirits (§5.3 of the "Ethics and responsibility" section) - Third-party liability insurance and product recalls (§2.3 of the "Financial and operational risk management and internal control" section) - Specific insurance policies in countries where work-related accidents are not covered by social security systems (§2.3 of the "Financial and operational risk management and internal control" section)	- Supplier Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Training for suppliers and buyers (§5.2 of the "Ethics and responsibility" section) - Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the "Ethics and responsibility" section) - Supply chain certification targets (§5.2 of the "Ethics and responsibility" section) - Assistance guides provided to suppliers for the elimination/substitution of chemicals whose use is restricted or prohibited by LVMH (§5.3 of the "Ethics and responsibility" section) - Charter on Working Relations with Fashion Models (§2.2 of the "Ethics and responsibility" section)
Whistleblowing system	- Centralized whistleblowing system (§5.6 of the "Ethics and responsibility" section)	- Group employees can use the whistleblowing system to report violations committed by suppliers or subcontractors (§5.6 of the "Ethics and responsibility" section) - Some Maisons have implemented measures to directly ask their suppliers' employees about their working conditions (§5.2 of the "Ethics and responsibility" section)
Follow-up and assessment measures	- Action plans implemented by the Maisons in countries identified as priorities during the risk mapping exercise (§5 of the "Ethics and responsibility" section) - Action plans included as part of the ERICA approach (§5 of the "Ethics and responsibility" section) - Risk mapping exercise carried out regularly	- Remediation plans to address shortcomings identified during audits (§5.2 of the "Ethics and responsibility" section) - Follow-up audits of suppliers (§5.2 of the "Ethics and responsibility" section)

6.2.3 Environment

	Group's own operations	Suppliers' and subcontractors' activities
Risk mapping	- Risk mapping by the Group (§4 of the "Ethics and responsibility" section)	- Risk mapping by the Group (§4 of the "Ethics and responsibility" section) - Additional risk assessment for certain suppliers via the EcoVadis platform (§5.2 of the "Ethics and responsibility" section)
Frequent risk assessments	- Environmental management system (§5 of the "Environment and sustainability" section)	- Audits and follow-up audits (§5.2 of the "Ethics and responsibility" section) - Corrective action plans following audits (§5.2 of the "Ethics and responsibility" section)
Mitigation and prevention measures	- LIFE 2020 targets (§2 to §5 of the "Environment and sustainability" section) - Insurance for environmental damage (§2.3 of the "Financial and operational risk management and internal control" section)	- Supplier Code of Conduct (§2.2 of the "Ethics and responsibility" section) - Training for suppliers and buyers (§5.2 of the "Ethics and responsibility" section) - Participation in multi-party initiatives covering suppliers in higher risk categories (§5.2 of the "Ethics and responsibility" section) - Supply chain certification targets (§5.2 of the "Ethics and responsibility" section)
Whistleblowing system	- Centralized whistleblowing system (§5.6 of the "Ethics and responsibility" section)	- Group employees can use the whistleblowing system to report violations committed by suppliers or subcontractors (§5.6 of the "Ethics and responsibility" section)
Follow-up and assessment measures	- Tracking achievement of LIFE 2020 targets (§2 to §5 of the "Environment and sustainability" section) - Action plans implemented by the Maisons in countries identified as priorities during the risk mapping exercise (§5 of the "Ethics and responsibility" section) - Action plans included as part of the ERICA approach (§5 of the "Ethics and responsibility" section) - Risk mapping exercise carried out regularly	- Remediation plans to address shortcomings identified during audits (§5.2 of the "Ethics and responsibility" section) - Follow-up audits of suppliers (§5.2 of the "Ethics and responsibility" section)

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS: THE GROUP

Environment and sustainability

1. GENERAL ENVIRONMENTAL POLICY

1.1 Organization of the Group's environmental approach

1.1.1 Governance

For LVMH, protecting the environment is much more than an obligation: it is an imperative and a key driver for competitiveness. Having recognized the importance of action in this area 27 years ago, the Group formed an Environment Department in 1992 reporting directly to Executive Management. With a staff of ten, this department has the following objectives:

- roll out the LIFE (LVMH Initiatives for the Environment) program;
- guide Group companies' environmental policies, in compliance with the LVMH Environmental Charter;
- conduct internal audits to assess Maisons' environmental performance;
- monitor regulatory and technical developments;
- create management tools that address issues such as packaging design, supplier relations and regulatory monitoring;
- help the Group's companies safeguard against risks;
- train employees and raise environmental awareness at every level of the organization;
- define and consolidate environmental indicators;
- work with the various stakeholders involved (nonprofits, rating agencies, public authorities, etc.).

Each Maison also draws on its own in-house expertise in environmental matters. These experts make up a network of nearly 200 Environment Officers from Maisons, known as the Environment Committee, which meets several times a year, in particular to share and discuss best practices.

In addition, LVMH's ability to drive continuous improvement is closely tied to the Group's success at making sure that its 163,000 employees understand their role as active participants in its approach to environmental matters. The Environment Department thus works to inform, train and raise awareness among employees with regard to the conservation of natural resources and biodiversity, as well as climate change. In 2016, the Group established an in-house Environment Academy to serve this role. The Academy designs training programs based on the major objectives of the LIFE program, using a range of learning materials – including face-to-face training sessions, e-learning modules and virtual classes – covering a large number of subjects, from sustainable design to environmental audits. In addition, almost all Maisons continued with their employee environmental training and awareness programs. These programs totaled 21,225 hours.

1.1.2 Commitments

Signed in 2001 by the Group's Chairman, the Environmental Charter is the founding document for LVMH's five main aims with regard to the environment:

- striving for high environmental performance;
- encouraging collective commitment;
- managing environmental risks;
- designing products that factor in innovation and environmental creativity;
- making a commitment that goes beyond the Company.

The Environmental Charter also encourages all Maison Presidents to become directly involved in the approach through concrete actions, and requires each Maison to set up an effective environmental management system, create think tanks to assess the environmental impacts of its products, manage risks, and adopt environmental best practices.

In 2003, the Group joined the United Nations Global Compact, which aims to promote responsible corporate citizenship through business practices and policies based on ten universal principles, including the following three relating to the environment:

- support a precautionary approach to environmental challenges;
- undertake initiatives to promote greater environmental responsibility;
- encourage the development and diffusion of environmentally friendly technologies.

Launched in 2011, the LIFE (LVMH Initiatives for the Environment) program is designed to reinforce the incorporation of environmental concerns into brand strategy, facilitate the development of new coordination tools, and take into account developments and improvements arising from innovative practices at Maisons. The Maisons have incorporated the LIFE program into their strategic plans since 2014. The LIFE program was implemented by a Steering Committee at each Maison and is based on nine key aspects of environmental performance:

- environmental design;
- securing access to strategic raw materials and supply channels;
- traceability and compliance of materials;
- suppliers' environmental and social responsibility;
- preserving critical expertise;
- reducing greenhouse gas emissions;
- environmental excellence in manufacturing processes;
- product life span and reparability;
- keeping customers and key stakeholders informed.

In 2019, the Group was included in the main indices based on responsible investment criteria: FTSE4Good Global 100, Euronext Vigeo Eurozone 120 and ESI (Ethibel Sustainability Indices) Europe. LVMH also took part in the "Wake-Up Call on the Environment" student manifesto organized by several French schools.

Environmental expenses are recognized in accordance with the recommendations of the Autorité des Normes Comptables, France's accounting standards authority. Operating expenses and capital expenditure are recognized against each of the following items:

- air and climate protection;
- waste water management;
- waste management;
- protection and purification of soil, groundwater and surface water;
- noise and vibration reduction;
- biodiversity and landscape protection;
- radiation protection;
- research and development;
- other environmental protection measures.

In 2019, expenses related to environmental protection broke down as follows:

- operating expenses: 15.9 million euros;
- capital expenditure: 10.7 million euros.

Provisions for environmental risks amounted to 12.4 million euros as of December 31, 2019. This amount corresponds to the financial guarantees required by law for Seveso upper-tier establishments.

1.2 Identification of LIFE 2020 risks and targets

1.2.1 Methodology

The environmental indicator reporting process covered the following scope in 2019:

Production facilities, warehouses and administrative sites *(number)*	**2019**
Sites covered [(a)]	263
Sites not covered [(b)(c)]	134
Total number of sites	**397**

(a) Integration of new manufacturing sites (Thélios, Shangri-La vineyard and Louis Vuitton).
(b) Main components: certain regional administrative sites of Louis Vuitton and Moët Hennessy as well as administrative sites with fewer than 20 employees.
(c) The Belmond group is not included in the 2019 environmental reporting scope.

93% of production sites are covered. The manufacturing, logistics and administrative sites that are not covered by environmental reporting are essentially excluded for operational reasons and are not material. A plan to gradually include them is underway.

The total store floor space used to calculate energy consumption and greenhouse gas emissions is as follows, expressed as a percentage of the Group's total store floor space:

	% of Group's total store floor space taken into account in calculating energy consumption and greenhouse gas emissions [(a)]	
	2019	**2018**
Group total	**65**	**70**

(a) The reporting scope does not cover the stores operated under franchise by Fashion and Leather Goods, Perfumes and Cosmetics, and Watches and Jewelry.

The total store floor space of the main Maisons used to calculate energy consumption and greenhouse gas emissions is as follows, expressed as a percentage of the total store floor space of each Maison:

	% of Maison's total store floor space taken into account in calculating energy consumption and greenhouse gas emissions [(a)]	
	2019	**2018**
DFS	77	77
Louis Vuitton	69	69
Sephora (North America and Latin America)	63	59
Sephora (Europe, Asia and Middle East)	64	80
Le Bon Marché	100	100
Christian Dior	64	74

(a) The reporting scope does not cover the stores operated under franchise by Fashion and Leather Goods, Perfumes and Cosmetics, and Watches and Jewelry.

Calculations of energy consumption and greenhouse gas emissions also include all French stores operated by Berluti, Givenchy, Guerlain, Kenzo and Make Up For Ever, and certain stores operated by Acqua di Parma, Benefit, Bvlgari, Celine, Chaumet, Fendi, Fred, Hublot, Loewe, Loro Piana, Marc Jacobs, Parfums Christian Dior, Pucci, TAG Heuer, Pink Shirtmaker and Zenith.

Sephora's stores in China and Saudi Arabia are not included. Data for 2018 has been restated.

For waste production and water consumption, only certain stores operated by DFS (53% of floor areas in 2019 and 52% in 2018) and stores operated by the Le Bon Marché group are included. Data for 2018 has been restated.

1.2.2 Main risks

The main environmental risks identified at the Group level relate to the following topics:

1. impact on ecosystems;
2. depletion of natural resources;
3. setting up and maintaining responsible supply chains.

The policies implemented and their results are presented primarily in §3 "LIFE 2020 – 'Sourcing' target" below.

The full materiality matrix provides detailed information on the following environmental issues relating to the Group's business activities:

	Wines and Spirits	Fashion and Leather Goods	Perfume and Cosmetics	Watches and Jewelry	Selective Retailing

Depletion of energy resources and climate change	- Grape growing;
	- Packaging production;
	- Distillation;
	- Product transport.
		- Store lighting and air conditioning;
		- Product transport;
		- Production of resources needed to manufacture products:
		  - Plant fibers used for textiles (cotton, etc.),
		  - Leather, including exotic leather,
		  - Fur,
		  - Wool.
			- Packaging production;
			- Store lighting and air conditioning;
			- Product transport.
				- Store lighting and air conditioning.	- Store lighting and air conditioning;
					- Product transport.

Impact on water resources	- Water consumption (vineyard irrigation in Australia, New Zealand, Argentina and California); - Production of effluents containing organic matter during winemaking and distillation.	- Water consumption (crocodile farms and tanneries); - Production of effluents containing organic matter.	- Protection and conservation of water resources.		

Impact on ecosystems and depletion of natural resources	- Production of plant resources needed for other production processes (grape vines, barley, rye, etc.).	- Production of resources needed to manufacture products:
		  - Plant fibers used for textiles (cotton, etc.),
		  - Leather, including exotic leather,
		  - Fur,
		  - Wool.
			- Production of plant resources needed to manufacture products (rose, jasmine, etc.).	- Extraction of resources needed to manufacture products:
				  - Gems and precious metals,
				  - Exotic leather.	

Waste recovery and the circular economy	- Residues from winemaking and distillation processes.	- Recycling of raw materials and products at the end of their useful life.	- Recycling of packaging.	- WEEE (Waste Electrical and Electronic Equipment, such as batteries).	- Recycling of point-of-sale advertising and packaging materials.

1.2.3 LIFE 2020 targets

After having conducted an in-depth analysis and mapping of its environmental risks (see above), the Group decided to give its Maisons – regardless of business sector – four shared targets resulting from the LIFE program to be achieved by 2020 (the reference year being 2013, with the level of each indicator in 2013 presented in the "Baseline" column of the tables below):

- sustainable product design: By 2020, the Group's Maisons must make all their products more environmentally friendly. The Group's Perfumes and Cosmetics Maisons, and Wines and Spirits Maisons undertake to improve their Environmental Performance Index (EPI) score by 10%. The Group's Fashion and Leather Goods Maisons, and Watches and Jewelry Maisons are working to reduce their environmental impact arising from the sourcing of raw materials;
- suppliers and raw materials: Maisons must ensure that optimum standards are rolled out in their procurement of raw materials supplies and among their suppliers across 70% of the supply chain by 2020 and 100% by 2025;
- cutting energy-related CO_2 emissions by 25% by raising the proportion of renewables in the Group's energy mix to at least 30%, improving store energy efficiency by 15%, and ensuring that new stores achieve a minimum performance of 50% according to the LVMH Store Guidelines score chart;
- make all production sites and stores more environmentally friendly: Maisons undertake to reduce at least one of three indicators (water consumption, energy consumption and waste production) by 10% at each of their sites, and to have an effective environmental management system focused on continuous improvement.

In 2019, the Group held two Future LIFE events in Paris and New York, which offered a chance to share updates on progress made toward achieving LIFE 2020 targets as well as the new partnerships described in the following sections.

2. LIFE 2020 – "PRODUCTS" TARGET

2.1 Objectives

LVMH's Maisons have always worked to limit the impact of their products on the natural environment. LIFE 2020 encourages them to do more by setting a new goal: improving the environmental performance of all their products, across their entire life cycle. The other LIFE 2020 targets cover the environmental impact of the steps involved in sourcing raw materials, production, transport and sales. With respect to the "Products" target, sustainable design is the key priority for all of the LVMH group's Maisons. Two of its essential components are the guarantee of superior quality and a constant focus on innovation. In taking up this challenge, the Maisons have access to the range of tools developed with their input by the Environment Department. These tools include Edibox, a web-based tool that calculates environmental performance indices (EPIs) for product packaging as well as the carbon footprint of the materials used to manufacture this packaging. This calculation results in a score for each product's packaging, depending on its weight and volume, the number of layers of packaging used, and the separability of the various components. Positive points (for rechargeable packaging, recycled materials, etc.) and negative points (for packaging features that hinder recycling, etc.) are also included in calculating scores.

LVMH's Perfumes and Cosmetics Maisons, and Wines and Spirits Maisons undertake to improve their Environmental Performance Index (EPI) score for product packaging by 10% by 2020. The Group's Fashion and Leather Goods Maisons, and Watches and Jewelry Maisons are working to reduce their environmental footprint arising from the sourcing of raw materials, which is the step that generates the most substantial environmental impact.

The quantities of packaging consolidated by the Maisons concern the following items:

- Wines and Spirits: Bottles, boxes, caps, etc.
- Fashion and Leather Goods: Boutique bags, pouches, cases, etc.
- Perfumes and Cosmetics: Bottles, cases, etc.
- Watches and Jewelry: Cases, boxes, etc.
- Selective Retailing: Boutique bags, pouches, cases, etc.

Packaging used for transport is not included in this breakdown.

2.2 Tracking target achievement

Progress toward meeting the LIFE 2020 "Products" targets:

Indicators	Baseline	Performance in 2019	Target for 2020
EPI score for Perfumes and Cosmetics packaging	8.32	9.3 (+12%)	+10%
EPI score for Wines and Spirits packaging	Champagne: 16.03 Cognac: 10.60	16.76 (+5%) 12.6 (+19%)	+10%

The weight of packaging that reaches customers changed as follows between 2018 and 2019:

(in metric tons)	2019	2018	2019 pro forma[1]	Change[1] *(as %)*
Wines and Spirits	181,319	159,844	181,319	13[a]
Fashion and Leather Goods	13,375	11,059	13,375	21[a]
Perfumes and Cosmetics	31,115	29,167	31,115	7
Watches and Jewelry	4,416	4,834	4,416	(9)[b]
Selective Retailing	6,375	4,651	6,375	37[a] -
Other activities	2		2	-
Total	**236,602**	**209,555**	**236,602**	**13**

(a) Change related to business activity.
(b) Change related to sustainable packaging design.

The total weight of packaging that reaches customers, by type of material, broke down as follows in 2019:

(in metric tons)	Glass	Paper/ cardboard	Plastic	Metal	Fabric	Other packaging materials
Wines and Spirits	159,247	16,816	1,821	1,640	86	1,709
Fashion and Leather Goods	324	10,937	303	68	1,711	32
Perfumes and Cosmetics	16,053	5,182	7,446	2,063	93	278
Watches and Jewelry	1,624	1,193	1,198	163	158	80
Selective Retailing	226	3,683	2,315	83	1	67
Other activities		2				
Total	**177,474**	**37,813**	**13,083**	**4,017**	**2,049**	**2,166**

3. LIFE 2020 – "SOURCING" TARGET

3.1 Joint actions and common goals

LVMH's heavy dependence on natural resources, together with its strong values and commitments, prompted the Group to put in place a sustainable sourcing policy a number of years ago. LVMH pays very close attention to the traceability and compliance of the materials and substances used to manufacture its products. The Group promotes responsible purchasing practices and works to ensure that its supply chains are more environmentally sustainable, in close collaboration with its suppliers and subcontractors.

The LVMH group has a strategy in place for sourcing and preserving raw materials, governed by the LIFE 2020 targets, which commit Maisons, between now and 2020, to buying and producing at least 70% of their core raw materials in accordance with optimum environmental standards for raw material sourcing and production sites. Choosing which components to use is an essential part of preserving the environment, especially rare resources that are vital for product manufacturing. To reinforce this approach, a number of projects are underway to develop new, responsible supply channels for the Perfumes and Cosmetics, Fashion and Leather Goods, and Watches and Jewelry business groups.

Furthermore, the Maisons have implemented procedures to ensure that all of their products comply with CITES, a convention on international trade in endangered species. Through a system of import-export permits, this convention was set up to prevent overexploitation of certain species of endangered fauna and flora.

The "Sourcing" target concerns the following raw materials in particular:

- grapes;
- leathers, raw lamb and calf skins, exotic leathers and furs;
- cotton;
- gems and precious metals;
- palm oil and its derivatives;
- regulated chemicals. All the Maisons have incorporated the requirements of international regulations, including REACH, into their contractual documents so as to engage all suppliers in this undertaking.

(1) Value and change at constant scope.

LVMH takes a long-term, global approach to its actions in this area alongside many partners working to conserve biodiversity. LVMH was the first private-sector entity to join the eight public research bodies on the Board of Directors of the French Foundation for Research on Biodiversity (FRB). The Group is now an official member of the FRB, with which it has been working for more than seven years. Sylvie Bénard, LVMH's Environment Director, has also served as Vice-President of the Foundation's Strategic Orientation Committee for four years. As part of this committee – which brings together more than 160 stakeholders to jointly design research programs that promote biodiversity – the Group has focused in particular on the issue of access to genetic resources and sharing the benefits resulting from their use. In 2019, LVMH stepped up its involvement by signing a five-year partnership with UNESCO to support its intergovernmental scientific program, "Man and the Biosphere" (MAB). This tool for international cooperation is aimed at protecting global biodiversity. Both partners will appear side by side at international events. For example, the Group's Maisons will draw on UNESCO's scientific expertise and its network of 686 biosphere reserves to develop their sustainable sourcing policies.

LVMH has also implemented many tools to improve and monitor the use of chemicals in products. These are described in §5.3 "Unrelenting focus on quality and safety".

3.2 Wines and Spirits

For historical and strategic reasons, the Wines and Spirits business group is actively committed to sustainable and/or organic winegrowing, both of which are helping to considerably reduce its environmental impact, in particular by limiting the use of plant protection products.

Stepping up the roll-out of sustainable and/or organic winegrowing at the Maisons' vineyards and among independent grape suppliers has thus been adopted as a LIFE 2020 target. Various certification systems have been established across winegrowing regions: Viticulture Durable en Champagne for champagne houses, Haute Valeur Environnementale (HVE) 3 for cognac, organic farming for certain vineyards, Napa Green in California, etc.

3.3 Fashion and Leather Goods

The Fashion and Leather Goods business group has adopted five major targets for 2020:

- at least 70% of leather purchased from LWG-certified tanneries. LWG certification is a standard created by the Leather Working Group to improve the environmental performance of tanneries (energy, water, waste, traceability);
- at least 70% of cotton purchased from sustainable cotton sources. The Group has joined the Better Cotton Initiative (BCI), which has developed a standard to encourage measurable improvements in the main environmental impacts of growing cotton on a global scale;
- certification for all crocodile farms supplying the Group's tannery;
- at least 80% of pelts supplied by certified fur farms by the end of 2019, in particular by rolling out FurMark certification;
- integration of the Animal Sourcing Principles – developed with the Business for Social Responsibility (BSR) nonprofit – into supplier contracts. LVMH shares civil society's aim of improving animal welfare, which is connected to many raw materials such as leather, wool and fur. In 2019, the Group unveiled its Animal-Based Raw Materials Sourcing Charter. This undertaking is the result of a long process of scientific research and collaboration between LVMH's environmental experts, its Maisons and its suppliers. The exhaustive charter covers the full range of issues concerning the sourcing of fur, leather, exotic leather, wool and feathers. It allows the Group to make commitments to achieving progress by 2020 and 2025 in three areas: full traceability in supply chains; animal farming and trapping conditions; and respect for local communities, the environment and biodiversity.

3.4 Perfumes and Cosmetics

The Perfumes and Cosmetics business group has set LIFE 2020 targets relating to its suppliers and supply chains, in particular by developing a system to assess their environmental and social performance. Initial performance targets have been set for suppliers of packaging and ingredients. The business group also takes part in specific initiatives related to the sourcing of palm oil (RSPO) and mica (RMI). The Group's Research & Development Department and Maisons have been carrying out ethnobotanical studies for a number of years. They seek to identify plant species with a particular interest as components of cosmetic products while contributing to the preservation of these species and to local economic development. This partnership can take a variety of forms such as financial support, technical or scientific assistance, or skills sponsorship, sharing the expertise of LVMH's staff with its partners. As part of this initiative, Parfums Christian Dior's Dior Gardens are plots dedicated to cultivating plant species chosen for their exceptional properties. Guerlain has also launched a number of partnerships focused on orchids in China, vetiver in India, honey in Ouessant in France, sandalwood in Asia and lavender from the south of France.

3.5 Watches and Jewelry

As part of the LIFE 2020 targets, all of the Watches and Jewelry Maisons have received certification under the Responsible Jewellery Council (RJC) system. In line with this certification, which has been extended to their gold and diamond supply chains, they are expanding their responsible sourcing efforts. Bvlgari is particularly active in this area, and has become the first company in its market to obtain the RJC Chain of Custody (CoC) certification for gold. The Group and its Maisons are also involved in the Coloured Gemstones Working Group run by The Dragonfly Initiative, which aims to promote environmental and social best practices in the sourcing of colored gemstones. Several audits have already been carried out.

3.6 Tracking target achievement

Progress toward meeting the LIFE 2020 "Sourcing" targets:

Indicators	Baseline (2013)	Performance in 2019	Target for 2020
Wines and Spirits			
Sustainable winegrowing certification *(certified grapes by weight, as %)*	LVMH vineyards: French vineyards: 100% Independent grape suppliers: Champagne: 7%	LVMH vineyards: French vineyards: 100% Rest of the world: 58% Independent grape suppliers: Champagne: 15%	LVMH vineyards: French vineyards: 100% Rest of the world: 100%
Fashion and Leather Goods			
LWG-certified tanneries *(leather from certified tanneries by weight, as %)*	25%	66%	70%
Certified cotton *(GOTS- or Better Cotton-certified cotton by weight, as %)*	2%	54%[(a)]	70%
Perfumes and Cosmetics			
Perfume ingredient supplier performance	64	89	90
Cosmetics ingredient supplier performance	56	84	80
Palm oil derivatives *(RSPO-certified Mass Balance or Segregated palm oil derivatives by weight, as %)*	0%	86%	70%
Watches and Jewelry			
Diamonds: RJC COP certification *(carats of diamonds from COP-certified direct suppliers, as %)*	90%	98%	100%
Gold: RJC COP certification	94%	82%	100%
RJC CoC certification *For Maisons without CoC certification, gold is included within the reported indicator if it is sourced from CoC-certified precious metal refiners, regardless of any intermediate subcontractors (between the precious metal refiner and the Maison)*	-	79%	100%

(a) Change related to improvements in Maison practices and reporting.

4. LIFE 2020 – "CLIMATE CHANGE" TARGET

4.1 Common goal

Combating climate change is a major focus of LVMH's environmental policy. The Group has often played a pioneering role in this area. In the early 2000s, for example, it took part in testing the carbon assessment method that would later become the Bilan Carbone®. In 2015 it was also the first luxury company to set up an internal carbon fund. From energy consumption to manufacturing, transport and logistics to work habits, LVMH is looking at all possible ways to reduce the climate impact of its activities. In 2019, LVMH announced a partnership with Bertrand Piccard's Solar Impulse Foundation, aimed at identifying innovative solutions to reduce the environmental impact of human activities, in particular as part of the effort to combat climate change.

As part of LIFE 2020, the Group is aiming to cut Scope 1 and 2 greenhouse gas emissions by 25%, in absolute values, between 2013 (baseline year) and 2020. The performance of production, logistics and administrative sites is calculated by comparing data for each site between 2013 and the reporting year. Store CO_2 performance is calculated by multiplying CO_2 efficiency for the reporting year (in metric tons of CO_2 equivalent per square meter) by the baseline floor area (total floor area of stores reported in 2013). The CO_2 value generated for the reporting year covers 65% of total emissions in 2019. Actions are being pursued on three fronts: improving monitoring and reporting processes; increasing the energy efficiency of operations, particularly at the Group's stores; and expanding the use of renewable energy.

In 2016, a specific study was carried out assessing the environmental impact of the Group's raw material production and supply chain. Across the Group's entire value chain, 50% of emissions are generated by the production of raw materials and 30% by inbound and outbound transport. Next come emissions generated by the Maisons' production sites, logistics centers, offices and stores (20%), either direct (Scope 1) or indirect (Scope 2). Downstream emissions generated by using products (washing of fashion products, rinsing certain cosmetic products, etc.) or when products come to the end of their useful life will be refined in 2021.

4.2 The LVMH Carbon Fund

Created in 2016, the LVMH Carbon Fund is a key element of LIFE 2020's strategy to address climate change. Each Maison's expected annual contribution is calculated by multiplying the greenhouse gas emissions resulting from its business activities by the carbon price set by LVMH, which went from 15 to 30 euros per metric ton in 2018. The amount thus obtained must be invested the following year in projects aimed at reducing emissions. The LVMH Carbon Fund reached its target in 2019, with 16.5 million euros in financing for 138 projects that could help avoid 5,658 metric tons of greenhouse gas emissions per year.

4.3 Energy efficiency and renewable energy

Improving energy efficiency and expanding the use of renewable energy are the main thrusts of LVMH's strategy to limit its carbon footprint, an approach that also entails better energy management, which is vital to help reduce overall energy consumption.

4.3.1 Energy consumption

Total energy consumption amounted to 1,059,892 MWh in 2019 for the Group's subsidiaries included in the reporting scope. This corresponds to primary energy sources (such as fuel oil, butane, propane and natural gas) added to secondary energy sources (such as electricity, steam and ice water) mainly used for the implementation of manufacturing processes in addition to buildings and stores' air conditioning and heating systems.

Energy consumption by business group changed as follows between 2018 and 2019:

(in MWh)	2019	2018	2019 pro forma[1]	Change[1] *(as %)*
Wines and Spirits	223,395	220,454	222,785	1
Fashion and Leather Goods	394,620	393,598	385,516	(2)
Perfumes and Cosmetics	93,923	94,044	94,021	-
Watches and Jewelry	40,726	40,935	38,773	(5)
Selective Retailing	286,142	286,514	306,319	7
Other activities	21,086	22,006	21,086	(4)
Total	**1,059,892**	**1,057,551**	**1,068,500**	**1**

Energy consumption by business group and by energy source was as follows in 2019:

(in MWh)	Electricity	Natural gas	Heavy fuel oil	Fuel oil	Butane/ Propane	Steam	Ice water	Renewable energies
Wines and Spirits	22,842	80,479	117	43,921	3,253	-	-	72,784
Fashion and Leather Goods	158,241	110,816	-	9,114	5,851	2,182	2,238	106,179
Perfumes and Cosmetics	7,871	31,564	-	2,532	-	1,234	378	50,345
Watches and Jewelry	11,822	5,783	-	907	144	285	-	21,785
Selective Retailing	124,270	14,383	-	662	13	5,878	8,611	132,323
Other activities	5,750	4,634	-	1,231	-	1,445	2,979	5,046
Total	**330,796**	**247,659**	**117**	**58,367**	**9,261**	**11,024**	**14,206**	**388,462**

4.3.2 Direct emissions (Scope 1) and indirect emissions (Scope 2)

Scope 1 emissions are those generated directly by sites, mainly through the combustion of fuel oil and natural gas. Scope 2 emissions are those generated indirectly from energy use, mainly electricity used on-site. Measures to reduce these emissions have been in place for a number of years at Maisons' production sites. The Maisons are also working hard to improve energy efficiency at stores, the main source of LVMH's greenhouse gas emissions.

Thanks to their efforts, one of the LIFE 2020 targets has already been achieved: a 15% improvement in the average energy efficiency of existing stores, in particular by installing the advanced lighting systems offered by the LVMH Lighting program and by rolling out the LVMH Store Guidelines (see §5 "LIFE 2020 – 'Sites' Target").

CO_2 emissions by business group changed as follows between 2018 and 2019:

(in metric tons of CO_2 equivalent)	CO_2 emissions in 2019	*Of which:*		CO_2 emissions in 2018	CO_2 emissions in 2019 pro forma[1]	Change[1] *(as %)*
		Direct CO_2 emissions (as %)	*Indirect CO_2 emissions (as %)*			
Wines and Spirits	40,893	*71*	*29*	40,845	40,442	(1)
Fashion and Leather Goods	113,314	*23*	*77*	113,783	108,692	(4)
Perfumes and Cosmetics	12,971	*56*	*45*	12,807	12,832	-
Watches and Jewelry	7,257	*20*	*80*	7,027	6,332	(10)[a]
Selective Retailing	72,643	*4*	*96*	88,089	70,764	(20)[a]
Other activities	3,340	*38*	*62*	3,319	3,340	1
Total	**250,418**	***27***	***73***	**265,870**	**242,402**	**(9)**

(a) Change related to the switch to renewable energy and the rollout of energy-saving technologies.

(1) Value and change at constant scope.

4.3.3 Raw materials and transport (Scope 3)

The study carried out in 2016 on the environmental impact of producing the raw materials needed to manufacture the Maisons' products was updated in 2018. It showed that over 70% of emissions come from leather, grapes and glass for packaging. With the help of its partners, the Group is continuing to work on quantifying these emissions, as well as fine-tuning how it assesses the impact of raw materials like leather, gold and cotton:

- production of raw materials: The main sources of greenhouse gas emissions are leather production (432,000 tCO_2e), winegrowing (172,000 tCO_2e, which includes vineyards belonging to the Group's Maisons as well as independent grape suppliers) and glass for packaging (158,000 tCO_2e);
- inbound transport: Movement of raw materials and product components to production sites. Only the main raw materials and components are taken into account;
- outbound transport: Movement of finished products from production sites to distribution platforms.

In 2019, greenhouse gas emissions generated by inbound transport broke down as follows:

(in metric tons of CO_2 equivalent)	Road	Air	Ship	Total
Wines and Spirits	16,254	1,457	898	18,609
Fashion and Leather Goods	1,048	12,510	45	13,603
Perfumes and Cosmetics	1,029	40,903	470	42,402
Watches and Jewelry	3	1,715	-	1,718
Selective Retailing	-	-	-	-
Total	**18,334**	**56,585**	**1,413**	**76,332**

In 2019, greenhouse gas emissions generated by outbound transport broke down as follows:

(in metric tons of CO_2 equivalent)	Road	Rail	Air	Ship	Inland barge	Electric vehicle	Liquid natural gas	Total
Wines and Spirits	22,086	690	41,674	20,176	149	2	117	84,894
Fashion and Leather Goods	3,240	51	218,402	106	-	-	171	221,970
Perfumes and Cosmetics	3,111	-	323,136	2,109	-	-	-	328,356
Watches and Jewelry	221	-	37,484	70	-	-	-	37,775
Selective Retailing	3,875	-	9,724	205	-	79	-	13,883
Total	**32,533**	**741**	**630,420**	**22,666**	**149**	**81**	**288**	**686,878**

Rimowa, Le Bon Marché, Château d'Yquem, DFS, Fred, Rossimoda and Les Echos did not report their data for this indicator.

4.3.4 Renewable energies

Alongside actions to reduce its fossil fuel consumption, LVMH is rapidly expanding its use of renewable energy. Between 2013 and 2019, the proportion of renewables in the Group's energy mix rose from 1% to more than 36%. Framework agreements signed with energy suppliers have been one of the main drivers of the Group's progress in this area. The first of these dates back to 2015 and supplies green electricity to more than 90% of LVMH's sites in France, belonging to 23 of its Maisons. A similar agreement was signed in 2016 for the supply of electricity to several Maisons in Italy and a third is in preparation for sites in Spain. Many sites have also installed solar panels or geothermal systems. As of 2019, all of Sephora's sites in the United States are powered by green electricity.

4.4 Prospects for adapting to climate change

To accompany its initiatives, the Group is also conducting a review of the various issues involved in adapting to climate change. In the medium term, changing winegrowing practices is the main component of the Group's adaptation strategy. Several solutions are available for European vineyards depending on the extent of climate change, from altering harvest dates to developing different methods of vineyard management (such as widening rows, increasing the size of grapevine stocks and employing irrigation in certain countries) and testing new grape varieties. For vineyards in Argentina and California, the main issue is the availability of water (see §5.3 "Water consumption and preventing pollution").

4.5 Tracking target achievement

Progress toward meeting the LIFE 2020 "Climate change" targets:

Indicators	Baseline	Performance in 2019	Target for 2020
CO_2 emissions	220,480 tCO_2e	-25%	Cut energy-related CO_2 emissions by 25% (Scope 1 and 2 at constant scope)
Proportion of renewable energy in the Group's energy mix	1%	36%	Raise the proportion of renewables in the Group's energy mix to at least 30%
Store energy efficiency *(electricity consumption in kWh/m²)*	460 kWh/m²	-21%	Improve store energy efficiency by 15% (electricity consumption in kWh/m²) (target met as of 2017)

5. LIFE 2020 – "SITES" TARGET

5.1 Objectives

Since it was launched in 2012, the LIFE program has focused on ensuring that the Group's sites are environmentally friendly. LIFE 2020 further strengthens these commitments. As a major player in the luxury industry, LVMH aims to ensure that its 397 manufacturing and administrative sites as well as its 4,915 stores are exemplary in this area. The Group has asked its Maisons to put in place environmental management systems at all of their production sites, and at their administrative sites with more than 50 employees.

The Maisons must also commit to a focus on continuous improvement. Taking 2013 as the baseline, LVMH is asking them to reduce at least one of the following indicators by at least 10%: water consumption, energy consumption, or waste production. Specific targets have also been set for their stores. Stores must achieve a score of at least 50 out of 100 for their environmental performance on the LIFE in Stores Guidelines scale, which was developed in 2016 on the basis of the most stringent international standards (including LEED, BREEAM, Green Star, HQE, WELL and BEAM). It identifies the ten most important factors contributing to a store's environmental performance, from the building's insulation and lighting density to heating and air conditioning. This checklist was drawn up as part of the LVMH LIFE in Stores program. Its aim is to encourage the integration of environmental issues at an early stage in the development of store projects, preferably from the design phase. A LIFE in Stores event held this year in New York was an opportunity to present architects with the best technologies to reduce energy consumption at the Maisons' stores and sites.

5.2 Environmental management and certification systems

The Group has decided to extend the implementation of environmental certification programs to all its sites, because this can serve as a dynamic, unifying and motivating tool to promote continuous improvement. This approach to certification is not new for the Maisons: the LVMH Environmental Charter already requires that they put in place an environmental management system reporting to Executive Management. Many of them have opted for ISO 14001 certification. Hennessy has played a pioneering role in this regard, becoming the world's first wines and spirits company to obtain ISO 14001 certification in 1998. At the end of 2019, 60% of the Group's manufacturing, logistics and administrative sites (and 71% of its manufacturing sites alone) were ISO 14001-certified.

5.3 Water consumption and preventing pollution

5.3.1 Breakdown of water consumption

Water consumption is broken down into the following requirements:

- process requirements: Use of water for cleaning purposes (tanks, products, equipment, floors), air conditioning, employees, product manufacturing, etc. Such water consumption generates waste water;
- agricultural requirements: Water used for vineyard irrigation outside France, as irrigation is not used for the Group's vineyards in France. Water is taken directly from the natural environment for irrigation purposes, with water use from year to year closely linked to changes in weather conditions. However, it should be noted that water consumption for agricultural requirements is assessed by sites with a higher level of uncertainty than water consumption for process requirements.

Water consumption changed as follows between 2018 and 2019:

(in m³)	2019	2018	2019 pro forma [1]	Change [1] *(as %)*
Process requirements	3,927,034	3,985,070	3,930,956	1
Agricultural requirements (vineyard irrigation)	7,018,856	5,568,770	6,946,556	25 [a]

(a) Change mainly related to increased irrigation requirements in Argentina and New Zealand.

Water consumption for process requirements broke down as follows by business group:

(process requirements in m³)	2019	2018	2019 pro forma [1]	Change [1] *(as %)*
Wines and Spirits	1,247,673	1,193,364	1,247,673	5
Fashion and Leather Goods	1,918,215	1,840,355	1,911,342	4
Perfumes and Cosmetics	194,720	204,089	195,700	(4)
Watches and Jewelry	75,955	80,566	80,516	-
Selective Retailing	306,062	401,708	311,317	(23) [a]
Other activities	184,408	264,989	184,408	(30) [b]
Total	**3,927,034**	**3,985,070**	**3,930,956**	**(1)**

(a) Change related to the installation of equipment at a site.
(b) Change related to exceptional construction work in 2018 and improvements in reporting processes.

An in-depth analysis of sensitivity to local constraints was carried out at each of the Group's Maisons using Pfister's 2009 water scarcity index and the 2012 Aquastat database. This analysis was based on measurements of each geographic area's sensitivity, obtained by comparing water consumption to available resources at the local level. Four Maisons whose water consumption is significant relative to the Group as a whole are located in areas where water stress is close to 100%, meaning that water requirements in these areas are close to the level of available resources:

- the Domaine Chandon Argentina vineyards (Agrelo and Terrazas), which represent 80% of the Group's agricultural water requirements;
- the Domaine Chandon California and Newton vineyards, which represent 6% of the Group's agricultural water requirements.

Vineyard irrigation requires authorization and is regulated in California and Argentina due to the climate. Such irrigation is necessary for winegrowing. Nevertheless, the Group has taken the following measures to limit water consumption: harvesting rainwater; implementing protocols to measure and specify water requirements; standardizing drip irrigation practices in California; using weather forecasts to optimize irrigation; and adopting the "regulated deficit irrigation" technique, which reduces water consumption and improves grape quality and grapevine size, yielding an enhanced concentration of aroma and color.

(1) Value and change at constant scope.

5.3.2 Preventing pollution

The only significant, relevant indicator related to preventing water pollution is the release of substances into water by Wines and Spirits, Fashion and Leather Goods, and Perfumes and Cosmetics operations contributing to eutrophication. The Group's other activities have only a very limited impact on water quality. Eutrophication is the excessive buildup of algae and aquatic plants caused by excess nutrients in the water (particularly phosphorus), which reduces water oxygenation and adversely affects the environment. The parameter used is the Chemical Oxygen Demand (COD) calculated after treatment of effluents from the Group's own plants or external plants with which the Group has agreements. The following operations are considered treatment: city and county wastewater collection and treatment, independent collection and treatment (aeration basin), and land application.

COD after treatment changed as follows between 2018 and 2019:

COD after treatment *(metric tons/year)*	**2019**	**2018**	**2019 pro forma**[1]	**Change**[1] *(as %)*
Wines and Spirits	967	1,066	967	(9)[a]
Fashion and Leather Goods	37	64	37	(42)[b]
Perfumes and Cosmetics	26	40	26	(35)[c]
Total	**1,030**	**1,170**	**1,030**	**(11)**

(a) Change related to measurement method.
(b) Change related to improvements in reporting processes and changes in business activity.
(c) Change related to improvements in reporting processes (2018 data restated).

Measurement frequencies at the highest-contributing Maisons are compliant with local regulations but remain limited with regard to the changes observed in quantities discharged.

Volatile Organic Compound (VOC) emissions are addressed through specific action plans, notably for Perfumes and Cosmetics operations and the tanneries.

5.4 Reducing and recovering waste

5.4.1 Waste produced and recovered

In 2019, 91% of waste was recovered (91% in 2018). Recovered waste is waste for which the final use corresponds to one of the following channels, listed in descending order of interest in accordance with European and French laws:

- re-use, i.e. using the waste for the same purpose as the one for which the product was initially intended;
- recovery of materials, i.e. recycling (direct reintroduction of waste into its original manufacturing cycle resulting in the total or partial replacement of an unused raw material) or controlled composting or land treatment of organic waste to be used as fertilizer;
- incineration for energy production, i.e. recovery of energy in the form of electricity or heat by burning the waste.

The weight of waste generated changed as follows between 2018 and 2019:

(in metric tons)	**Waste produced in 2019**	***Of which: hazardous waste produced in 2019***[a]	**Waste produced in 2018**	**Waste produced in 2019 pro forma**[1]	**Change in waste produced**[1] *(as %)*
Wines and Spirits	62,667	502	65,423	62,667	(4)
Fashion and Leather Goods	16,327	2,421	15,888	15,963	1
Perfumes and Cosmetics	9,112	1,764	10,186	9,118	(10)[b]
Watches and Jewelry	992	311	869	988	14[b]
Selective Retailing	4,806	9	4,895	4,806	(2)
Other activities	1,716	129	2,234	1,716	(23)[c]
Total	**95,620**	**5,136**	**99,495**	**95,258**	**(4)**

(a) Waste that must be sorted and processed separately from non-hazardous waste (such as cardboard, plastic and paper).
(b) Change related to business activity.
(c) Change related to exceptional construction work at one site in 2018.

(1) Value and change at constant scope.

Waste was recovered as follows in 2019:

(as % of waste produced)	Re-used	Recovery of materials	Waste-to-energy recovery	Total recovery
Wines and Spirits	35	59	3	97
Fashion and Leather Goods	3	40	29	72
Perfumes and Cosmetics	2	69	26	97
Watches and Jewelry	18	24	30	72
Selective Retailing	4	47	28	79
Other activities	6	39	44	89
Total	**24**	**56**	**12**	**91**

In France, the Perfumes and Cosmetics Maisons, as well as Sephora since 2010 and Louis Vuitton since 2011, have used the CEDRE *(Centre Environnemental de Déconditionnement, Recyclage Écologique)* recovery and recycling facility to handle all the waste generated by the manufacturing, packaging, distribution, and sale of cosmetic products. CEDRE accepts several types of articles: obsolete packaging, alcohol-based products, advertising materials, store testers, and empty packaging returned to stores by customers. In 2014, the service was expanded to accept textiles. In 2019, around 2,447 metric tons of waste were processed. The various materials (glass, cardboard, wood, metal, plastic, alcohol and cellophane) are resold to a network of specialized recyclers.

5.4.2 Actions to combat food waste

La Grande Épicerie de Paris, which has a number of fresh food production facilities, has developed a reliable system for predicting sales in order to adapt production to sales volumes on a daily basis.

The store has signed a partnership with the French Red Cross, which collects any unsold prepared food each day. Another partnership was launched in 2018 with Too Good To Go, an app that lets stores give their unsold items to its users.

Both La Grande Épicerie Rive Droite and La Grande Épicerie Rive Gauche are looking into setting up new partnerships with organizations and companies active in this field, and plan to extend the selection of products offered under these partnerships.

In light of the Group's business activities, food insecurity and actions promoting responsible, fair and sustainable food use do not constitute key risks.

5.5 Tracking target achievement

Progress toward meeting the LIFE 2020 "Sites" targets:

Indicators	Baseline	Performance in 2019	Target for 2020
Presence of environmental management systems (ISO 14001, EMAS, etc.) at manufacturing sites	60%	71%	Rollout of an environmental management system (ISO 14001, EMAS, etc.) at all manufacturing sites

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS: THE GROUP

Attracting and retaining talent

1. GENERAL POLICY

At the center of the Group's actions is a strong conviction: people make the difference. To support its growth, LVMH must attract and develop the best people on every continent. Fostering the right conditions to enable them to succeed within the Group's ecosystem is vital to its long-term success.

The Group's critical objectives include attracting the best people through an ambitious recruitment process open to all talented individuals and offering employees a work environment that encourages them to flourish and give the very best of themselves.

These two key components of LVMH's human resources policy are therefore both presented in this section, preceded by general information about the Group's approach to workforce-related responsibility, how workforce-related reporting is organized and key data about the workforce.

1.1 Organizational arrangements with regard to workforce-related responsibility

A dedicated annual survey is run on the workforce-related responsibility measures taken by the Maisons. This survey, which spans all Maisons, covers human rights, diversity, preventing discrimination, skills development, working conditions, listening to employees, labor relations and engaging with local communities. The survey form includes references to the conventions and recommendations of the International Labor Organization, where relevant.

The Group's approach to workforce-related responsibility is structured around four priorities, identified through discussions and interactions with its various stakeholders and an analysis of the challenges facing the Group.

The risk-mapping exercise carried out at Group level and within each of the Maisons has supplemented this approach, notably by identifying factors relating to individual countries where the Group operates and the types of activities undertaken in regard to the following subjects: decent pay and working hours, non-discrimination in the workplace, freedom of association and trade union membership.

These components are as follows: developing talent and skills, paying constant attention to working conditions, preventing all forms of discrimination as well as respecting each person as a unique individual, and engaging with communities to help local populations.

These priorities, which are common to all the Maisons, provide an overall framework for action while leaving the Maisons free to identify other priorities specific to their business and environment, and to draw up their own action plans.

1.2 Organization of workforce-related reporting

The Group works hard to ensure the quality and completeness of workforce-related data through rigorous collection and validation processes.

Collection and validation of workforce-related reporting data

Human Resources Directors at each Maison, who are responsible for reporting across their respective scope, appoint a reporter for each company who is tasked with collecting and reporting all workforce-related data, as well as a reviewer responsible for checking the data this reported and verifying that it is accurate by applying an electronic signature when validating the online questionnaire. Each Maison's Human Resources Director approves the process as a whole by signing a letter of representation.

Computer checks are implemented throughout the reporting cycle to confirm the reliability and consistency of the data entered.

Since fiscal year 2007, selected employee-related disclosures for the Group have been verified each year by one of the Statutory Auditors. For fiscal year 2019, company data was verified by Ernst & Young, in accordance with Article R.225-105-2 of the French Commercial Code (in its version resulting from the transposition into French law of European Directive 2014/95/EU on disclosure of non-financial and diversity information by certain large undertakings and groups).

A support guide is available to everyone involved in Group workforce-related reporting. This guide is intended to familiarize staff with the goals of the Group's approach and to help them better understand the methods used to calculate key indicators. A descriptive sheet is available for each employee-related indicator specifying its relevance, the elements of information tracked, the procedure to be applied to gather information, and the various controls to be performed when entering data.

Scope of workforce-related reporting

The reconciliation of organizational and legal entities ensures consistency between the workforce and financial reporting systems. Accordingly, the scope of reporting on employee-related issues covers all staff employed by fully consolidated Group companies, but does not include equity-accounted associates.

Workforce information set out below includes all consolidated companies as of December 31, 2019, including LVMH's share in joint ventures, with the exception of certain companies that have been part of the Group for less than a year, such as Belmond. Other employee-related indicators were calculated for a scope of 798 organizational entities covering over 99% of the global workforce and encompass staff employed during the fiscal year, including those employed by joint ventures.

LVMH's employees in China and its regions are included in the number of staff working under permanent contracts (24,335 as of December 31, 2019). Although Chinese labor law limits the duration of employment contracts, which can only become permanent after several years, the Group considers employees working under such contracts as permanent.

1.3 Key workforce data

Total headcount as of December 31, 2019 stood at 163,309 employees, an increase of 5% compared with 2018. Of this total, 147,230 employees were working under permanent contracts and 16,079 under fixed-term contracts. Part-time employees represented 17% of the total workforce, or 27,248 individuals. Staff outside France represented 79% of the global workforce.

The Group's average total full-time equivalent (FTE) workforce in 2019 comprised 147,684 employees, up 8% compared with 2018.

1.3.1 Breakdown of the workforce by business group, geographic region and professional category

Breakdown by business group

Total workforce as of December 31 [(a)]	2019	%	2018	%	2017	%
Wines and Spirits	7,671	5	7,380	5	7,157	5
Fashion and Leather Goods	53,456	33	48,101	31	41,212	28
Perfumes and Cosmetics	30,427	19	29,141	18	26,699	18
Watches and Jewelry	9,426	6	8,784	6	8,100	6
Selective Retailing	57,383	35	57,975	37	57,360	40
Other activities	4,946	3	4,707	3	4,719	3
Total	**163,309**	**100**	**156,088**	**100**	**145,247**	**100**

(a) Total permanent and fixed-term headcount.

Breakdown by geographic region

Total workforce as of December 31 [(a)]	2019	%	2018	%	2017	%
France	33,701	21	31,156	20	29,578	20
Europe (excluding France)	40,453	25	38,645	25	34,159	24
United States	31,483	19	32,724	21	32,717	23
Japan	7,391	5	6,905	4	6,397	4
Asia (excluding Japan)	38,109	23	34,802	22	31,102	21
Other markets	12,172	7	11,856	8	11,294	8
Total	**163,309**	**100**	**156,088**	**100**	**145,247**	**100**

(a) Total permanent and fixed-term headcount.

Breakdown by professional category

Total workforce as of December 31 [(a)]	2019	%	2018	%	2017	%
Executives and managers	32,004	20	29,288	19	26,631	18
Technicians and supervisors	15,333	9	14,500	9	14,009	10
Administrative and sales staff	93,575	57	91,624	59	86,742	60
Production workers	22,398	14	20,676	13	17,865	12
Total	**163,309**	**100**	**156,088**	**100**	**145,247**	**100**

(a) Total permanent and fixed-term headcount.

1.3.2 Average age and breakdown by age

The average age of the global workforce employed under permanent contracts is 36 and the median age is 33. The youngest age ranges are found among sales staff, mainly in Asia, the United States and "Other markets".

(as %)	Global workforce	France	Europe (excluding France)	United States	Japan	Asia (excluding Japan)	Other markets
Age: Under 25	11.7	6.1	9.0	17.9	4.3	13.1	20.7
25-29 years	20.0	16.6	15.9	21.2	12.9	26.5	22.2
30-34	20.1	16.8	17.6	18.0	18.4	27.1	20.0
35-39	15.2	13.9	15.7	13.1	20.3	16.4	15.3
40-44	11.1	12.4	13.9	8.5	21.2	7.8	9.3
45-49	8.5	11.8	11.7	6.7	13.6	4.1	5.3
50-54	6.4	10.2	8.5	5.5	6.3	2.6	3.3
55-59	4.5	8.5	5.3	4.5	3.0	1.4	2.1
60 and up	2.5	3.8	2.4	4.6	0.2	1.0	1.1
	100	100	100	100	100	100	100
Average age	**36**	**40**	**38**	**36**	**38**	**33**	**33**

1.3.3 Average length of service and breakdown by length of service

The average length of service within the Group is 9 years in France and ranges from 4 to 8 years in other geographic regions. This difference is mainly due to the predominance in these other regions of retail activities characterized by a higher rate of turnover.

(as %)	Global workforce	France	Europe (excluding France)	United States	Japan	Asia (excluding Japan)	Other markets
Length of service: Less than 5 years	61.0	46.1	54.8	70.4	49.3	70.5	75.5
5-9 years	18.4	18.6	19.5	17.3	18.1	18.6	16.2
10-14 years	9.1	11.3	12.3	6.8	14.5	6.1	4.6
15-19 years	5.5	9.9	6.8	3.3	11.8	2.1	1.8
20-24 years	2.6	5.0	3.5	1.2	4.0	1.1	1.0
25-29 years	1.5	3.5	1.5	0.5	1.6	0.8	0.3
30 years and up	1.9	5.6	1.5	0.5	0.8	0.7	0.6
	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Average length of service	**6**	**9**	**7**	**5**	**8**	**5**	**4**

2. AN AMBITIOUS, INCLUSIVE RECRUITMENT POLICY

Recruitment is a strategic pillar of the Group's human resources policy and is critical to its momentum. Given the huge diversity of opportunities it offers, LVMH is seen as a highly attractive employer, and is constantly working to improve its attractiveness by training promising individuals and ensuring that it models exemplary recruitment practices so as to welcome talented people without regard for gender, age, disability or any other characteristic not relevant to an advertised vacancy.

2.1 A diverse, inclusive recruitment policy

The ability to recruit and develop top talent is key to performance and is therefore a fundamental part of the Group's human resources policy.

LVMH is a group where creativity and expertise are fundamental – where people make all the difference, and are an essential competitive advantage driving the Maisons' success.

Hiring takes place across all levels of seniority, from recent graduates to experienced managers and senior executives, in all the countries and regions where the Group operates.

Beyond the question of numbers to deal with growth, the Maisons' highly creative worlds require people who are passionate about their work, in constant pursuit of excellence in their field, and able to combine technical skills, craft expertise and interpersonal skills.

The Group looks for people who share its core values, who are both pragmatic and creative, with an entrepreneurial spirit, and who are highly attuned to luxury products and the services that go with them. To succeed in LVMH's ecosystem, agility, entrepreneurial spirit and a sense of quality are essential. New employees must be able to grasp the duality of LVMH's world: the enduring, lasting nature of its Maisons combined with the need to be quick-witted, agile entrepreneurs.

The diverse range of backgrounds, cultures and talents embodied by the Group's employees throughout the world are a unique asset and a source of its unrivaled success in the luxury market. It is also a key factor in its competitiveness. All the Maisons combine a global vision with a local approach. This requires multicultural teams, collaboration between talent from all different backgrounds and all different countries, and offering employees international career paths to open up to different cultures. The Group's size and the diversity of its Maisons, their vast geographic scope and the multitude of opportunities they offer favor this geographic mobility and constitute a unique source of appeal in terms of career perspectives. In 2019, 66% of senior executive positions were filled through internal promotion.

In a highly competitive environment, LVMH works continuously on building its employer brand and ensuring that its work environment draws top talent. In 2019, LVMH held 250 events at schools and universities throughout the world to raise awareness of the Group and its different professions.

The Group's strong appeal was recognized on a number of occasions in 2019: for the 14th consecutive year, Universum ranked LVMH the number-one preferred employer for business school students in France, and the Group also rose in international rankings.

Average compensation

The table below shows the average monthly gross compensation paid to Group employees in France under full-time permanent contracts who were employed throughout the year:

Employees concerned *(as %)*	**2019**	**2018**	**2017**
Less than 1,500 euros	1.9	1.5	1.6
1,501 to 2,250 euros	15.3	16.2	19.5
2,251 to 3,000 euros	22.6	22.8	21.5
Over 3,000 euros	60.2	59.5	57.4
Total	**100.0**	**100.0**	**100.0**

Personnel costs [(a)]

Worldwide personnel costs break down as follows:

(EUR millions)	**2019**	**2018**	**2017**
Gross payroll – Fixed-term or permanent contracts	6,544.7	5,787.2	5,746.6
Employer social security contributions	1,619.3	1,490.9	1,412.6
Temporary staffing costs	324.0	306.0	287.6
Total personnel costs	**8,488.0**	**7,584.2**	**7,446.9**

(a) Indicators are taken from the HR reporting system, which covers 798 organizational entities, with the exception of certain companies that have been part of the Group for less than a year, such as Belmond.

Outsourcing and temporary staffing costs decreased year over year, accounting for 6.7% of the total worldwide payroll (versus 7% in 2018), including employer social security contributions.

Profit-sharing, incentive and company savings plans

All companies in France with at least 50 employees have a profit-sharing, incentive or company savings plan. These plans accounted for a total expense of 320 million euros in 2019, paid in respect of 2018, an increase compared to the previous year.

(EUR millions)	**2019**	**2018**	**2017**
Profit sharing	138.3	131.4	118.2
Incentive	148.8	123.6	102.7
Employer's contribution to company savings plans	32.9	26.7	24.0
Total	**320.0**	**281.7**	**244.9**

In 2019, a total of 34,319 employees working under permanent contracts left the Group (all reasons combined); of these, 48% were employed within the Selective Retailing business group, which traditionally experiences a high turnover rate.

Turnover by geographic region

(as %)	2019	France	Europe (excluding France)	United States	Japan	Asia (excluding Japan)	Other markets	2018	2017
Total turnover[(a)]	23.1	12.9	16.5	40.4	12.0	26.1	29.2	22.9	22.7
of which: Voluntary turnover[(b)]	17.2	5.7	12.0	34.1	10.8	20.2	21.3	17.5	16.4
Involuntary turnover[(c)]	5.4	6.2	4.1	6.0	0.9	5.7	7.7	4.9	5.8

(a) All reasons. Excluding internal mobility and non-Group transfers.
(b) Resignations.
(c) Dismissals/end of trial period.

Breakdown of movements[(a)] of employees working under permanent contracts by business group

(number)	Joiners			Leavers		
	2019	2018	2017	2019	2018	2017
Wines and Spirits	844	855	854	717	708	724
Fashion and Leather Goods	13,563	11,915	8,509	8,609	7,610	6,884
Perfumes and Cosmetics	7,468	8,113	6,895	6,340	6,343	5,458
Watches and Jewelry	1,799	1,697	1,356	1,253	1,124	1,187
Selective Retailing	16,719	17,176	14,782	16,508	15,458	14,566
Other activities	894	858	795	892	844	821
Total	**41,287**	**40,614**	**33,191**	**34,319**	**32,087**	**29,640**

(a) Under permanent contracts, including conversions of fixed-term contracts to permanent contracts and excluding internal mobility within the Group.

2.2 Nurturing future talent

To ensure its long-term success, the Group is constantly seeking to attract and train those individuals who best match its current and future needs. LVMH runs a number of initiatives aimed at students and graduates, key examples being the Institut des Métiers d'Excellence (IME), the immersive "Inside LVMH" program and various international academic partnerships.

Institut des Métiers d'Excellence

In 2014, LVMH established the Institut des Métiers d'Excellence, a vocational training program that helps the Group ensure its expertise in craftsmanship, design and sales is successfully passed on to the younger generation and those retraining in a new profession.

This work-linked training program was designed in partnership with prestigious schools and universities selected for their high academic standards and wide recognition of the qualifications they offer. Participants complete technical and theoretical coursework at these partner institutions and gain practical experience at the 35 partner Maisons through paid work-linked training or vocational training contracts. Through IME, work-linked training students take foreign language courses and masterclasses featuring opportunities to meet craftspeople, experts and designers and visit workshops and stores.

After being launched in France in 2014, the IME opened in Switzerland in 2016, then in Italy in 2017, and most recently in Spain in 2019. 800 apprentices have taken part in this program since it was launched, including 300 new students in this year's class.

In 2019, the IME offered 28 training programs, including 26 as work-linked training in 21 professions such as flou and tailored fashion design, knits, silk, leather goods, winegrowing and winemaking, makeup formulation, design and sales. The program has a 97% pass rate, with a 74% placement rate within the profession studied or in a higher-education program, and a 61% placement rate at LVMH and its outside partners.

Inside LVMH

Year after year, the Group continues to build very strong ties with schools and universities around the world in order to expose students to its diverse range of business lines and career opportunities. Following two initiatives in Europe, in April 2019 the Inside LVMH program was launched in China, where nearly 10,000 students from 40 Chinese universities applied using an innovative system on the WeChat social media platform. 120 of them were chosen to take part in a major event in Shanghai attended by leaders from the Group and its Maisons, and nearly 100 of them were offered an internship at the end of the program.

International academic partnerships

In 2019, LVMH continued to strengthen its historical links with recognized schools and universities such as ESSEC, HEC Paris, École Polytechnique and CentraleSupélec in France, Central Saint Martins in the United Kingdom, Bocconi University in Italy and Fudan University in China. The Group's partnerships with these institutions take a variety of forms, including research and teaching initiatives, scholarship funding and support for student projects.

In addition to the three major initiatives detailed above, the Group's policy on attracting talented young people is translated into hundreds of events at which the Group and its Maisons have the opportunity to reach out to students in person, offering internships, apprenticeships, international corporate volunteering opportunities and fixed-term or permanent positions. As a signatory of the Apprenticeship Charter, the Group has been a particularly strong supporter of apprenticeships as a route into employment. As of December 31, 2019, more than 1,500 young people were working under apprenticeship or vocational training contracts (including the Institut de Métiers d'Excellence) across the Group's French companies.

2.3 Recruiting without discriminating

LVMH is open to talented people of all kinds and is constantly working to prevent any form of discrimination in its recruitment practices.

Since 2011, the Group's recruiters have received specific training in preventing discrimination through a mandatory training session, the content of which was expanded and updated in 2018. Specific training sessions have also been rolled out across the Group's various locations to align with applicable national laws. These are supplemented by Group training on decision-making biases, launched starting in December 2019. The Group has also created a Diversity & Inclusion Department.

Furthermore, since 2008 the Group has put in place arrangements for independent oversight of its recruitment practices by appointing an independent firm to carry out discrimination testing on its posted job offers, and in 2019, conduct the first survey about potential discrimination in the recruitment process. These testing campaigns are run regularly and over long periods; since 2014, they have been worldwide in scope. Results are presented to Human Resources Directors at Group and Maison level, and appropriate action is taken if necessary.

The LVMH group is particularly keen to attract the best candidates regardless of disabilities. A number of initiatives are in place aimed at selecting and training people with disabilities and ensuring that they are optimally integrated into the workforce. The Group's approach in this area is coordinated by LVMH's Mission Handicap initiative, established in 2007 and supported by a network of 40 disability officers at the various Maisons who meet twice a year.

This policy of hiring people with disabilities concerns every level of the Group and every country, such as the United States, for example, where Sephora has implemented a system to ultimately hire more than 350 people with disabilities over the next three years. In late 2019, more than 122 people with disabilities had already been hired through this system.

In France, the Group has entered into a number of partnership agreements with AGEFIPH, the country's leading partner for the employment for people with disabilities (with the latest such agreement in 2014-2016). Sephora signed its own agreement with AGEFIPH in 2017. Hennessy, Christian Dior and Parfums Christian Dior also have their own formal agreements with the organization.

In 2014 LVMH launched EXCELLhanCE, which enables people with disabilities to simultaneously obtain a degree, gain significant experience at the Group's Maisons and companies, and build up expertise specific to the world of luxury goods. This program is based on work-linked training lasting 12 to 24 months in three professional fields: sales, logistics and human resource management.

Candidates are selected using the Handi-Talents process, based on work-related simulation exercises, which help objectively identify each individual's aptitudes and skills. The third series of EXCELLhanCE sessions for potential employees began in fall 2018. In partnership with six Maisons, this has allowed twelve people with disabilities to enter employment on vocational training contracts, most of them retraining in a new profession, in the roles of sales associate, inventory manager and human resources assistant. Around 50 people have participated in the program since its launch, and 35 people are still working under a vocational training contract or have successfully secured a job or further training or education (24 of whom within the Group).

Worldwide, people with disabilities make up 1.0% of the LVMH group's workforce. In France, the Group's employment of people with disabilities was estimated at 4.2% (sum of direct and indirect employment rates) as of end-2019, based on official standards for the definition of disabilities.

3. A FULFILLING WORK ENVIRONMENT

The LVMH group seeks to create conditions under which all employees can flourish in their roles and achieve their full potential. Achieving this objective means offering high-quality career support to each and every employee, adopting best practice on health and safety, and fostering constructive labor relations.

3.1 Learning and developing: Key elements in valuing each person's individuality and potential

LVMH's human resources policy aims to enable our employees to fully express their personalities and skills. By developing our talent – a priority shared by the Group's senior executives, managers and human resources staff – LVMH cultivates its wealth and contributes to a fulfilling work environment for its employees. LVMH offers them specific learning and skills development opportunities to help them meet their aspirations: individual career planning, participation in "intrapreneurship" and interdisciplinary projects. DARE is a powerful illustration of this philosophy, enabling employees to experience open innovation and intrapreneurship, work alongside LVMH group senior executives and gain first-hand knowledge of new ways of working. This program helps LVMH employees develop and capitalize on their individuality.

While employees themselves play the leading role in their skills and career development, LVMH's human resources staff and managers are fully engaged in supporting and promoting the development of the Group's talent pool. Career planning sessions let employees express their aspirations and discuss how to achieve them with their manager and HR advisor. Lastly, to help employees set and achieve their career development goals, human resources staff post job openings within the Group on an in-house digital platform and hold monthly career meetings.

In addition to the Maisons' many training opportunities, the Group's LVMH House offers all executives and managers – from the most junior new managers to the most senior members of the Executive Committee – learning and development initiatives in four different areas:

- **understanding and promoting our company culture**:

  LVMH believes that a good understanding of its company culture drives strong performance. The Group therefore places special emphasis on supporting new employees, offering induction seminars to introduce them to LVMH's values and fundamental management principles as well as the history and positioning of the various Maisons;

- **management and leadership**:

  Through a comprehensive range of programs for new managers/leaders (e.g. fundamentals) as well as more advanced initiatives for experienced or high-potential managers, as well as senior executives, LVMH House provides learning opportunities on management and leadership, where the notions of respect, inclusion, collective intelligence and collaboration are considered key to success;

- **developing business excellence in roles that are just as strategic as the appeal of the Group's brands: retail, supply chains and operations;**

- **open innovation:**

  Initiatives that are now recognized both in-house and outside the Group, such as DARE and LVMH's La Maison des Startups (at Station F) are powerful examples of what can be done in terms of innovation pipelines, openness to the outside world and intrapreneurship, and are also highly effective learning and development opportunities for participants. New incubation initiatives launched in 2019 (such as the innovative digital canvas bags unveiled in May 2019 at the Louis Vuitton cruise collection runway show held in New York, and the Shero app offered to all employees with the aim of promoting gender equality within the LVMH group's Maisons) are yet another testament to the Group's desire to constantly meet and exceed learners' expectations, both at an individual level and in terms of collective intelligence experiences.

The opening of two new LVMH Houses in Tokyo and New York (following the launch of the original program in London in 2000 and then in Singapore) demonstrates the LVMH group's commitment to open spaces where participants learn from one another, building up the Group's wealth of diversity in terms of economic backgrounds, cultures, nationalities and more.

Measures taken to reorganize and develop training synergies between the LVMH group's training and development entities around the world, under the aegis of LVMH House, help provide a clearer overview and offer new programs that are more effective in terms of accessibility and impact, with a complementary positioning alongside the solid, recognized training initiatives offered by each of the Maisons.

These LVMH House initiatives illustrate the LVMH group's desire to constantly enhance the diversity of its talent pool through programs such as EllesVMH Coaching, which promotes women's career development, and the content and teaching philosophy of the Management and Leadership programs, which pride themselves on their dual focus on the uniqueness of each participant as well as the collective intelligence of groups of learners and communities.

Helping employees be actively involved in their career mobility and professional development

The LVMH group encourages its staff to be actively involved in their career mobility and professional development. Working closely with human resources departments, managers play a proactive role in planning skills development and helping manage their team members' career paths.

Proportion of women among joiners and in the Group's workforce [(a)]

(% women)	Joiners			Group workforce		
	2019	2018	2017	2019	2018	2017
Breakdown by business group						
Wines and Spirits	45	45	43	38	38	37
Fashion and Leather Goods	65	66	65	67	69	68
Perfumes and Cosmetics	85	86	85	83	83	83
Watches and Jewelry	60	58	60	59	59	59
Selective Retailing	83	83	83	83	83	83
Other activities	42	33	34	37	35	35
Breakdown by professional category						
Executives and managers	65	65	65	65	65	65
Technicians and supervisors	68	67	71	68	68	68
Administrative and sales staff	79	80	81	80	81	81
Production workers	61	57	47	59	58	55
Breakdown by geographic region						
France	66	63	62	64	64	64
Europe (excluding France)	74	76	75	72	74	73
United States	79	80	78	78	79	79
Japan	73	69	71	73	74	75
Asia (excluding Japan)	75	76	77	77	77	76
Other markets	79	79	81	73	73	73
LVMH group	**75**	**75**	**75**	**73**	**73**	**73**

(a) Under permanent contracts, including internal mobility and conversions of fixed-term contracts to permanent contracts.

Training investment

Overall, in 2019, training expenses incurred by Group companies throughout the world represented a total of 138 million euros, or 2.1% of total payroll. A substantial portion of training also takes place on the job on a daily basis and is not factored into the indicators presented below:

	2019	2018	2017
Training investment *(EUR millions)*	138.0	131.0	121.5
Proportion of total payroll *(as %)*	2.1	2.3	2.1
Number of days of training per employee	1.9	2.0	2.0
Average cost of training per employee *(EUR)*	930.0	943	832
Employees trained during the year *(as %)*	57.5	58.9	56.6

Note: Indicators are calculated for fiscal years 2018 and 2019 on the basis of the total number of employees under permanent contracts present at the workplace as of December 31. Indicators are calculated on the basis of the total headcount (employees under both permanent and fixed-term contracts) present at the workplace during fiscal year 2017, with the exception of the percentage of employees trained during the year, which is calculated on the basis of those employed under permanent contracts and present at the workplace as of December 31, 2017.

The average training investment per full-time equivalent employee was approximately 930 euros. In 2019, the total number of training days was 283,630, equivalent to around 1,233 people receiving full-time training for the entire year. In 2019, 57.5% of employees received training and the average number of days of training was 1.9 days per employee.

The training investment is spread across all professional categories and geographic regions as presented in the table below:

	France	Europe (excluding France)	United States	Japan	Asia (excluding Japan)	Other markets
Training investment *(EUR millions)*	42.6	30.5	14.7	5.9	36.9	7.1
Proportion of total payroll *(as %)*	2.6	2.1	1.0	1.7	2.8	2.0
Employees trained during the year *(as %)*	50.1	56.7	51.9	59.5	68.1	57.4
of which: Executives and managers	52.5	71.7	55.9	71.2	64.2	50.7
Technicians and supervisors	67.1	69.5	49.3	57.5	64.8	66.7
Administrative and sales staff	48.0	58.1	52.5	57.3	70.4	57.4
Production workers	37.7	37.9	40.2	9.1	33.6	65.1

Note: Indicators are calculated on the basis of the total number of employees under permanent contracts present at the workplace as of December 31 of that fiscal year.

3.2 Promoting workplace health and safety and fostering constructive labor relations

The Group is constantly working to offer all staff a high-quality working environment by ensuring their health and safety, adapting workspaces – particularly for older employees and those with disabilities – and fostering constructive labor relations.

Ensuring health and safety for all staff

LVMH cares about the health and safety of its employees, makes sure that all its activities comply with current health and safety laws and regulations in all the countries in which it operates, and pays particular attention to implementing best practice with regard to safety in the workplace.

Given the wide range of situations encountered within the different business groups, the Maisons are responsible for their own health and safety initiatives. Actions aimed at ensuring appropriate workplace health and safety conditions and preventing accidents take a variety of forms under the banner of an overarching investment, certification and training program.

In 2019, the Group invested over 38.4 million euros in health and safety. This includes costs related to occupational health, protective equipment, and health and safety improvement programs covering compliance for new equipment, signage, replacement of protective equipment, fire prevention training and noise reduction. More generally, the total amount spent on and invested in improving working conditions came to more than 129.1 million euros, or 2% of the Group's gross payroll worldwide.

Initiatives for awareness-raising and training in workplace safety and risk prevention are expanding. In 2019, 49,095 employees received training in these areas at the Group's companies worldwide.

Health, safety and ergonomics assessments are regularly conducted at production sites, workshops and vineyards as well as stores and headquarters. These assessments are followed up with structured action plans to meet the needs identified.

Arrangements are made to improve workspace ergonomics, and workspaces are redesigned to meet employees' needs. The Group is particularly attentive to working conditions for staff members over 50 and those with disabilities, aiming to enable them to continue working under optimal conditions.

This means putting in place arrangements to improve workstation ergonomics and reduce physical strain, particularly for those positions most exposed to physical or mental stress in workshops and at production facilities.

As retirement approaches, the Maisons offer end-of-career interviews, dedicated training, special working arrangements or even specific healthcare and retirement support arrangements.

For employees with disabilities, the Maisons offer solutions on a case-by-case basis to help people keep their jobs, such as making adjustments to their workspaces or helping them transition to a different role. In March 2011, to help employees make this transition, Moët & Chandon founded MHEA, a company that offers facilities adapted to employees with disabilities. MHEA maintains a workforce made up entirely of people with disabilities and provides optimum working conditions for employees affected by disabilities, without any change in their compensation conditions. Since it was founded, MHEA has enabled 50 people to work under fixed-term or permanent contracts and around ten of them to join one of the Group's champagne houses under permanent contracts.

		Number of accidents	Frequency rate [a][b]	Severity rate [b][c]
Breakdown by business group				
Wines and Spirits		110	8.32	0.20
Fashion and Leather Goods		404	4.49	0.12
Perfumes and Cosmetics		198	3.82	0.14
Watches and Jewelry		67	4.06	0.04
Selective Retailing		630	6.64	0.16
Other activities		123	17.51	1.09
Breakdown by geographic region				
France		719	14.97	0.51
Europe (excluding France)		341	5.17	0.09
United States		193	4.04	0.18
Japan		10	0.81	0.01
Asia (excluding Japan)		186	2.43	0.04
Other markets		83	3.65	0.09
LVMH group	**2019**	**1,532**	**5.60**	**0.16**
	2018	1,416	5.55	0.16
	2017	1,232	5.16	0.16

(a) The frequency rate is equal to the number of accidents resulting in leave of absence, multiplied by 1,000,000 and divided by the total number of hours worked.
(b) The calculation of hours worked is based on actual data for France; for other countries, it is based on the number of full-time equivalent (FTE) employees present within the Group as of December 31 of the fiscal year and a ratio of hours worked per FTE employee per country taken from OECD knowledge bases.
(c) The severity rate is equal to the number of workdays lost, multiplied by 1,000 and divided by the total number of hours worked.

The Group's worldwide absence rate for employees working under permanent and fixed-term contracts was 5.2%. This represents a year-on-year increase (4.9%).

Absence rate [a] by region and by reason

(as %)	Global workforce	France	Europe (excluding France)	United States	Japan	Asia (excluding Japan)	Other markets
Illness	2.6	4.1	4.0	1.2	0.4	1.6	1.5
Work/commuting accidents	0.1	0.3	0.1	0.1	0.0	0.0	0.1
Parental leave	1.7	1.3	3.0	0.8	1.4	1.4	1.1
Paid leave (personal leave)	0.4	0.4	0.5	0.2	0.2	0.3	0.2
Unpaid leave	0.5	0.9	0.2	0.4	0.3	0.6	0.2
Overall absence rate	5.2	7.1	7.9	2.6	2.3	4.0	3.2

(a) Number of days' absence divided by theoretical number of days worked.

Fostering constructive labor relations

Employee representatives also play an important part in enabling the Group's employees to flourish, by passing on their colleagues' needs and expectations at various levels of the organization. A Group Works Council was formed in 1985. This employee representative body – which currently has thirty members, whose appointments were renewed in 2018 – covers personnel based in France and holds one plenary meeting each year. Delegates meet with the Presidents of all of the Group's business areas to receive and exchange information on strategic direction, business and financial issues, employment trends within the Group and future prospects.

At the European level, the SE Works Council is an employee representative body comprised of 28 members from the 22 European countries where the Group has operations. The rules for this representative body are laid down in an agreement that was unanimously approved on July 7, 2014 by employee representatives from these 22 countries and by the Group's Executive Management. In 2019, following elections, the SE Works Council held a plenary session on June 6.

The SE Works Council handles transnational issues at the European level. Alongside the Group Works Council, this body supplements the employee representation system made up of the Maisons' works councils which, in keeping with the Group's culture of decentralization, handle most employee-related issues.

In France, the Group's Maisons now have employee representative bodies known as CSEs (Comités Sociaux et Économiques), pursuant to the Orders of September 22, 2017. A CSE combines employee representatives, the works council and the health and safety committee, or replaces the DUP (Délégation Unique du Personnel) where such a body was in place. Its remit depends on the size of the Company's workforce.

In 2019, employee representatives attended 1,599 meetings:

Type of meeting	Number
Works council	650
Employee representatives	367
Health and Safety Committee	253
Other	329
Total	**1,599**

As a result of these meetings, 180 company-wide agreements were signed.

Worldwide, 16% of employees have variable or adjusted working hours, and 47% have shift work or alternating working hours.

Global workforce affected by various forms of working time adjustments: Breakdown by geographic region

Employees concerned[a] *(as %)*	Global workforce	France	Europe (excluding France)	United States	Japan	Asia (excluding Japan)	Other markets
Variable/adjusted working hours	16	27	21	1	21	9	15
Part-time	17	12	19	35	4	5	21
Shift work or alternating hours	47	14	31	78	79	66	49

(a) Percentages are calculated on the basis of total headcount (employees under both permanent and fixed-term contracts) in France. For the other regions, they are calculated in relation to the number of employees under permanent contracts, except for part-time workers, in which case the percentages are calculated with respect to the total headcount.

Workforce in France affected by various forms of working time adjustments: Breakdown by professional category

Employees concerned[a] *(as %)*	Workforce in France	Executives and managers	Technicians and supervisors	Administrative and sales employees	Production workers
Variable/adjusted working hours	27	16	61	48	2
Part-time	12	2	6	18	22
Shift work or alternating hours	14	0	14	12	34
Employees benefiting from time off in lieu	12	2	26	19	11

(a) Percentages are calculated in relation to the total number of employees under permanent and fixed-term contracts.

The total cost of overtime was 118 million euros, averaging 1.8% of the worldwide payroll.

Overtime by region

(as % of total payroll)	Global workforce	France	Europe (excluding France)	United States	Japan	Asia (excluding Japan)	Other markets
Overtime	1.8	1.6	1.8	1.6	4.7	1.8	1.0

Work-life balance is another essential part of quality of life at work, and a focus area for the Group's Maisons. Workplace concierge services and childcare are becoming more and more widespread within the Group.

In 2019, Group companies allocated a budget totaling over 26.5 million euros (1.6% of total payroll) to social and cultural activities in France via contributions to works councils.

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS: THE GROUP

Outreach and giving back

LVMH's ambition with regard to corporate social responsibility is based on two guiding principles: respect for each individual's unique identity, and a commitment to use excellence as a driver of social inclusion and employment. The LVMH group and its Maisons mobilize resources and skills to support community-oriented initiatives that help give back to the regions where the Group is located, with the aim of amplifying the positive social impact of their activities.

LVMH pursues a wide range of initiatives to support education, young people, culture and the arts, with the Group's approach also reflecting its attachment to historical and artistic heritage, as well as its involvement in major social and humanitarian causes.

With regard to education and young people, LVMH's initiatives include democratizing access to the richness of the world's cultural heritage and encouraging the emergence of future talent. These commitments are pursued over the long term and are reflected in real-world contributions to society. Maisons pursue their own commitments according to their specific priorities and operating environments, while the Group coordinates and provides overall leadership.

LVMH's innovative corporate giving program aims to benefit a wide audience through a range of initiatives that reflect and transmit the cultural values that unite the Maisons, upon which they have built their success.

1. LOCAL INVOLVEMENT AND SOCIAL IMPACT

LVMH puts its values to work in society, not only to ensure the successful integration of its Maisons and their activities at the local and national levels, but also to create positive grassroots outcomes where it operates.

1.1 Supporting job creation, entrepreneurship and regional development

LVMH helps drive economic growth and social development in the regions where it operates, both directly at its own sites and indirectly at its partners' locations, through its initiatives and contributions to public revenue in the countries and regions where it carries out its activities, and as a result of the steady growth achieved by its Maisons. These companies create many jobs in the regions where they operate, particularly as a result of the expansion of the network of directly operated stores.

A number of Group companies have been established for many years in specific regions of France and play a major role in creating jobs in their respective regions: Parfums Christian Dior in Saint-Jean-de-Braye (near Orléans), Guerlain in Chartres, Veuve Clicquot and Moët & Chandon in the Champagne region, Hennessy in the Cognac region and Louis Vuitton in the Drôme region. They have developed long-standing relationships with local government, covering cultural and educational aspects as well as employment.

The LVMH group is a long-standing supporter of entrepreneurship. In early 2018, to help connect open innovation and business development with new ways of learning, the LVMH group launched La Maison des Startups, a startup accelerator for the luxury industry, housed within the world's biggest startup incubator, Station F. For participating entrepreneurs, La Maison des Startups can be a stepping stone to the Group's Maisons. It reaffirms LVMH's entrepreneurial spirit by giving these entrepreneurs the opportunity to reflect on the future of luxury and the Group, together with colleagues from varying backgrounds, within an innovative ecosystem.

1.2 Facilitating access to employment and social inclusion for people who have been marginalized on the job market

As major employers in many labor markets, LVMH and its Maisons pay close attention to each region's specific employment situation, and have forged partnerships with nonprofits and NGOs to promote social inclusion and employment for people who have been marginalized on the job market.

In France, the Group is a long-term partner and board member of nonprofit Nos Quartiers ont des Talents, which offers young graduates from underprivileged backgrounds the chance to be mentored by an executive or manager working at the Group. In 2019, 67 experienced managers participated as mentors, 51 of whom were still participating at the end of 2019. Since 2007, 630 young people have found jobs after being mentored by a Group employee.

To speed up access to employment, LVMH has put in place job coaching sessions. These job coaching sessions are led by recruiters from the Group's Maisons and beauty consultants from Make Up For Ever and Sephora. The goal is to give job candidates all the resources they need to fully prepare for a job interview and develop their self-confidence. The program is aimed at groups that are underrepresented in the labor market, supported by the Group's partners who are active in the fields of education, disability and integration.

1.3 Facilitating employment for people with disabilities

Supporting access to employment for people with disabilities is at the heart of LVMH's corporate social responsibility policy. It is a top priority and an apt reflection of the Group's values: respect for each person as an individual and the same attitude expected of everyone working for the Group.

LVMH works with organizations that support young people with disabilities in training programs, and with organizations that foster employment and social inclusion.

In France, the Group is a co-founder of ARPEJEH, a nonprofit organization that brings together some sixty companies to offer support and guidance to students with disabilities in secondary and post-secondary education. Employees lend their support to this initiative and 21 young people benefited from LVMH's involvement in 2019.

The Maisons also take action outside France. For example, in Japan Parfums Christian Dior partnered with specialized agency Startline and recruited a team of seven employees with mental disabilities to grow plants within the Ibuki greenhouse. The pace, tasks and working conditions are adapted to each employee. The team is overseen by an experienced Startline employee, who works closely with Parfums Christian Dior's human resource staff in Japan. In addition to enabling certain people with disabilities to enter the workforce, this initiative also serves as a springboard for those who are able to grow professionally and move into a long-term position at the offices of Parfums Christian Dior.

LVMH also encourages its Maisons to develop their relationships with companies specifically employing people with temporary or permanent severe disabilities, and provide them with special facilities and support (known as the secteur protégé et adapté in French). Services entrusted to companies specifically employing people with disabilities totaled 8.8 million euros in 2019, up 6% relative to 2018 and representing 440 full-time-equivalent jobs. To raise its profile in this area, the Group organizes the Disability, Employment and Responsible Purchasing trade fair, which is open to the general public. The fourth Disability, Employment and Responsible Purchasing trade fair confirmed the event's success, drawing 4,500 visitors.

2. SUPPORTING HUMANITARIAN AND SOCIAL CAUSES

LVMH encourages its Maisons to support the causes it feels are most important, in particular ensuring access to education for young people and helping the most vulnerable communities.

2.1 Helping young people get an education

The same focus on excellence that has enabled the Maisons to succeed drives our efforts to provide educational opportunities for young people. Following the Group's lead, the Maisons have developed numerous partnerships with schools located near their sites or further away.

To promote equal opportunity in access to world-class higher education, LVMH supports the priority education program run by the Institut d'Études Politiques (Sciences Po Paris), by offering grants to students and giving young Sciences Po graduates the chance to be mentored by Group managers. In 2019, LVMH renewed its commitment – under which it will provide financial support and mentoring by Group managers for around ten students – for two years.

LVMH has developed a partnership with Clichy-sous-Bois and Montfermeil, two adjacent suburbs of Paris with young, diverse populations. Driven by a shared commitment to excellence, this partnership helps facilitate employment for young people from underprivileged neighborhoods and social inclusion. Young people benefit from a wide range of initiatives, including "business discovery" internships for 120 middle school students in 2019, visits to the Group's Maisons, internships for vocational school students and career orientation.

The national work-linked training fair showcasing the positions on offer at the Institut des Métiers d'Excellence was held once again on January 15, attended by over 600 people. The Group also supports the "Cultures et création" fashion show, which showcases the region's creative talent. It provides early training for young people through masterclasses and organizes events where they can meet designers and craftspeople. At the fashion show, the Group awards the Young Talent Prize to one young but underprivileged fashion design enthusiast, helping winners gain wider recognition within the profession. The 2019 winner, Tëena Franchi, got to exhibit her designs at Neonyt, a trade fair dedicated to environmentally responsible fashion held in Berlin from July 2 to 4, and completed an internship at Christian Dior, while the previous year's winner trained at Loewe. Since the program was launched, a number of young people have had the opportunity to join the Group's Maisons under a long-term work-linked training program at Paris's couture union school. In 2016, the 2013 winner was hired at Christian Dior's Haute Couture workshop.

2.2 Helping those in need

LVMH and its Maisons are committed to helping disadvantaged communities in the regions where they operate. Their support may take the form of employee volunteering in these communities, product donations, or financial assistance, and has led to the launch of major new initiatives.

In January 2016, Louis Vuitton launched an international partnership with the United Nations International Children's Emergency Fund (UNICEF). By the end of 2019, 9 million euros had been raised since it was launched, with funds going to support children in emergencies, notably at Syrian refugee camps in Lebanon and Rohingya refugee camps in Bangladesh. In 2019, a charity run was held to get employees more involved in the partnership with UNICEF, and raised 150,000 euros. Once a year, volunteer employee-reporters travel with UNICEF to refugee camps to experience life there and share their first-hand accounts of this situation.

In 2019, significant progress was made on the "Sephora Stands" CSR program developed in the Americas, Europe, the Middle East and Asia. The aim of this initiative is to generate positive social and environmental impacts on Sephora's employees, communities and the planet in the following areas:

- Giving back and promoting inclusion: Sephora has forged ties with more than 500 local NGOs around the world, providing them with financial support, involving its employees through volunteering initiatives and mobilizing customers to round up purchase amounts as a donation and buy products that raise funds for good causes. In 2019, more than 4 million euros were raised to promote inclusion, support education for women and help underprivileged populations. Progress was also made in the field of disabilities. In the United States, Sephora's partnership with a specialized logistics facility helped create jobs for more than 120 people with disabilities. Sales of fundraising products – the proceeds of which are donated to partner nonprofits – increased. For example, its stores in most European countries offer fundraising products around International Women's Day and the Christmas season.
- Empowering women: Even in the beauty industry, women entrepreneurs are under-represented. In 2016, Sephora launched "Sephora Accelerate" to support women who have started their own businesses in all areas of the beauty industry and in different countries around the world. In 2019 – the fourth year of this initiative – the goal of backing 50 women entrepreneurs was met. In addition, all the startups supported were able to successfully launch their business. As is the case every year, 12 finalists from different countries participated in a mentoring program with Sephora's top experts and a week of coaching in San Francisco, where they met potential investors. In Saudi Arabia, for the second year running, Sephora partnered with the Glowork women's job fair, helping women prepare with résumé workshops and mock interviews.
- Building self-confidence: Through Classes for Confidence, Sephora offers both beauty classes and coaching to help people facing major life transitions show themselves in the best light and regain self-confidence. In 2019, a total of over 800 classes were held for cancer survivors, people who have been marginalized on the job market and members of the transgender community. Classes were launched in the United States and were expanded in seven countries across Europe (France, Russia, Poland, Spain, Italy, Greece, Portugal) and the United Arab Emirates. Since its launch, and thanks to new materials available online, the program has already reached over 70,000 people.

In 2009, Bvlgari decided to get involved with Save the Children, and has so far donated over 90 million US dollars, helping 2 million children. Four main priority areas are targeted: education, youth empowerment, emergencies and combating poverty. More than 114 projects have been launched in 34 countries around the world. The partnership is supported by 300 celebrities. Bvlgari also involves its staff: more than 400 employees have visited Save the Children projects on the ground, and more than 600 have participated in awareness-raising sessions and interactive workshops to learn more about the organization.

LVMH also supports Secours Populaire to help underprivileged women. The Group's partnership with this nonprofit has already made it possible to hold the first event in the Une Journée Pour Soi ("A Day All Your Own") initiative. In the spring of 2019, 400 women supported by Secours Populaire in six cities across France were able to put their day-to-day worries aside for a special day focused on regaining self-confidence and building positive momentum.

All of these partnerships and charitable initiatives are celebrated at the Engaged Maisons Dinner. This event – which LVMH has held every year since 2013, and is organized by Chantal Gaemperle, the Group's Director of Human Resources and Synergies, and attended by Antonio Belloni, Group Managing Director – is an opportunity for the Maisons to come together and celebrate the Group's commitment to its people and society. Led by Human Resources, the event brings together stakeholders who play an active role in LVMH's social responsibility, internal champions and external partners of the Maisons and the Group as a whole. On December 11, 2019, the dinner was held at the Palais Brongniart and attended by nearly 400 people, including six Executive Committee members and 17 Maison Presidents, as well as numerous partners, opinion leaders, and heads of NGOs and other nonprofit organizations.

This occasion also raises funds for the Robert Debré Hospital in Paris, the leading center for sickle cell anemia, to which LVMH has donated 1,100,000 euros since 2011 to improve patient care and fund research. Every year, LVMH also provides financial support to a cause that is close to its heart. In 2019, this support went to Secours Populaire.

3. CORPORATE PHILANTHROPY TO SUPPORT CULTURE AND THE ARTS

For more than twenty years, LVMH's groundbreaking corporate philanthropy has expressed the artistic and humanitarian values shared by all its Maisons, while respecting each one's specific communications approach and image.

3.1 Culture, heritage and contemporary creative arts

3.1.1 Restoring and enriching historical heritage

For French and world heritage, 2019 will be remembered first and foremost as the year of the fire that devastated Notre-Dame de Paris Cathedral in the spring. LVMH, spurred by its Chairman, Bernard Arnault, offered a forceful response, pledging a 100 million euros donation to help save the monument and ensure the long restoration process is followed through to completion.

3.1.2 Commitments to culture and expanding access to it

In the fall, LVMH reaffirmed its commitment to France by contributing to the installation, in the Champs-Élysées gardens, of Bouquet of Tulips, a monumental sculpture offered by artist Jeff Koons as a tribute to the victims of the 2015 and 2016 terrorist attacks. By doing so, LVMH wished to show its support for the cultural values and the universality of France and of Paris, offering Parisians and visitors from the entire world an opportunity to come together in a shared spirit of freedom around a work of art that symbolizes the unbreakable bonds of friendship and brotherhood between France and the United States.

Furthermore, in 2019, LVMH maintained its commitment to supporting art, culture, heritage and contemporary design. LVMH has been a loyal patron of the Nuit Blanche night-time arts festival for more than 11 years, and once again in 2019 provided support alongside the City of Paris to the French and international arts scene, giving center stage to contemporary artists at an event open to all in the heart of Paris. LVMH also renewed its support for the Giacometti Institute, helping it develop its scientific and cultural program.

3.1.3 LVMH Prize

In 2019, LVMH held the sixth edition of the LVMH Prize for Young Fashion Designers. South African designer Thebe Magugu was awarded the Grand Prize, presented by Swedish actress Alicia Vikander in a ceremony held at the Fondation Louis Vuitton, along with a 300,000 euros grant and a year of mentoring by a dedicated team. The special jury prize – now called the Karl Lagerfeld Prize – was awarded to Hed Mayner, who will receive 150,000 euros and a year of mentoring by LVMH as well. Since it was first awarded in 2014, the LVMH Prize has received more than 6,500 applications from designers of all backgrounds. The previous winners of the Prize for Young Fashion Designers are Thomas Tait (from Canada, 2014), Marta Marques and Paulo Almeida (Portugal, 2015), Grace Wales Bonner (United Kingdom, 2016), Marine Serre (France, 2017) and Masayuki Ino (Japan, 2018).

3.1.4 Fondation Louis Vuitton

Since it was opened in 2014, the Fondation Louis Vuitton (see note (1) next page) has consolidated its position as a leading institution on the international arts scene and has been a resounding success with a French and international audience. For the Fondation Louis Vuitton, the theme of 2019 was support for the arts, illustrated by its exhibitions dedicated to two major figures of 20th century modernity: Samuel Courtauld and Charlotte Perriand. This groundbreaking program, spanning multiple disciplines and eras, drew more than a million visitors to the Fondation Louis Vuitton.

In the first half of the year, The Courtauld Collection: A Vision for Impressionism paid tribute to the exacting standards and keen eye of English industrialist Samuel Courtauld (1876-1947), who amassed one of the world's largest Impressionist collection. The exhibition at the Fondation Louis Vuitton featured around 110 works, brought together for the first time in Paris in 60 years, allowing nearly 500,000 visitors to rediscover masterpieces of art history such as Manet's *A Bar at the Folies-Bergère* (1882), Gauguin's *Nevermore* (1897), Renoir's *The Theatre Box* (1874) and Van Gogh's *Self Portrait with Bandaged Ear* (1889). In parallel, A Vision for Painting presented a new selection of contemporary works, including pieces by Gerhard Richter, Pierre Soulages, Bernard Frize, Joan Mitchell, Albert Oehlen and Mark Bradford.

Then, in the second half of the year, the Fondation Louis Vuitton launched a major exhibition celebrating the immense, multifaceted body of work of Charlotte Perriand (1903-1999), a pioneer of modernity and one of the leading lights of 20th century architecture and design, who helped define a new art of living as well as a new role of the artist in society by bringing together different disciplines and forms of artistic expression. The exhibition included spectacular reconstructions – built with the utmost scientific rigor and in very close collaboration with Perriand's successors – that plunged visitors into the heart of the "synthesis of the arts" championed by this maverick creative visionary, whose works were in constant dialogue with contemporary artists (such as Léger, Picasso and Calder) and cultures (Japan in particular) the world over.

Lastly, the end of 2019 saw the inauguration in Seoul of a spectacular edifice designed by Frank Gehry – the architect of the Fondation – to house a store and a new Espace Louis Vuitton, where an exhibition was held to mark the occasion, featuring an exceptional set of eight works by Alberto Giacometti.

In 2020, the Fondation Louis Vuitton will hold two major exhibitions: first, an extensive retrospective on one of the world's most influential living artists: American photographer Cindy Sherman; and then – for the first time in Europe, in partnership with the State Hermitage Museum in Saint Petersburg, the Pushkin State Museum of Fine Arts and the State Tretyakov Gallery in Moscow – one of the most legendary collections in the history of modern art: the Morozov Collection.

3.2 Opportunities for arts education initiatives

In 2019, LVMH's patronage of programs for young people focused on music. It renewed its support for Orchestre à l'École, a nonprofit that enables hundreds of children all over France to learn a musical instrument as part of a special educational program. LVMH also once again loaned out the Stradivariuses in its collection.

3.3 Backing medical research and certain social causes

Lastly, the Group supported numerous institutions well-known for their work with children, the elderly and people with disabilities, and for their efforts to combat major causes of suffering and exclusion. The Group has continued to support many institutions – in France and worldwide – recognized for their initiatives in support of children, senior citizens and people with disabilities, and for their work to prevent major causes of suffering and exclusion. In particular, LVMH has supported the Fondation des Hôpitaux de Paris-Hôpitaux de France and the Association Le Pont Neuf in France, Save the Children Japan, and the Robin Hood Foundation in New York in their initiatives for children, as well as the Fondation Claude Pompidou, which provides support in France for seniors and people with disabilities, and Association Fraternité Universelle, which works in Haiti to improve access to health care and education alongside actions in favor of agricultural development, especially in the Central Plateau. The Group is also a long-standing supporter of a number of scientific teams and foundations engaged in cutting-edge public health research.

(1) Fondation Louis Vuitton

The Fondation Louis Vuitton is a *fondation d'entreprise* (corporate foundation) established by prefectural order published in the *journal officiel* (official gazette) on November 18, 2006, and governed by French Law no. 87-571 of July 23, 1987 on the development of corporate philanthropy. The Fondation is a nonprofit organization that pursues a diverse range of initiatives aimed at promoting artistic and cultural activities in France and abroad, as well as expanding access to works of art; these initiatives include exhibitions, educational activities for schools and universities, seminars and conferences.

The members of the Fondation are the Group's main French companies. The Fondation is overseen by a Board of Directors, one-third of whose members are non-Group individuals chosen for their expertise in its fields of activity, and the other two-thirds of which are company officers and employees of the Group's Maisons. It is funded in part by contributions from Fondation members as part of multi-year programs, as required by law, as well as external financing guaranteed by LVMH.

It is subject to verification by a Statutory Auditor, which carries out its assignment under the same conditions as those that apply to commercial companies, and to the general supervisory authority of the Prefect of Paris and the Paris region.

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS: THE GROUP

Financial and operational risk management and internal control

1. STRATEGIC, OPERATIONAL AND FINANCIAL RISKS

The risk factors to which the LVMH group is exposed, and the occurrence of which could jeopardize the Group's ability to carry on its normal business activities and to execute its strategy, are presented under the following three headings:

- Operational and business risks
- External risks
- Financial risks

Only major risks, classified as such based on their probability of occurrence and their adverse impact on the Group are presented below. Risk magnitude was assessed after taking into account the preventive measures and risk management procedures put in place by the Group. The severity of the risks has been rated on a scale from 3 (moderate risk) to 1 (critical risk).

Type of risk	Risk description	Degree of severity[(a)]	See §
Operational and business risks	Risks related to products or communication at odds with the Maisons' image	1	1.1.1
	Risks arising from the loss of strategic competencies	3	1.1.2
	Risks arising from access to and pricing of raw materials	3	1.1.3
	Information system-related risks	3	1.1.4
External risks	Counterfeit and parallel retail network-related risks	1	1.2.1
	Risks arising from regulations adversely affecting the Group	2	1.2.2
	Risks arising from the political, sanitary and economic environment	3	1.2.3
	Climate change-related risks	2	1.2.4
	Risks arising from the occurrence of serious adverse events	3	1.2.5
Financial risks	Foreign exchange risks	1	1.3.1
	Liquidity risks and risks linked to fluctuations in interest rates	3	1.3.1
	Risks arising from tax policy	3	1.3.2

(a) 1: Critical; 2: Major; 3: Moderate.

1.1 Operational and business risks

1.1.1 Risks related to products or communication at odds with the Maisons' image

Risk description

The reputation of the Group's brands rests on the quality and exclusiveness of its products, their distribution networks and the marketing strategy applied. Products, production methods, distribution networks or marketing methods not in line with brand image could affect brand awareness and adversely impact revenue. The net value of brands, trade names and goodwill recorded in the Group's balance sheet as of December 31, 2019 amounted to 33.2 billion euros.

Risk management

- The Group is highly vigilant with regard to the inappropriate use by third parties of its brand names, in particular through the systematic registration of brands and main product names and communications to limit the risk of confusion between LVMH brands and others with similar names.
- The Group supports and develops the reputations of its Maisons by working with seasoned and innovative professionals in various fields (creative directors, oenologists, cosmetics research specialists, etc.), with the involvement of the most senior executives in strategic decision-making processes (collections, distribution and communication). In this regard, the Group's key priority is to respect and bring to the fore each Maison's unique characteristics.
- At every stage in the production process, LVMH implements an exacting control and quality audit process and selects its subcontractors based on the most stringent product quality and production method standards.
- Lastly, the Group is introducing a strict approval process for its advertising spend (visual, types of medium, media, etc.).

Risk description	Risk management
Circulation of information prejudicial to the Group in the media or on social media.	• LVMH conducts an ongoing media watch and monitors social media. Where appropriate, it takes legal action, and has a crisis management unit on permanent stand-by. • Initiatives pursued by the Group aim to promote a legal framework suited to the digital world, prescribing the responsibilities of all those involved and instilling a duty of care with regard to unlawful acts online to be shared by all actors at every link in the digital value chain.
Inappropriate conduct by brand ambassadors, employees, distributors or Group suppliers, and breaches of compliance rules (Sapin II Act, GDPR, etc.).	• Employees and the Maisons are made aware of the ethical rules in force at the Group through codes of conduct, charters and other guidelines including the LVMH Code of Conduct, the Supplier Code of Conduct and the LVMH Charter on Working Relations with Fashion Models. Additional arrangements have been put in place to provide guidance on how to interpret and apply these principles (see the *Management Report of the Board of Directors* – "Ethics and responsibility", §2.2). • The Group's distribution agreements include strict guidelines on these matters, which are also regularly monitored by the Maisons through on-site audits. • LVMH has also implemented a responsible supply chain management approach (see the *Management Report of the Board of Directors* – "Ethics and responsibility", §5.2).

1.1.2 Risks arising from the loss of strategic competencies

Risk description	Risk management
Around the world, the LVMH group is known for its brands, unrivaled expertise and production methods unique to its products. The loss of these strategic skills and expertise, especially in leather goods and watchmaking, could severely affect product quality.	• To avoid any dissipation of this expertise, LVMH implements a range of measures to encourage training and to safeguard these professions, notably by promoting the recognition of the luxury trades as professions of excellence, with criteria specific to the luxury sector and geared to meet its demands and requirements (see the *Management Report of the Board of Directors* - "Attracting and retaining talent", §2.2). • In order to safeguard and develop the Fashion and Leather Goods Maisons' access to the high-quality raw materials and expertise they need, LVMH Métier d'Arts invests in, and provides long-term support to, its best suppliers (see the *Management Report of the Board of Directors* – "Business overview, highlights and outlook", §2.5).
The pursuit of LVMH's strategy of growth, international expansion and digitalization relies on the Group's ability to identify talented individuals with the skills it needs and attract and retain them in a highly competitive environment.	• LVMH is constantly seeking to create conditions that enable its employees to realize their full potential and succeed within the business. The Group devotes special care to matching employee profiles and responsibilities, formalizing annual performance reviews, developing skills through ongoing training, and promoting internal mobility (see the *Management Report of the Board of Directors* – "Attracting and retaining talent", §3.1).

1.1.3 Risks arising from access to and pricing of raw materials

Risk description	Risk management
LVMH relies heavily on certain raw materials, and the natural resources used to design products are often in short supply, valuable and hard to access. Likewise, the Group is heavily exposed to fluctuations in raw material prices (gold, grapes, leather, cotton, etc.).	• Just as for its strategic expertise, the Group has adopted a policy of sourcing a portion of its strategically important raw materials in-house (Champagne vineyards, investments made by LVMH – Métiers d'Art in Fashion and Leather Goods). • Since 1996, industry agreements have established a qualitative reserve in order to cope with variable harvests and secure grape supplies in the Champagne region (see the *Management Report of the Board of Directors* – "Business overview, highlights and outlook", §1.1.4. • The Maisons seek to build longstanding partnerships with their suppliers. The Perfumes and Cosmetics Maisons do so via the Research and Development Department, the Fashion and Leather Goods Maisons forge partnerships with farmers, and the Wines and Spirits business group enter into multi-year sourcing agreements for grapes and *eau-de-vie*. • LVMH has secured the precious metals component of its production costs for Watches and Jewelry, either by purchasing hedges from banks or by negotiating the forecast price of future deliveries of alloys with precious metal refiners or producers.

1.1.4 Information system-related risks

Risk description	Risk management
The Group is exposed to cyber risks arising either from internal or external attacks or from unintended events. The occurrence of these risks may result in the loss, corruption or disclosure of sensitive data, including information relating to products, customers or financial data. Such risks may also involve the partial or total unavailability of some systems, impeding the normal operation of the processes and business activities concerned. LVMH may be exposed to shortcomings in the implementation of rules governing the protection of personal data.	• In order to safeguard against such risks, the Group has implemented a decentralized information system architecture, thereby limiting the spread of risks between Maisons. • A shared cyber-security unit set up by the Group to monitor and detect suspicious security events and provide support to every Maison by responding to verified incidents. • The network of Information Systems & Security Officers run by the Group Chief Information & Security Officer (CISO) monitors IS risks and implements preventative measures. • The Group regularly conducts audit campaigns, intrusion testing and vulnerability audits. LVMH also offers a "Business Continuity Plan" methodology toolkit, based on which business continuity and disaster recovery plans are drawn up for material entities (see also §3.3 "Information and communication systems" below). • The LVMH group takes steps to comply with the regulations applicable to personal data, including the General Data Protection Regulation (GDPR), and requires adequate governance arrangements to be implemented within the Group. Accordingly, each Group Maison has appointed a Data Protection Officer. This role involves ensuring that the Maison's operations are compliant, with the support of the legal and cybersecurity departments and close cooperation from the relevant functions (IT, digital, marketing, HR, etc.) (see the *Management Report of the Board of Directors* – "Ethics and responsibility", §5.7).

1.2 External risks

1.2.1 Counterfeit and parallel retail network-related risks

Risk description

Counterfeiting or copying the brands' products or the Group's expertise or production methods can have an immediate adverse effect on revenue and profit, and over time may damage the brand image of the products concerned and erode consumer confidence.

Similarly, some Group products – leather goods, perfumes and cosmetics in particular – may be distributed through parallel retail networks, including online sales networks, without LVMH's consent.

Risk management

- To address the counterfeiting of products, the Group systematically trademarks its brands and main product names in France and other countries. This involves close cooperation with governmental authorities, customs officials and lawyers specializing in these matters in the countries concerned, as well as with market participants in the digital world, whom LVMH also ensures are made aware of the adverse consequences of counterfeiting.
- The Group plays a role in all of the trade bodies representing the major names in the luxury goods industry, in order to promote cooperation and a consistent global message.
- LVMH and several Internet companies work together to better protect the Group's intellectual property rights and combat the online advertising and sale of counterfeit products.
- In addition, LVMH fights the sale of its products through parallel retail networks, in particular by developing product traceability, prohibiting direct sales to those networks, and taking specific initiatives aimed at better controlling retail channels. In 2019, anti-counterfeiting measures generated internal and external costs for the Group of around 43 million euros.

1.2.2 Risks arising from regulations adversely affecting the Group

Risk description

Unfavorable changes to customs tariffs or import bans on luxury goods products (e.g., as a result of uncertainties arising from the trade tariffs introduced by the United States on French wines and Scotch whiskies), unfavorable changes to the tax laws applicable to the Group's activities and unfavorable changes to Competition Law liable to impede the full exercise of the selective retail distribution policy could be prejudicial to the Group.

Risk management

- The Group has established a regulatory monitoring system in each of the regions where it operates in order to prevent and protect itself from the risks associated with an inadvertent failure to comply with changes in regulations.
- LVMH is an active participant in current global discussions in support of a new generation of free-trade agreements between the European Union and non-EU countries, which involves not only access to external markets, but also the signing of agreements facilitating access by tourists from non-EU countries to the European Union.
- Commission Regulation (EC) No. 2790-1999, which authorizes selective retail distribution systems, including for online sales, provides legal protection for the LVMH group and its customers, and gives the Group additional resources to combat counterfeiting and the parallel distribution of its products, both offline and online.

1.2.3 Risks arising from the political, sanitary and economic environment

Risk description	Risk management
Geopolitical and security-related instability as well as the occurence of sanitary crisis disrupting tourism can have a negative impact on the travel retail activities within Selective Retailing, as well as the Fashion and Leather Goods business group, whose stores are frequented by tourists.	The Group maintains very few operations in politically unstable regions. It is important to Note that the Group's activity is spread for the most part between three geographic regions – Asia, Western Europe and the United States – favoring a geographic balance between its businesses and regions that offset one another.

1.2.4 Climate change-related risks

Risk description	Risk management
Environmental risks, and climate change chief among them, may impact ecosystems, causing depletion of the natural resources essential for the manufacture of the Group's products and pose a threat to the continued operation of its supply chains.	• The Group is conducting a review of the various issues involved in adapting to climate change. In the medium term, changing winegrowing practices is the main component of the Group's adaptation strategy, such as by altering harvest dates and developing different methods of vineyard management (widening rows, increasing the size of grapevine stocks, employing irrigation in certain countries and more generally considering the key issue of water availability). • LVMH's heavy dependence on natural resources prompted the Group to put in place a sustainable sourcing and raw material preservation policy a number of years ago. To promote this approach, a number of projects are underway to develop new, responsible supply chains for the Perfumes and Cosmetics, Fashion and Leather Goods, and Watches and Jewelry business groups (see the *Management Report of the Board of Directors* – "Environment and sustainability", §3).

1.2.5 Risks arising from the occurrence of serious adverse events

Risk description	Risk management
In its production and storage activities, the Group is exposed to the risk of losses from events such as fires, water damage or natural disasters.	• To identify, analyze and provide protection against industrial and environmental risks, LVMH relies on a combination of independent experts and qualified professionals from the Group (in particular safety, quality and environmental managers). • Protecting the LVMH group's assets is part of an industrial risk prevention policy that meets the highest safety standards (FM Global and NFPA fire safety standards). • Working with its insurers, LVMH has adopted HPR (Highly Protected Risk) standards, in order to significantly reduce fire risk and associated operating losses. Continuous improvement in the quality of risk prevention is an important factor taken into account by insurers in evaluating these risks and, accordingly, in the granting of comprehensive coverage at competitive rates. This approach is combined with an industrial and environmental risk-monitoring program (see the *Management Report of the Board of Directors* – "Environment and sustainability", §5). • In addition, prevention and protection plans include contingency planning to ensure business continuity.

1.3 Financial risks

1.3.1 Foreign exchange, interest rate and liquidity risks

The Group applies a foreign exchange and interest rate risk management strategy mainly aimed at reducing the negative impact of any foreign currency or interest rate fluctuations related to its business, financing and investments. This management is centralized for the most part, whether at the level of the parent company or the subsidiary responsible for the Group's cash pooling arrangement. The Group has implemented a stringent policy and rigorous management guidelines to measure, manage and monitor these market risks. These activities are organized based on a segregation of duties between risk measurement, hedging (treasury and front office), administration (back office), and financial control. The backbone of this organization is an integrated information system that allows transactions to be monitored quickly.

The Group's hedging strategy is presented to the Audit Committee.

Hedging decisions are made according to a clearly established process and are covered in regular presentations to the Group's Executive Committee, along with detailed documentation.

Foreign exchange risk

Risk description	Risk management
• Exchange rate fluctuations between the euro (the currency in which most of the Group's production expenses are denominated) and the main currencies in which the Group's sales are denominated (in particular the US dollar, pound sterling, Hong Kong dollar, Chinese renminbi and Japanese yen) can significantly impact its revenue and earnings reported in euros. See Note 23.5 to the consolidated financial statements for the analysis of the sensitivity of the Group's net profit to fluctuations in the main currencies to which the Group is exposed. • LVMH is exposed to foreign exchange risk with respect to the Group's net assets, as it owns substantial assets denominated in currencies other than the euro. See the analysis of the Group's exposure to foreign exchange risk related to its net assets for the main currencies involved in Note 23.5 to the consolidated financial statements.	• Exposure to foreign exchange risk is actively managed in order to reduce sensitivity to unfavorable currency fluctuations by implementing hedges such as forward sales and options. See Note 23.5 to the consolidated financial statements on the extent of forecast cash flow hedging for 2020 relating to the main invoicing currencies. • This foreign exchange risk may be hedged either partially or in full using borrowings or financial futures denominated in the same currency as the underlying asset.

Liquidity risks and risks linked to fluctuations in interest rates

Risk description	Risk management
• LVMH could have difficulty accessing the liquidity it needs to meet the Group's financial obligations; see Note 23.7 to the consolidated financial statements for the breakdown of financial liabilities by contractual maturity. • LVMH could have to pay higher borrowing costs if interest rates were to rise. See Notes 19.4 and 19.6 to the consolidated financial statements for the analysis of borrowings by maturity and type of rate applicable as well as an analysis of the sensitivity of the cost of net financial debt to changes in interest rates.	• The amount of short-term borrowings excluding derivatives, i.e. 7.6 billion euros, is close to the 6.5 billion euro balance of cash and cash equivalents. • In addition to the credit lines recently set up in connection with the acquisition of Tiffany (see the *Management Report of the Board of Directors* – "Business and financial review", §7.2), the Group has access to undrawn confirmed credit lines totaling 5.9 billion euros. • The Group has access to a diversified investor base (bonds and private short-term investments), long-term financing and strong banking relationships, whether evidenced or not by confirmed credit lines. Lastly, LVMH has a high level of credit quality, as reflected by its credit ratings (A1/P1 by Moody's and A+/A1 by Standard & Poor's), both of which were confirmed following the announcement of the Group's acquisition of Tiffany. • Interest rate risk is managed using swaps or by purchasing options (protection against an increase in interest rates) designed to limit the adverse impact of unfavorable interest rate fluctuations. Contracts for loans and borrowings do not include any specific clauses likely to significantly modify their terms and conditions.

1.3.2 Risks arising from tax policy

Risk description	Risk management
Failure by the Group to comply with its tax obligations.	The Group's tax policy reflects its real activities and the Group's development, while preserving its competitiveness. Through its activities, the Group plays a key role in local and regional development in the areas where it operates, in particular by means of its tax payments. Apart from corporate income tax, the Group pays and collects a number of other taxes and contributions, including taxes on revenue, customs duties, excise taxes, payroll taxes, land taxes, and other local taxes specific to each country, which are all part of the Group's economic contribution to the regions where it operates. The Group adopts an attitude of transparency in its relations with tax authorities and undertakes to consistently provide them with relevant information enabling them to successfully carry out their duties. The Group complies with country-by-country reporting obligations and sends the required information to the tax authorities in accordance with applicable provisions.

2. INSURANCE POLICY

The Group has a dynamic global risk management policy based primarily on the following:

- systematic identification and documentation of risks;
- risk prevention and mitigation procedures for both human risk and industrial assets;
- implementation of international business continuity and contingency plans;
- a comprehensive risk financing program to limit the consequences of major events on the Group's financial position;
- optimization and coordination of global "master" insurance programs.

The Group's overall approach is primarily based on transferring its risks to the insurance markets at reasonable financial terms, and under conditions available in those markets both in terms of scope of coverage and limits. The extent of insurance coverage is directly related either to a quantification of the maximum possible loss, or to the constraints of the insurance market.

Compared with the Group's financial capacity, its level of self-insurance is not significant. The deductibles payable by Group companies in the event of a claim reflect an optimal balance between coverage and the total cost of risk. Insurance costs borne by Group companies are around 0.14% of consolidated revenue.

The financial ratings of the Group's main insurance partners are reviewed on a regular basis, and if necessary one insurer may be replaced by another.

The main insurance programs coordinated by the Group are designed to cover losses due to property damage, business interruption, terrorism, political violence, cybercrime, construction, transportation, credit and third-party liability.

2.1 Property and business interruption insurance

Most of the Group's manufacturing operations are covered under a consolidated international insurance program for property damage and resulting business interruption.

Property damage insurance limits are in line with the values of assets insured. Business interruption insurance limits reflect gross margin exposures of the Group companies for a period of indemnity extending from 12 to 24 months based on actual risk exposures. The coverage limit of this program is 2 billion euros per claim, an amount determined based on an analysis of the Group's maximum possible losses.

Coverage for "natural events" provided under the Group's international property insurance program was doubled in 2018 and now totals 150 million euros per claim and per year. As a result of a Japanese earthquake risk modeling study performed in 2014, as well as an update of the major risk areas in 2016 and 2018, specific coverage in the amount of 20 billion yen has been taken out for this risk. A similar study was carried out in 2018 for earthquake risk in California, following which coverage in the amount of 75 million US dollars was taken out, representing a considerable increase from 2017. These coverage levels are in line with Group companies' exposure to such risks.

2.2 Transportation insurance

The Group's operating entities are covered by an international cargo and transportation (goods in transit) insurance contract. The coverage limit of this program is 50 million euros, which corresponds to the maximum possible transport loss arising as a result of transportation in progress at a given moment.

2.3 Third-party liability

The LVMH group has established a third-party liability insurance program for all its subsidiaries throughout the world. This program is designed to provide the most comprehensive coverage for the Group's risks, given the insurance capacity and coverage available internationally. Coverage levels are in line with those of companies with comparable business operations.

Accidental and gradual environmental damage (Directive 2004/35/EC) is covered under this program.

Specific insurance policies have been implemented for countries where work-related accidents are not covered by social security systems, such as the United States. Coverage levels are in line with the various legal requirements imposed by the different states. Subject to certain conditions and limitations, the Group covers its senior executives and employees either directly or via an insurance policy for any individually or jointly incurred personal liability to third parties in the event of professional misconduct committed in the course of their duties.

2.4 Coverage for special risks

Insurance coverage for political risks, company officers' liability, fraud and malicious intent, trade credit risk, acts of terrorism and political violence, loss or corruption of computer data and, more broadly, all cyber risks, real estate construction project risks and environmental risks is obtained through specific worldwide or local policies.

3. ASSESSMENT AND CONTROL PROCEDURES IN PLACE

3.1 Organization

3.1.1 Organization of the risk management and internal control system

LVMH comprises five main business groups: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, and Selective Retailing. "Other activities" mainly consists of the media business unit, luxury yacht building and marketing, hotel and real estate activities, and holding companies. These business groups consist of entities of various sizes that own prestigious brands, established on every continent. The autonomy of the brands, decentralization, and the responsibilities of senior executives are among the fundamental principles underlying the Group's organization.

The risk management and internal control policies applied across the Group are based on the following organizational principles:

- Group companies – including the parent company, LVMH SE – are responsible for their own risk management and internal control systems. LVMH SE also helps lead and coordinate the entire Group in this area by providing guidelines, methods and a risk assessment and internal control application platform. In addition, initiatives to raise awareness of internal control-related matters are held throughout the year.
- each Maison's President is responsible for risk management and internal control at all subsidiaries that contribute to brand development worldwide; each subsidiary's President is similarly responsible for that subsidiary's own operations.

3.1.2 System stakeholders

Stakeholders are presented according to the three-lines-of-defense model set out below, whereby the control and supervision of systems is provided by governing bodies.

Group governing bodies

The **Performance Audit Committee** ensures in particular that the Group's accounting policies comply with the standards in force, reviews the parent company and consolidated financial statements, and monitors effective implementation of the Group's internal control and risk management procedures.

The **Board of Directors** contributes to the general control environment through its members' expertise and oversight, its help in clarifying issues and its transparent decision-making process. The Board is kept informed on a regular basis of the maturity of the internal control system, and oversees the effective management of major risks, which are disclosed in its Management Report.

The Board and its Performance Audit Committee are regularly informed of the results of the operation of these systems, any shortcomings and the action plans drawn up to address them.

The **Ethics & Sustainable Development Committee** monitors observance of the individual and collective values on which the Group's actions are based, with the aim of helping to define rules of conduct to inspire the behavior of senior executives and employees in terms of ethics, social and environmental responsibility, ensuring observance of these rules, and reviewing the Group's strategy in these areas and the contents of related reports.

The **Executive Committee**, which consists of the Group's operational and functional executives, lays down strategic objectives within the framework of the direction set by the Board of Directors, coordinates their implementation, ensures that the organization adapts to changes in the business environment, defines senior executives' responsibilities and delegated authority, and ensures that the latter are properly applied.

First line of defense

All Group employees help enhance and maintain the internal control system.

Operational management: a key aspect of the internal control system applied to business processes is ownership of internal control within each entity by operational managers, who implement appropriate controls on a day-to-day basis for those processes for which they are responsible and pass on appropriate information to the second line of defense.

The **Management Committees of the Maisons and subsidiaries** are responsible for implementing and ensuring the smooth running of internal control systems across all operations within their scope. The Management Committees of the Maisons are also in charge of the system for managing major risks; they review the risk mapping each year and assess the level of control as well as the progress of risk coverage strategies and the associated action plans.

Second line of defense

The **Ethics & Compliance Department** reports to Executive Management. The department draws up professional standards and makes available various tools designed to help the Group's different Maisons implement applicable regulations related to business ethics and the protection of personal data. It takes part in the updating of the internal control framework for ethics and compliance issues, to make sure that its requirements are met by all entities. It also administers the Group's centralized whistleblowing system and contributes to the identification and assessment of the main risks. The department is assisted by representatives from the Group's various departments, and by the network of Ethics & Compliance Officers appointed at each of the Maisons, and reports on its actions to the Ethics & Sustainable Development Committee.

The **Group Legal Department** helps with the legal aspects of the Group's activities and development. It conducts negotiations relating to acquisitions, disposals and partnerships. It determines the Group's legal strategy for major disputes involving the Maisons. It helps to define and implement multi-disciplinary projects concerning the Group as a whole. Through its Intellectual Property team, it helps protect trademarks and patents, which are among the Group's key assets. It handles stock market law and corporate law-related matters. It promotes Group-wide compliance with the laws and regulations applicable to its activities.

The role of the **Corporate Affairs Department** is to protect and promote the business model of the Group and its Maisons. With teams based in Paris and Brussels, the department keeps a watchful eye on developments and, where applicable, plays an active role in discussions on any topics that may have an impact on the Group's business priorities and its reputation. To this end, the department analyzes relevant policies and laws, considers the strategic issues at stake, coordinates actions in support of the Group's external positioning, and participates, in conjunction with the Maisons and LVMH's regional divisions, in the decision-making processes of authorities in Europe, the Americas and Asia, directly and/or in collaboration with representative associations. Key fields for its businesses include intellectual property, the digital economy, distribution and competition, corporate governance, issues relating to supply chains (raw materials, production, etc.), as well as the promotion and protection of high-end cultural and creative industries.

The **Environment Department** works to ensure that the Group and all its Maisons deliver outstanding environmental performance, in line with the Charter signed by the Group's Chairman, covering the nine strategic priorities of the LVMH Initiatives for the Environment (LIFE) program and the four LIFE 2020 targets. The department's structure and actions, and how these are reflected within the Maisons, can be found in the *Management Report of the Board of Directors*: the Group – "Environment and sustainability".

The **Group Risk Management and Insurance Department**, alongside operational managers responsible for risks inherent in their businesses, is particularly involved at Group level in cataloguing risks, preventing losses, and determining the risk coverage and financing strategy.

The other functional departments, presented in the "Financial and accounting information: Organization and parties involved" section below, help manage risks related specifically to financial and accounting information.

The **Internal Control Department**, which reports to the Audit & Internal Control Director, coordinates the implementation of internal control and risk management systems. It monitors and anticipates regulatory changes in order to adapt mechanisms. It coordinates a network of internal controllers responsible, within the Maisons and under the responsibility of their Management Committees, for ensuring compliance with the Group's internal control procedures and preparing controls tailored to their businesses. They also spearhead various projects related to the internal control and risk management systems and promote the dissemination and application of guidelines. The Group's Internal Control Department set up the LVMH Internal Control Academy, the aim of which is to coordinate and develop the entire international network of controllers, internal auditors. A three-day training course – called "The Fundamentals" – has been introduced in France and abroad; the entire course is designed and taught by selected senior internal controllers from LVMH group Maisons. This training is included in the catalog of courses offered by the Group.

The **Protection of Assets and Persons Department** determines and implements anti-counterfeiting and anti-gray-market policy on behalf of 21 of the Group's Maisons for both offline and online markets. Its worldwide efforts aim to dismantle criminal networks that breach intellectual property rights and damage the reputation of our brands. It is also in charge of coordinating security measures applicable within the Maisons and for employees traveling on business or expat employees.

The **Employee Safety Committee** meets regularly to analyze the effectiveness of systems designed to ensure the safety of travelers and employees of the Group working abroad, and make any decisions required in exceptional situations.

Equivalent departments at brand or business group level: The organizational structure described above at Group level is mirrored at the main business groups and brands.

Third line of defense

The **Audit & Internal Control Department** covers the entire Group and operates according to an audit plan, which is revised annually. The audit plan is used to monitor and reinforce understanding and correct application of expected control activities. The audit plan is prepared on the basis of an analysis of potential risks, either existing or emerging, by type of business (such as size, contribution to profits, geographical location, quality of local management, etc.) and on the basis of meetings held with the operational managers concerned; it can be modified during the year in response to changes in the political and economic environment or internal strategy.

The audit teams conduct internal control assessments covering various operational and financial processes. They also undertake accounting audits as well as audits of cross-functional issues within a given business segment. Regular follow-ups are run on the internal control recommendations resulting from past audits at subsidiaries with the most significant internal control issues.

Internal Audit reports on its findings to the management of the entity concerned and to Executive Management of the Group by way of an audit report explaining its assessment, presenting its recommendations and setting out managers' commitments to apply them within a reasonable period of time. Internal Audit sends copies of the reports it issues to the Statutory Auditors and meets with them periodically to discuss current internal control issues. The main features of the audit plan, the primary conclusions of the current year, and the follow-up of the principal recommendations of previous assignments are presented to the Performance Audit Committee.

External stakeholders

The external auditors and the various certifying bodies (RJC, ISO 14001, etc.) help to reinforce the current system through their work and recommendations.

3.1.3 Financial and accounting information: Organization and parties involved

Risk management and internal controls of accounting and financial information are the responsibility of the following departments, which are all part of the Group's Finance Department: Accounting & Consolidation, Management Control, Information Systems, Corporate Finance and Treasury, Tax, and Financial Communication.

Accounting & Consolidation is responsible for preparing and producing the individual company accounts of LVMH SE and the holding companies that control the Group's equity holdings, the consolidated financial statements, and interim and annual results publications, in particular the Interim Financial Report and the Universal Registration Document. To this end, the Accounting Standards & Practices team defines and disseminates the Group's accounting policies, monitors and enforces their application and organizes any necessary training. The Consolidation Department also coordinates the Group's Statutory Auditors.

Management Control is responsible for coordinating the budget process, updating budget estimates during the year and the five-year strategic plan, as well as impairment testing of fixed assets. Management Control produces the monthly operating report and all reviews required by Executive Management; it also tracks capital expenditures and cash flow, as well as producing statistics and specific operational indicators. By virtue of its responsibilities and the structure of the reports it produces, Management Control plays a key role in internal control and financial risk management.

These two functions are placed under the responsibility of the **Deputy CFO**.

The **Information Systems Department** designs and implements information systems needed by the Group's central functions. It disseminates the Group's technical standards, which are indispensable given the decentralized structure of the Group's equipment, applications, networks, etc., and identifies any potential synergies between businesses, while respecting brand independence. It develops and maintains a telecommunications system, IT hosting platforms, and cross-functional applications shared by all entities in the Group. In cooperation with the subsidiaries, it supervises the creation of three-year plans for all information systems by business group and by entity. It defines strategic orientations in terms of cybersecurity, draws up and circulates internal policies and shared action plans, and helps brands implement systems to detect and respond to incidents, and develop contingency plans.

Corporate Finance & Treasury is responsible for implementing the Group's financial policy, which includes balance sheet optimization, financing strategy, management of finance costs, returns on cash surpluses and investments, improvements to financial structure, and the prudent management of solvency, liquidity, market and counterparty risk.

Within this department, the International Treasury team focuses more specifically on pooling the Group's surplus cash, and meets subsidiaries' short- and medium-term liquidity and financing requirements. It is also responsible for applying a centralized foreign exchange risk management strategy.

The Markets team, which is also part of Corporate Finance & Treasury, is delegated the responsibility of implementing a centralized market risks policy generated by Group companies: foreign exchange, interest rate and counterparty risks incorporated into the assets and liabilities.

Strict procedures and a management policy have been established to measure, manage and consolidate these market risks. Within this department, the separation of front office and back office activities, combined with an independent control team reporting to the Deputy CFO, help ensure proper segregation of duties. The backbone of this organization is an integrated information system that allows hedging transactions to be monitored in real time. The hedging mechanism is presented regularly to the Group Executive Committee as well as the Performance Audit Committee and is supported by detailed documentation.

The **Tax Department** ensures compliance with applicable laws and regulations, advises the various business groups and companies, and proposes tax solutions appropriate to the Group's operational requirements. It organizes relevant training to adapt to major changes in tax law and ensures uniform reporting of tax data.

The **Financial Communications Department** is responsible for coordinating all information issued to the financial community so as to provide it with a clear, transparent and accurate understanding of the Group's performance and outlook. It also provides Executive Management with the perspectives of the financial community on the Group's strategy and its positioning within its competitive environment. It works closely with Executive Management and the business groups to define key messages, and harmonizes and coordinates the dissemination of those messages through various channels (publications such as the annual and interim reports, financial presentations, meetings with shareholders and analysts, the website, etc.).

Each of these departments is responsible for ensuring the quality of internal control in its own area of activity via the **finance departments of business groups, companies and subsidiaries**, which are in turn responsible for similar functions within their respective entities. In this way, each of the central departments runs its control mechanism through its functional chain of command (Controller, Head of Accounting, Consolidation Manager, Treasurer, etc.). The finance departments of the main companies of the Group and the departments of the parent company, LVMH, described above, periodically hold joint finance committee meetings. Run and coordinated by the central departments, these committee meetings deal in particular with applicable standards and procedures, financial performance and any corrective action needed, together with internal control relating to accounting and management data.

3.2 Internal standards and procedures

Via its **Ethics & Compliance Intranet**, which may be accessed by all Group employees, the Group disseminates a set of codes, charters and principles intended to guide the holding company and the Maisons in conducting their activities. These primarily include the LVMH group's Code of Conduct, the LVMH group's internal guidelines, the Supplier Code of Conduct and various charters (Board of Directors' Charter, Charter on Working Relations with Fashion Models and their Well-Being, Competition Law Compliance Charter, Environmental Charter, IT Systems Security Charter, Privacy Charter, etc.).

Through its **Finance Intranet**, the Group provides access to all rules and procedures concerning accounting and financial information, applicable to all subsidiaries: notably procedures applying to accounting policies and standards, consolidation, taxation, investments, reporting (budgets and strategic plans), cash management and financing (cash pooling, foreign exchange and interest rate hedging, etc.); these procedures also specify the format, content and frequency of financial reporting.

The Finance Intranet is also used for the dissemination of **internal control principles and best practices**:

- the LVMH internal control framework, which covers the general control environment as well as 11 key business processes shared by all of the Group's activities (Sales, Retail Sales, Purchases, Travel, Inventory, Cash Management, Fixed Assets, Human Resources, Information Systems and Accounting Period-End Procedures, Cybersecurity and Personal Data Protection) as well as business-specific processes (Insurance, Licenses, Production, Product End of Life, Environment and Concessions);
- the minimum basis for internal control, known as IC Base, made up of 68 key controls taken from LVMH guidelines, supporting annual self-assessment; IC Base is reviewed and updated annually to include new standards and new regulatory requirements;
- business line guidelines developed to reflect the specific characteristics of our activities (Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry and Selective Retailing).

The "**Major Risks" section of the Finance Intranet** brings together procedures and tools for assessing, preventing and protecting against such risks. Best practices for the operational risk families selected are also available on the site. This material is available to everyone involved in risk management.

Lastly, the **Group Legal Department** prepares tools for the Maisons that aim to allow them to comply with (i) various regulations, in particular those relating to combating money laundering, limits on cash payments in force in the main markets in which the Group operates, embargoes and economic sanctions imposed by certain countries, and (ii) the European Union's new General Data Protection Regulation (GDPR).

3.3 Information and communication systems

Strategic plans for developing the Group's information and communication systems are coordinated by the Information Systems Department, which ensures that solutions are implemented consistently across the Group and do not disrupt operations. Aspects of internal control (segregation of duties, access rights, etc.) are integrated when implementing new information systems and then regularly reviewed.

Information and telecommunications systems and their associated risks (physical, technical, internal and external security, etc.) are covered by special procedures: a "Business Continuity Plan" methodology toolkit has been disseminated within the Group to define, for each significant entity, the broad outline of a Business Continuity Plan as well as a Disaster Recovery Plan. A Business Continuity Plan and a Disaster Recovery Plan have been developed and tested at the level of the French holding companies.

All major entities have appointed a Chief Information & Security Officer (CISO). The entity-level CISOs are coordinated by the Group CISO, forming a network to monitor the development of IT risks and implement appropriate preventive measures according to the likelihood of a given risk and its potential impact.

Audit programs, intrusion testing and vulnerability audits are performed by entities and by the Group's Information Systems Department.

In April 2015, LVMH set up an operations center to monitor and assess information systems security for all of the Group's Maisons.

3.4 Internal and external accounting control procedures

3.4.1 Accounting and management policies

Subsidiaries adopt the accounting and management policies communicated by the Group for the purposes of the published consolidated financial statements and internal reporting; they all use the same framework (the LVMH chart of accounts and manual of accounting policies) and the accounting and management reporting system administered by the Group, thus ensuring consistency between internal and published data.

3.4.2 Consolidation process

The account consolidation process is covered by regular detailed instructions; a specially adapted data submission system facilitates consistent, comprehensive and reliable data processing within the appropriate timeframes. The Chairman and CFO of each company undertake to ensure the quality and completeness of financial information sent to the Group – including off-balance sheet items – in a signed letter of representation which gives added weight to the quality of their financial information.

Sub-consolidations are carried out at the level of each Maison and business group, which act as primary control filters and help ensure consistency.

At Group level, the teams in charge of consolidation are organized by type of business and are in permanent contact with the business groups and companies concerned, thereby enabling them to better understand and validate the reported financial data and anticipate the treatment of complex transactions.

The quality of financial information, and its compliance with standards, are also guaranteed through ongoing exchanges with the Statutory Auditors whenever circumstances are complex and open to interpretation.

3.4.3 Management reporting

Each year, all of the Group's consolidated entities produce a strategic plan, a full budget and annual forecasts. Detailed instructions are sent to the companies for each process.

These key steps represent opportunities to perform detailed analyses of actual data compared with budget and prior year data, and to foster ongoing communication between subsidiaries and the Group – an essential feature of the financial internal control mechanism.

A team of controllers at Group level, specialized by business, is in permanent contact with the business groups and companies concerned, thus ensuring better knowledge of performance and management decisions, as well as appropriate controls.

Specific meetings to close out the interim and annual financial statements are attended by the Finance Department teams concerned; during those meetings the Statutory Auditors present their conclusions with regard to the quality of financial and accounting information and the internal control environment of the different companies of the Group.

3.5 Formalization and monitoring of risk management and internal control systems

3.5.1 The Enterprise Risk and Internal Control Assessment (ERICA) approach

In line with EU directives, the Group has implemented an approach known as ERICA (Enterprise Risk and Internal Control Assessment), a comprehensive process for improving and integrating systems for managing major risks and internal control related to its day-to-day activities.

Since 2015, this approach has been rolled out across all of the Group's brands. It includes annual mapping of the major risks for each brand and self-assessment of 68 key controls taken from the internal control framework by all Group entities at least every three years. During this three-year period, the Group applies self-assessment across a limited scope of entities that is reviewed every year, with the Maisons having free rein to extend the process to a wider scope as they see fit. A full self-assessment was completed by all Group entities generating over 10 million euros in revenue in the period to June 30, 2019 (during the 2018-2019 campaign).

Recently acquired entities are allowed two years to implement this approach once the integration process has been completed.

The Maisons and business groups acknowledge their responsibility in relation to this process each year by signing two letters of representation:

- an ERICA letter of representation concerning risk management and internal control systems, signed on June 30. By signing this letter, the President, CFO and/or members of the Management Committee at each entity confirm their responsibility for these systems, and give their assessment of them, identifying major weaknesses and the corresponding remediation plans. These letters are analyzed, followed up on and "consolidated" at each higher level of the Group's organizational structure (region, Maison and business group); they are forwarded to the Group's Finance Department and to its Audit & Internal Control Department. They are also made available to the Statutory Auditors;
- the annual letter of representation on financial reporting, which includes a paragraph devoted to internal control.

Since 2013, depending on the circumstances, Presidents of Maisons have been required to present the Performance Audit Committee with an update on achievements, action plans in progress, and the outlook for their area of responsibility in terms of internal control and risk management.

3.5.2 Monitoring of major risks and internal control

Major risks relating to the Group's brands and businesses are managed at the level of each business group and Maison. As part of the budget cycle and in connection with the preparation of the three-year plan, major risks affecting strategic, operational and financial objectives are identified and evaluated, and formalized in specific chapters.

Once an acceptable risk level has been determined and validated, risks are handled via preventive and protective measures; the latter include business continuity plans (BCP) and crisis management plans in order to organize the best response to risks once they have occurred. Lastly, depending on the types of risk to which a particular brand or entity is exposed and the amount of residual risk, the entity may decide, in collaboration with the Group, to use the insurance market to transfer part or all of the residual risk and/or assume this risk.

A full-day session dedicated to business continuity planning was held in 2019 and was attended by all the relevant staff members from the Maisons. All the Group's Maisons were then provided with a decision-making toolkit for implementing a business continuity plan (BCP).

Ongoing monitoring of the internal control system and periodic reviews of its functioning take place on a number of levels:

- managers and operational staff at the Maisons, with support from internal control staff, are given responsibility for assessing the level of internal control on the basis of key controls, identifying weaknesses, and taking corrective action. Exception reports allow for the enhancement of detective controls in addition to preventive measures;
- a formal annual self-assessment process, based on a list of key controls taken from the internal control framework, integrated into the ERICA system;
- the Statutory Auditors are kept informed of this approach, as is the Performance Audit Committee, by means of regular briefings;
- reviews are carried out by Group Internal Audit and the Statutory Auditors, the findings and recommendations of which are passed on to entities' management and Group Executive Management;
- a review of the ERICA system and the quality of self-assessment is an integral part of the work of the Internal Audit team at all audited entities.

3.6 Fraud prevention and detection

Over the past few years, fraud risk has dramatically transformed, with an upsurge in fraud through identity theft and an increase in attacks using social engineering to gain access and steal data. The Group and its Maisons have stepped up their vigilance, adapting internal procedures, awareness campaigns and training programs to the changing scenarios encountered or that might reasonably be predicted.

Given the large number of controls intended to prevent and detect this risk, the internal control framework is the backbone of the Group's fraud prevention mechanism.

Another essential component of this system is the obligation for each entity to report any instances of actual or attempted fraud to LVMH's Audit & Internal Control Director: as well as supervising actions and decisions in response to each reported case, the Director endeavors to draw lessons from incidents so as to relay them, once anonymized, to the chief financial officers of all the Maisons.

The Audit & Internal Control Department has therefore introduced a program to raise awareness of the risk of fraud through periodic newsletters identifying scenarios of actual and attempted fraud within the Group. A prevention plan is presented for each scenario. The Maisons and subsidiaries are responsible for verifying whether or not these scenarios apply to their operations. These communiqués are widely circulated within the Group to ensure heightened awareness among staff most exposed to this risk.

Measures raising awareness throughout our internal control community about the risk fraudulent bank transfers were conducted throughout 2019.

Lastly, a specific fraud module has been added that forms part of the LVMH Internal Control Academy's "The Fundamentals" training program.

MANAGEMENT REPORT OF THE BOARD OF DIRECTORS

Parent company: LVMH Moët Hennessy - Louis Vuitton

1. KEY EVENTS DURING THE FISCAL YEAR

On November 24, 2019, LVMH Moët Hennessy - Louis Vuitton SE and Tiffany & Co. - an international high jewelry house listed on the New York Stock Exchange – entered into a definitive agreement for the LVMH group to acquire Tiffany for a price of 135 US dollars per share, paid in cash. The transaction valued Tiffany at around 16.2 billion US dollars. For more than 180 years, Tiffany has epitomized elegance, innovative design, expert craftsmanship and creative excellence. Founded in 1837, Tiffany is now the number-one luxury brand created in the United States, serving an exacting clientele at more than 300 stores around the world. The transaction is expected to close in mid-2020, subject to approval at Tiffany's Shareholders' Meeting convened on February 4, 2020, and subject to customary approval by regulatory authorities.

2. COMMENTS ON THE FINANCIAL STATEMENTS

The balance sheet, income statement and notes to the financial statements of LVMH Moët Hennessy - Louis Vuitton SE (hereinafter "LVMH" or "the Company") for the year ended December 31, 2019 have been prepared in accordance with current French legal requirements.

2.1 Comments on the balance sheet

2.1.1 Change in the equity investment portfolio

The gross value of the equity investment portfolio was 28.2 billion euros, 1 billion euros higher than in 2018. This change corresponds to LVMH subscribing to the capital increase of its subsidiary LVMH Miscellanées (formerly LVMH Finance) in the amount of 1 billion euros; LVMH's ownership interest in LVMH Miscellanées remained unchanged following this transaction, at 99.99%.

2.1.2 Financial structure

In February 2019, LVMH completed two fixed-rate bond issues totaling 1 billion euros, comprised of 300 million euros in bonds maturing in 2021 and 700 million euros in bonds maturing in 2023.

During the fiscal year, LVMH repaid the 300 million euro bond issued in 2014, the 600 million euro bond issued in 2013 and 2014, and the 150 million Australian dollar bond issued in 2014.

2.1.3 Hedging transactions

LVMH SE regularly uses financial instruments. This practice meets the foreign currency and interest rate hedging needs for financial assets and liabilities, including dividends receivable from foreign investments; each instrument used is allocated to the financial balances or hedged transactions.

Given the role of LVMH within the Group, financial instruments designed to hedge net assets denominated in foreign currency may be used in the consolidated financial statements but not matched in the parent company financial statements; as such, they constitute isolated open positions.

Counterparties for hedging contracts are selected on the basis of their credit rating as well as for reasons of diversification.

2.1.4 Share capital

As of December 31, 2019, the share capital comprised 505,431,285 fully paid-up shares totaling 151.6 million euros.

During the fiscal year, 403,946 shares were issued as a result of the exercise of share subscription options and 2,156 shares were retired.

2.1.5 Information on payment terms for suppliers and customers

Pursuant to Articles L.441-6-1 and D.441-4 of the French Commercial Code, we hereby inform you that as of December 31, 2019:

- trade accounts payable due at the fiscal year-end date, based on the legal deadline for payment, amounted to 0.3 million euros, corresponding to 0.1% of other net management charges for the 2019 fiscal year;
- trade accounts receivable due at the fiscal year-end date, based on the legal deadline for payment, amounted to 0.7 million euros, corresponding to 0.2% of services provided and other income for the 2019 fiscal year.

2.2 Parent company results and outlook

The Company reported net financial income of 3,995.7 million euros for the fiscal year, compared with 3,344.8 million euros in 2018.

Management income from subsidiaries and other investments totaled 4,083.6 million euros in 2019, compared with 3,417.5 million euros in 2018. This change was mainly the result of an increase in financial income from subsidiaries and other investments (4,252.7 million euros in 2019, compared with 3,550.5 million euros in 2018).

Financial income from subsidiaries and other investments consists of dividends and similar income.

Net financial income in 2019 also included the cost of net financial debt and related interest rate derivatives totaling 29.5 million euros, as well as losses on foreign exchange transactions and derivatives totaling 36.4 million euros.

Net operating income reflected operating expenses not recharged to subsidiaries and other investments, which equated to a net expense of 304.6 million euros in 2019, compared with 191.5 million euros in 2018.

The exceptional expense comprised LVMH SE's donation of 100 million euros to restore Notre-Dame de Paris Cathedral and its 10 million euro contribution to help fight forest fires in the Amazon.

Taking into account the 130.4 million euro positive impact of corporate income tax, including the effect of tax consolidation, net profit came to 3,711.5 million euros, up from 3,384.1 million euros in fiscal year 2018.

Given the results achieved in 2019 by subsidiaries and other investments held by LVMH SE, the Company anticipates a satisfactory level of dividend payouts in 2020.

Lastly, with regard to the preparation of the Company's income tax return, no expenses were considered as having to be re-integrated into taxable profit or non-deductible within the meaning of Articles 39-4, 39-5, 54 quater and 223 quinquies of the French General Tax Code.

3. Appropriation of net profit

The proposed appropriation of the amount available for distribution for the fiscal year is as follows:

(EUR)	
Net profit for the fiscal year ended December 31, 2019	3,711,544,933.36
Addition to the legal reserve	(12,053.70)
Retained earnings	11,131,301,810.37
Amount available for distribution	**14,842,834,690.03**
Proposed appropriation:	
Total dividend to be paid out for the fiscal year ended December 31, 2019	3,436,932,738.00
- of which: Dividend payable under the Bylaws of 5% or EUR 0.015 per share	*7,581,469.28*
- of which: Additional dividend of EUR 6.785 per share	*3,429,351,268.72*
Retained earnings	11,405,901,952.03
	14,842,834,690.03

As of December 31, 2019, the Company held 1,778,911 of its own shares, corresponding to an amount not available for distribution of 403 million euros, equivalent to the acquisition cost of the shares.

Should this appropriation be approved, the total dividend for the fiscal year ended December 31, 2019 would be 6.80 euros per share. As an interim dividend of 2.20 euros per share was paid on December 10, 2019, the final dividend per share would be 4.60 euros. The ex - dividend date will be XX, 2020 and the final dividend will be paid as of XX, 2020.

Based on the tax legislation applicable to securities income as it stands at January 1, 2020, these dividends carry an entitlement for French tax residents who have opted for their income on all eligible securities income to be taxed at a progressive rate to a tax deduction of 40%.

The dividend is paid as a priority from distributable income from dividends received from subsidiaries eligible for the parent company plan within the meaning of Directive 2011/96/EU ("Eligible Subsidiaries") in the following order of priority: (i) firstly from dividends received from Eligible Subsidiaries whose registered office is in an EU member state other than France; (ii) then from dividends received from Eligible Subsidiaries whose registered office is in France; and (iii) lastly from dividends received from Eligible Subsidiaries whose registered office is in a non-EU country.

Lastly, should the Company hold, at the time of payment of this final dividend, any treasury shares under authorizations granted, the corresponding amount of unpaid dividends will be allocated to retained earnings.

As required by law, we remind you that the gross dividends per share paid out in respect of the past three fiscal years were as follows:

Fiscal year *(EUR)*	Type	Payment date	Gross dividend
2018	Interim	December 6, 2018	2.00
	Final	April 29, 2019	4.00
	Total		**6.00**
2017	Interim	December 7, 2017	1.60
	Final	April 19, 2018	3.40
	Total		**5.00**
2016	Interim	December 1, 2016	1.40
	Final	April 21, 2017	2.60
	Total		**4.00**

4. SHAREHOLDERS – STOCK OPTION AND BONUS SHARE PLANS

4.1 Main shareholders

Information on the Company's main shareholders as of December 31, 2019 is provided in the "*Other information*" section under §3.1 "Share ownership of the Company" on page 303 of this Universal Registration Document.

4.2 Shares held by members of the management and supervisory bodies

Information on the shares held by members of the management and supervisory bodies as of December 31, 2019 is provided in the "*Other information*" section under §3.1 "Share ownership of the Company" on page 303 of this Universal Registration Document.

4.3 Employee share ownership

Information on the employee share ownership as of December 31, 2019 is provided in the "*Other information*" section under §3.1 "Share ownership of the Company" on page 303 of this Universal Registration Document.

4.4 Share subscription and purchase option plans

Option plan recipients are selected according to the following criteria: performance, development potential and contribution to a key position.

No share subscription option plans were in effect as of December 31, 2019. The share subscription option plan set up by the LVMH company on May 14, 2009 expired on May 13, 2019. The exercise price of these options as of the plan's commencement date was equal to the reference price, calculated in accordance with applicable laws. This plan had a term of ten years. Provided the conditions set by the plan were met, options could have been exercised after the end of a period of four years from the plan's commencement date. One option entitled the holder to purchase one share.

Apart from a condition relating to attendance within the Group, the exercise of options granted on May 14, 2009 was contingent on performance conditions, based on the following three indicators: the Group's profit from recurring operations, net cash from operating activities and operating investments, and current operating margin.

Options granted to senior executive officers could only be exercised if, in three of the four fiscal years from 2009 to 2012, at least one of those three indicators showed a positive change compared to fiscal year 2008. The performance condition was met with respect to the 2009, 2010, 2011 and 2012 fiscal years, as a result of which options could be exercised as of May 14, 2013.

Options granted to other recipients could only be exercised if, for fiscal years 2009 and 2010, at least one of these indicators showed a positive change compared to fiscal year 2008. The performance condition was met with respect to the 2009 and 2010 fiscal years, as a result of which options could be exercised as of May 14, 2013.

Company officers – whether senior executives or employees – were also required to comply with certain restrictions relating to the exercise period for their options.

For plans set up since 2007, if the Chairman and Chief Executive Officer and the Group Managing Director decided to exercise their options, they were required to retain possession, in registered form and until the end of their respective terms of office, of a number of shares representing a sliding percentage of between 50% and 30% (based on the remaining term of the plan) of the notional capital gain, net of tax and social security contributions, determined on the basis of the closing share price on the day before the exercise date, with this obligation expiring when the value of shares held exceeds twice the amount of their most recently disclosed fixed and variable compensation at the exercise date of the options.

4.4.1 Share purchase option plans

No share purchase option plans were in effect as of December 31, 2019.

4.4.2 Share subscription option plans

Date of Shareholders' Meeting	**05/11/2006**
Date of Board of Directors' meeting	**05/14/2009**
Total number of options granted at plan inception [(a)]	**1,301,770**
of which: Company officers [(b)(c)]	*541,000*
of which: Top ten employee recipients [(d)]	*327,013*
Number of recipients	653
Earliest option exercise date	05/14/2013
Expiry date	05/13/2019
Subscription price *(EUR)* [(e)(f)]	50.861
Number of options exercised in 2019 [(e)]	403,946
Number of options expired in 2019 [(e)]	7,142
Total number of options exercised as of December 31, 2019 [(e)]	1,310,756
Total number of options expired as of December 31, 2019 [(e)]	59,447
Options outstanding as of fiscal year-end [(e)]	**-**

(a) Before adjusting for the exceptional distribution of a dividend in Hermès International shares on December 17, 2014.
(b) Options granted to active company officers as of the plan's commencement date.
(c) A breakdown of the options granted at plan inception to company officers serving as of December 31, 2019 is provided in §2.2.2.7.2 of the *Board of Directors' report on corporate governance*.
(d) Options granted to the top ten employee recipients – other than company officers – in service as of the plan's commencement date.
(e) After adjusting for the exceptional distribution of a dividend in Hermès International shares on December 17, 2014.
(f) Subscription price for Italian residents: 50.879 euros.

4.4.3 Options granted to and exercised by the Group's top ten employee recipients, other than company officers, during the fiscal year

Information on non-executive company officers can be found in §2.2.1.2 and in §2.2.2.5 (for senior executive officers) of the *Board of Directors' report on corporate governance*.

Options granted to the Group's top ten employee recipients, other than company officers

No new option plans were set up in 2019.

Options exercised by the top ten Group employees – other than company officers – who exercised the largest number of options[a]

Company granting the options	Plan date	Number of options	Subscription price *(EUR)*
LVMH Moët Hennessy - Louis Vuitton	05/14/2009	53,652	50.861[b]

(a) After adjusting for the exceptional distribution of a dividend in Hermès International shares on December 17, 2014.
(b) Subscription price for Italian residents: 50.879 euros.

4.5 Allocation of bonus shares and bonus performance shares

Bonus share recipients are selected from among the employees and senior executives of the Group's companies on the basis of their level of responsibility and their individual performance.

- For the plans set up on April 16, 2015 and October 22, 2015, bonus performance shares vest (if performance conditions are met) to recipients who are French residents for tax purposes after a three-year vesting period, which is followed by a two-year holding period during which recipients may not sell their shares. For recipients who are not French residents for tax purposes, they vest and become freely transferable after a period of four years.

  For the plans set up since 2016 – except where otherwise stated below – bonus shares and (if performance conditions are met) bonus performance shares vest to all recipients after a three-year period and are freely transferable once they have vested.

- Subject to certain exceptions, the vesting of bonus shares is subject to a condition under which recipients must still be with the Group on the date the shares are allocated.

  The plans set up on April 16, 2015; October 22, 2015; April 13, 2017; October 25, 2018; and October 24, 2019 provide solely for the allocation of bonus shares subject to a condition related to the performance of the LVMH group.

  The plan set up on October 20, 2016 primarily allocates bonus shares subject to a condition related to the performance of the LVMH group, but also allocates a certain number of shares not subject to any performance conditions.

  The plan set up on July 26, 2017 includes conditions specifically related to the performance of a subsidiary.

  The plan set up on October 25, 2017 primarily allocates bonus shares subject to a condition related to the performance of the LVMH group, but also allocates a certain number of shares subject to a condition specifically related to the performance of a subsidiary, as well as a certain number of shares not subject to any performance conditions.

  The plan set up on January 25, 2018 allocates a certain number of bonus shares that are not subject to any performance conditions, but also allocates a certain number of shares subject to a condition specifically related to the performance of a subsidiary.

  The plan set up on April 12, 2018 primarily allocates bonus shares subject to a condition related to the performance of the LVMH group, but also allocates a certain number of shares subject to a condition specifically related to the performance of a subsidiary.

- For the plan set up on April 16, 2015, bonus shares subject to a condition related to the Group's performance only vest if LVMH's consolidated financial statements for the fiscal year in which the plan was set up (fiscal year "Y") show a positive change compared to fiscal year Y-1 in relation to at least one of the following indicators: the Group's profit from recurring operations, net cash from operating activities and operating investments, or current operating margin (hereinafter referred to as the "Indicators"). This condition was met, so shares allocated under the April 16, 2015 plan were fully vested as of April 16, 2018 for recipients who were French residents for tax purposes and as of April 16, 2019 for recipients who were not French residents for tax purposes.

For the plans set up on October 22, 2015 and October 20, 2016, bonus shares subject to a condition related to the Group's performance only vest if LVMH's consolidated financial statements for fiscal years Y+1 and Y+2 show a positive change compared to the fiscal year in which the plan was set up (fiscal year Y) in relation to one or more of the Indicators. For the plan set up on October 22, 2015, the condition was met in 2016 and 2017. For the plan set up on October 20, 2016, the condition was met in 2017 and 2018. Shares allocated under the October 22, 2015 plan were fully vested as of October 22, 2018 for recipients who were French residents for tax purposes and as of October 22, 2019 for recipients who were not French residents for tax purposes. All shares allocated under the October 20, 2016 plan were fully vested as of October 20, 2019.

For the plan set up on April 13, 2017, performance shares only vest if LVMH's consolidated financial statements for the fiscal year in which the plan was set up (fiscal year Y) show a positive change in one or more of the Indicators compared to fiscal year Y-1. This condition was met. Shares vested on April 13, 2018 and are subject to a two-year holding period.

For the plan set up on July 26, 2017, half of the bonus shares vest on June 30, 2020 and the other half on June 30, 2021 (or, under certain conditions, all bonus shares vest on June 30, 2021), each time provided that the performance condition regarding revenue and profit from recurring operations for the subsidiary concerned has been met.

For bonus shares awarded under the plan set up on October 25, 2017 and subject to a condition relating to the Group's performance, shares only vest if LVMH's consolidated financial statements for fiscal years Y+1 and Y+2 show a positive change in one or more of the Indicators relative to the fiscal year in which the plan was set up (fiscal year Y). This condition was met in 2018 and 2019.

Bonus shares awarded under the plan set up on October 25, 2017 – for which vesting is subject to a subsidiary's fulfillment of performance conditions – will vest on June 30, 2024 provided that (i) quantitative targets regarding its revenue and profit from recurring operations for fiscal year 2023 and (ii) qualitative targets have been met, with vesting advanced to June 30, 2023 if said targets are met in respect of fiscal year 2022.

For the plan adopted on January 25, 2018, bonus shares subject to conditions specifically related to the performance of a subsidiary will vest on June 30, 2024 provided that quantitative targets are met regarding its consolidated revenue and consolidated profit from recurring operations in respect of fiscal year 2023, and with vesting advanced to June 30, 2023 if said targets are met in respect of fiscal year 2022.

For bonus shares awarded under the plan set up on April 12, 2018 subject to a condition relating to the performance of the LVMH group, shares only vest if LVMH's consolidated financial statements for fiscal years Y+1 and Y+2 show a positive change in one or more of the Indicators relative to the fiscal year in which the plan was set up (fiscal year Y). This condition was met in 2019.

The performance condition is assessed on a like-for-like basis to exclude the impact of acquisitions made during the two calendar years following the reference fiscal year and to neutralize the impact of disposals that took place during this same period. Only significant transactions (for more than 150 million euros) are restated in the accounts.

Bonus shares awarded under this plan – for which vesting is subject to a subsidiary's fulfillment of performance conditions – will vest on June 30, 2023 provided that quantitative targets regarding its consolidated revenue and consolidated profit from recurring operations are met in respect of fiscal year 2022. If the performance conditions are not met in respect of fiscal year 2022, vesting shall be deferred until June 30, 2024, and will concern fewer shares subject to and dependent on meeting (i) quantitative targets regarding its consolidated revenue and consolidated profit from recurring operations in respect of fiscal year 2023, and (ii) qualitative targets.

For bonus shares awarded under the plans set up on October 25, 2018 and October 24, 2019 subject to a condition relating to the performance of the Group, shares only vest if LVMH's consolidated financial statements for fiscal years Y+1 and Y+2 show a positive change in one or more of the Indicators relative to the fiscal year in which the plan was set up (fiscal year Y). For the plan set up on October 25, 2018, the condition was met in 2019.

The performance condition is assessed on a like-for-like basis to exclude the impact of acquisitions made during the two calendar years following the reference fiscal year and to neutralize the impact of disposals that took place during this same period. Only significant transactions (for more than 150 million euros) are restated in the accounts.

- For plans set up since 2010, if their shares vest, the Chairman and Chief Executive Officer and the Group Managing Director must retain possession, in registered form until the conclusion of their respective terms in office, of a number of shares corresponding to one-half of the notional capital gain, net of tax and social security contributions, calculated at the vesting date of those shares on the basis of the opening share price on the vesting date for plans set up before 2013, and on the basis of the closing share price on the day before the vesting date for plans set up since 2013.
- Vesting of such shares does not lead to any dilution for shareholders, since they are allocations of existing shares.

4.5.1 Bonus share and bonus performance share allocation plans

Date of Shareholders' Meeting	04/16/2015	04/16/2015	04/14/2016	04/14/2016	04/14/2016
Date of Board of Directors' meeting	**04/16/2015**	**10/22/2015**	**10/20/2016**	**10/20/2016**	**04/13/2017**
	Performance shares	**Performance shares**	**Bonus shares**	**Performance shares**	**Performance shares**
Total number of shares provisionally allocated at plan inception	**73,262**	**315,532**	**50,010**	**310,509**	**46,860**
of which: Company officers[(a)(b)]	*41,808*	*46,990*	-	*43,462*	-
of which: Top ten employee recipients[(c)]	*31,454*	*61,858*	*50,010*	*57,734*	*46,860*
Number of recipients	14	740	2	740	1
Vesting date	04/16/2018[(d)]	10/22/2018[(d)]	10/20/2019	10/20/2019	04/13/2018
Date as of which the shares may be sold	04/16/2020[(d)]	10/22/2020[(d)]	10/20/2019	10/20/2019	04/13/2020
Unit value as of the initial grant date *(EUR)*	157.41[(d)]	144.11[(d)]	155.10	155.10	195.66
Performance condition	**Met**	**Met**	**-**	**Met**	**Met**
Number of shares vested in 2019	17,322	126,928	50,010	283,577	-
Number of allocations expired in 2019	-	4,894	-	6,880	-
Total number of shares vested as of 12/31/2019	73,262	281,666	50,010	283,642	46,860
Total number of allocations expired as of 12/31/2019	-	33,866	-	26,867	-
Remaining allocations as of fiscal year-end	**-**	**-**	**-**	**-**	**-**

(a) Performance shares allocated to company officers serving as of the provisional allocation date.
(b) A breakdown of the shares granted to company officers in service as of December 31, 2019 is provided in §2.2.2.8 of the *Board of Directors' report on corporate governance*.
(c) Bonus shares and performance shares allocated to employees – other than LVMH company officers – in service as of the provisional allocation date.
(d) Shares vest and become available on April 16, 2019 and October 22, 2019 for recipients who are not French residents for tax purposes; as of the initial grant date, the unit values for these shares were 156.62 euros and 142.91 euros, respectively.
(e) Shares vest and become available in two tranches of 21,700 shares, with shares from the second tranche vesting on June 30, 2021; the unit value of the shares from the second tranche is 199.83 euros.

04/14/2016	04/14/2016	04/14/2016	04/14/2016	04/14/2016	04/14/2016	04/12/2018	04/12/2018	
07/26/2017	**10/25/2017**	**10/25/2017**	**01/25/2018**	**01/25/2018**	**04/12/2018**	**10/25/2018**	**10/24/2019**	
Performance shares	**Bonus shares**	**Performance shares**	**Bonus shares**	**Performance shares**	**Performance shares**	**Performance shares**	**Performance shares**	**Total**
43,400	**18,502**	**346,490**	**72,804**	**47,884**	**332,116**	**9,477**	**200,077**	**1,866,923**
-	-	*43,549*	-	-	*37,759*	-	*27,956*	***241,524***
43,400	*18,502*	*120,378*	*72,804*	*47,884*	*134,814*	*7,492*	*33,103*	***726,293***
1	2	851	4	1	859	33	1,039	
06/30/2020[e]	10/25/2020	10/25/2020[f]	01/25/2021	06/30/2024[g]	04/12/2021[h]	10/25/2021	10/24/2022	
06/30/2020[e]	10/25/2020	10/25/2020[f]	01/25/2021	06/30/2024[g]	04/12/2021[h]	10/26/2021	10/25/2022	
205.06[e]	227.01	227.01[f]	224.80	207.12[g]	261.84[h]	240.32	353.68	
Not applicable in 2019	**-**	**Met[i]**	**-**	**Not applicable in 2019**	**Met in 2019**	**Met in 2019**	**Not applicable in 2019**	
-	-	-	-	-	-	-	-	**477,837**
-	-	5,535	-	-	4,066	125	-	**21,500**
-	-	-	-	-	-	-	-	**735,440**
-	-	13,841	-	-	4,066	125	-	**78,765**
43,400	**18,502**	**332,649**	**72,804**	**47,884**	**328,050**	**9,352**	**200,077**	**1,052,718**

(f) For shares subject to a condition specifically related to the performance of a subsidiary, shares vest and become available on June 30, 2024 if targets are met in respect of the fiscal year ending December 31, 2023 (or, where applicable, on June 30, 2023 if targets are met in respect of the fiscal year ending December 31, 2022); the unit value of these shares is 210.29 euros if they vest on June 30, 2023.

(g) Shares vest and become available on June 30, 2023 if targets are met in respect of the fiscal year ending December 31, 2022; the unit value of these shares is 207.12 euros if they vest on June 30, 2023.

(h) For shares subject to a condition specifically related to the performance of a subsidiary, all shares vest and become available on June 30, 2023 provided that targets are met in respect of fiscal year 2022; or, where applicable, 71,681 of these shares vest and become available on June 30, 2024 if performance conditions were not met in respect of fiscal year 2022 but are met for fiscal year 2023; the unit value of these shares is 244.22 euros if they vest on June 30, 2023.

(i) Condition related to the performance of the LVMH group.

4.5.2 Bonus shares and bonus performance shares allocated during the fiscal year to the Group's top ten employee recipients, other than company officers, having received the largest number of shares

Shares provisionally allocated during the fiscal year to the Group's top ten employee recipients, other than company officers

See §4.5.1. above.

Shares vested during the fiscal year to the Group's top ten employee recipients, other than company officers [(a)]

Company granting the shares	Plan date	Number of bonus shares	Number of performance shares
LVMH Moët Hennessy - Louis Vuitton	04/16/2015	-	11,215
"	10/22/2015	-	35,069
"	10/20/2016	50,010	50,550

(a) Employees in service as of the vesting date.

Information on non-executive company officers can be found in §2.2.1.3 and in §2.2.2.6 (for senior executive officers) of the *Board of Directors' report on corporate governance*.

5. SUMMARY OF TRANSACTIONS IN LVMH SECURITIES DURING THE 2019 FISCAL YEAR BY SENIOR EXECUTIVE OFFICERS AND CLOSELY RELATED PERSONS

A summary of transactions in LVMH securities made during the 2019 fiscal year by senior executive officers and closely related persons is provided in §3 of the *Board of Directors' report on corporate governance*.

6. SHARE REPURCHASE PROGRAMS

6.1 Information on share repurchase programs

The purpose of this subsection is to inform the shareholders of purchases of treasury shares made by the Company between January 1, 2019 and December 31, 2019 as part of the share repurchase programs authorized at the Combined Shareholders' Meetings held on April 12, 2018 and April 18, 2019.

Following changes to regulations on liquidity contracts, in particular AMF Decision No. 2018-01 of July 2, 2018, LVMH entered into a new liquidity contract with Oddo BHF SCA, which took effect on June 30, 2019. This contract replaced the previous contract entered into with Oddo Corporate Finance in 2005.

Under the aforementioned liquidity contracts, in 2019 the Company acquired 432,211 LVMH shares at an average price per share of 335.82 euros and sold 491,211 LVMH shares at an average price per share of 332.28 euros.

These transactions generated expenses of 0.3 million euros.

The table below provides a summary by purpose of transactions carried out, by value date, during the period from January 1, 2019 to December 31, 2019:

(number of shares unless otherwise stated)	Liquidity contract	Coverage of plans	Coverage of securities giving access to Company shares	Exchange or payment in connection with acquisitions	Share pending retirement	Total
Balance as of December 31, 2018	**97,000**	**1,768,404**	**-**	**-**	**270,000**	**2,135,404**
Purchases	134,265	-	-	-	-	134,265
Average price *(EUR)*	280.54	-	-	-	-	280.54
Sales	(180,265)	-	-	-	-	(180,265)
Average price *(EUR)*	281.97	-	-	-	-	281.97
Bonus share awards	-	(17,322)	-	-	-	(17,322)
Reallocations for other purposes	-	-	-	-	-	-
Shares retired	-	(2,156)	-	-	-	(2,156)
Balance as of April 17, 2019	**51,000**	**1,748,926**	**-**	**-**	**270,000**	**2,069,926**
Purchases	297,946	182,500	-	-	-	480,446
Average price *(EUR)*	360.73	373.61	-	-	-	365.62
Sales	(310,946)	-	-	-	-	(310,946)
Average price *(EUR)*	366.19	-	-	-	-	366.19
Bonus share awards	-	(460,515)	-	-	-	(460,515)
Reallocations for other purposes	-	-	-	-	-	-
Shares retired	-	-	-	-	-	-
Balance as of December 31, 2019	**38,000**	**1,470,911**	**-**	**-**	**270,000**	**1,778,911**

Between January 1 and December 31, 2019, the Company retired 2,156 shares that had been purchased for cancellation or to cover share subscription option plans.

6.2 Description of the main characteristics of the share repurchase program presented for approval at the Combined Shareholders' Meeting of June 30, 2020

- Securities concerned: shares issued by LVMH Moët Hennessy-Louis Vuitton SE.
- Maximum proportion of capital that may be purchased by the Company: 10%.
- Maximum number of its own shares that may be acquired by the Company, based on the number of shares making up the share capital as of December 31, 2019: 50,502,734; however, taking into account the 1,778,911 shares held in treasury, only 48,723,823 treasury shares are available to be acquired.
- Maximum price per share: 550 euros.
- Objectives:

  Shares may be acquired to meet any objective compatible with provisions in force at the time, and in particular to:

  - provide market liquidity or share liquidity services (purchases/sales) under a liquidity contract set up by the Company in compliance with the AMF-approved AMAFI ethics charter;
  - cover stock option plans, awards of bonus shares or of any other shares, or share-based payment plans for employees or company officers of the Company or of any related undertaking under the conditions provided by the French Commercial Code, in particular its Articles L.225-180 and L.225-197-2;
  - cover debt securities that may be exchanged for Company shares, and more generally securities giving access to the Company's shares, notably by way of conversion, tendering of a coupon, reimbursement or exchange;
  - be retired subject to the approval of the nineteenth resolution;
  - be held and later presented for consideration as an exchange or payment in connection with external growth operations, up to a maximum of 5% of the share capital;
  - more generally, carry out any permitted transactions or any transaction that would be authorized in future under regulations in force at that time, or that would involve an already accepted market practice or one that would come to be accepted by the AMF.
- Program duration: 18 months as of the Ordinary Shareholders' Meeting of June 30, 2020.

6.3 Summary table disclosing transactions undertaken by the issuer in its own shares from January 1 to December 31, 2019

The table below, prepared in accordance with the provisions of AMF Instruction 2005-06 of February 22, 2005, issued pursuant to Article 241-2 of the AMF's General Regulation, summarizes transactions undertaken by the Company in its own shares from January 1 to December 31, 2019.

As of December 31, 2019	
Percentage of own share capital held directly or indirectly	0.35%
Number of shares retired in the last 24 months	2,778,108
Number of shares held in the portfolio	1,778,911
Carrying amount of the portfolio	403,046,568
Market value of the portfolio	736,824,936

	Cumulative gross transactions		Open positions as of December 31, 2019			
	Purchases	Sales/ Transfers	Open "buy" positions		Open "sell" positions	
			Call options purchased	Forward purchases	Call options sold	Forward sales
Number of shares	614,711	971,204	-	-	-	-
of which:						
- Liquidity contract	*432,211*	*491,211*	-	-	-	-
- Purchases to cover plans	*182,500*	-	-	-	-	-
- Bonus share awards	-	*477,837*	-	-	-	-
- Purchases of shares to be retired	-	-	-	-	-	-
- Shares retired	-	*2,156*	-	-	-	-
Average maximum maturity	-	-	-	-	-	-
Average trading price *(EUR)*	347.04	335.28 [(a)]	-	-	-	-
Amount *(EUR)*	213,329,903	164,694,805 [(a)]	-	-	-	-

(a) Excluding bonus share awards and share retirements.

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