FINANCIERE AGACHE

Translation of the French “Rapport financier annuel”
Fiscal year ended December 31, 2017

FINANCIERE AGACHE

2017 Annual Financial Report

This document is a free translation into English of the original French "Rapport financier annuel", hereafter referred to as the "Annual Financial Report". It is not a binding document. In the event of a conflict in interpretation, reference should be made to the French version, which is the authentic text.

Executive Body and Statutory Auditors as of December 31, 2017

BOARD OF DIRECTORS

Florian OLLIVIER [a]
Chairman and Chief Executive Officer

Nicolas BAZIRE
Group Managing Director
Representative of Groupe Arnault SEDCS

Pierre DE ANDREA
Representative of Montaigne Finance SAS

Pierre DEHEN
Representative of GA Placements SA

Lord POWELL of BAYSWATER [a]

STATUTORY AUDITORS

ERNST & YOUNG et Autres
represented by Jeanne Boillet

MAZARS
represented by Simon Beillevaire

(a) Renewal proposed at the Shareholders' Meeting of May 30, 2018.

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Management Report of the Board of Directors

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1. Business review and comments on the consolidated financial statements of the Financière Agache group

Key events during the fiscal year

On April 25, 2017, the Arnault Family Group, Christian Dior and LVMH Moët Hennessy - Louis Vuitton announced a strategic project involving two key phases:

- Public offer for Christian Dior shares:
  On May 22, 2017, Semyrhamis, a wholly owned subsidiary of Financière Agache, filed a draft public offer document with the Autorité des Marchés Financiers (AMF, the French financial markets regulator) relating to its simplified public offer for the entirety of the Christian Dior shares not owned by the Arnault Family Group. This filing followed the signing of a syndicated loan agreement to finance the offer. The AMF issued its clearance notice (*avis de conformité*) for the offer on June 6, 2017, and the public offer ran from June 8 to 28, 2017 inclusive.

  At the close of the public offer, whose results were announced on July 4, 2017 by the AMF, a total of 36,363,863 Christian Dior shares had been acquired by Semyrhamis.

  Between the close of the public offer and December 31, 2017, Semyrhamis acquired 4,097,750 Christian Dior shares, representing 2.27% of Christian Dior SE's share capital.

  Following this public offer, Financière Agache's ownership interest in the LVMH group rose from 32% in the first half of 2017 to 41% in the second half of the year.

- Regrouping of the entire Dior brand within LVMH:
  On July 3, 2017, as part of the project aimed at simplifying the structure of the Christian Dior – LVMH group and in accordance with the terms of the memorandum of understanding signed with LVMH on April 24, 2017, Christian Dior SE – which is indirectly controlled by Financière Agache – sold 100% of the Christian Dior Couture segment (including Grandville and its subsidiary Christian Dior Couture) to LVMH for a net amount of 6 billion euros.

  Consequently, Financière Agache's ownership interest in the Christian Dior Couture segment fell from 72% in the first half of 2017 to 41% in the second half of 2017.

  Since LVMH is fully consolidated within Financière Agache's consolidated financial statements, this sale had no impact on net profit.

1.1. COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

1.1.1. Analysis of revenue

(EUR millions and as %)	First-half 2017	Second-half 2017	2017	2016
Revenue	20,745	22,922	43,667	39,503
Growth at actual exchange rates	15%	7%	11%	5%
Organic growth	12%	12%	12%	6%
Changes in scope	1%	-	1%	-
Exchange rate fluctuations [(a)]	2%	-5%	-2%	-1%

(a) The principles used to determine the net impact of exchange rate fluctuations on the revenue of entities reporting in foreign currencies and the net impact of changes in the scope of consolidation are described on page 11.

Revenue for fiscal year 2017 totaled 43,667 million euros, up 11% at current exchange rates relative to 2016. A number of the Group's invoicing currencies weakened against the euro, notably the US dollar, thus lowering consolidated revenue by 2 points.

The following changes to the Group's consolidation scope have occurred since January 1, 2016: in Fashion and Leather Goods, the Donna Karan brand was sold in December 2016 and the Group acquired 80% of high-end luggage manufacturer Rimowa in January 2017. These changes in the scope of consolidation made a positive contribution of 1 point to revenue growth.

On a constant consolidation scope and currency basis, revenue increased by 12%.

The sale of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017 has changed the presentation of the various business groups: until the first half of 2017, Christian Dior Couture was reported as a separate business group within the financial statements of Financière Agache. For comparison purposes, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for fiscal year 2017 and all periods presented.

Revenue by invoicing currency

(as %)	2017	2016	2015
Euro	23	23	23
US dollar	30	31	31
Japanese yen	7	7	7
Hong Kong dollar	6	6	7
Other currencies	34	33	32
TOTAL	**100**	**100**	**100**

The breakdown of revenue by invoicing currency changed slightly: the contributions of the euro, the Japanese yen and the Hong Kong dollar remained stable at 23%, 7% and 6%, respectively; the contribution of the US dollar fell by 1 point to 30%; and that of other currencies rose by 1 point to 34%.

Revenue by geographic region of delivery

(as %)	2017	2016	2015
France	10	10	10
Europe (excluding France)	19	18	18
United States	25	26	25
Japan	7	7	7
Asia (excluding Japan)	28	27	27
Other markets	11	12	13
TOTAL	**100**	**100**	**100**

By geographic region and compared with 2016, Asia (excluding Japan) accounted for 28% of Group revenue, up 1 point. The contribution made by Europe (excluding France) also rose 1 percentage point to 19% of Group revenue, while the United States and Other markets each fell 1 percentage point, to 25% and 11% of Group revenue, respectively. The relative contributions of France and Japan remained stable at 10% and 7%, respectively.

Revenue by business group

	2017		2016		2015	
(EUR millions)		%		%		%
Wines and Spirits	5,084	12	4,835	12	4,603	12
Fashion and Leather Goods [(a)]	16,519	38	14,711	37	14,241	38
Perfumes and Cosmetics	5,560	13	4,953	13	4,671	12
Watches and Jewelry	3,805	9	3,468	9	3,308	9
Selective Retailing	13,311	30	11,973	30	11,193	30
Other activities and eliminations	(612)	-	(437)	-	(494)	-
TOTAL	**43,667**	**100**	**39,503**	**100**	**37,522**	**100**

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE – which is indirectly controlled by Financière Agache – to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for fiscal year 2017 as well as prior fiscal years.

By business group, the breakdown of Group revenue remained nearly unchanged from 2016. The contribution made by Fashion and Leather Goods increased 1 percentage point. The contributions of Wines and Spirits, Perfumes and Cosmetics, Watches and Jewelry, and Selective Retailing remained stable at 12%, 13%, 9% and 30%, respectively.

Wines and Spirits saw an increase in revenue of 5% based on published figures. Revenue for the business group increased by 7% on a constant consolidation scope and currency basis, with the net impact of exchange rate fluctuations weighing it down by 2 points. This performance was largely driven by an increase in volumes. Demand remained very strong in the United States and in China, with the latter still the second-largest market for the Wines and Spirits business group.

Fashion and Leather Goods posted organic growth of 13%. The positive consolidation scope impact of 1 point resulting from the integration of Rimowa, tempered by the negative impact due to the December 2016 sale of Donna Karan, together with the negative exchange rate impact of 2 points, brought this growth to 12% based on published figures. The business group's performance was driven by the very solid momentum achieved by Louis Vuitton, as well as by Christian Dior Couture, Loewe, Kenzo, Fendi, Berluti and Loro Piana, which confirmed their potential for strong growth.

Revenue for Perfumes and Cosmetics increased by 12% based on published figures and by 14% on a constant consolidation scope and currency basis. This growth 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 very significant revenue growth across all regions worldwide, and in particular in Asia.

Revenue for Watches and Jewelry increased by 10% based on published figures and by 12% on a constant consolidation scope and currency basis. The business group benefited from the excellent performance of Bvlgari, while Chaumet, Hublot and Fred saw strong gains. Asia and Europe were the most buoyant regions.

Revenue for Selective Retailing increased by 11% according to published figures and 13% on a constant consolidation scope and currency basis. This performance was driven by Sephora, which saw very appreciable revenue growth, and by the return of Chinese tourists to areas where DFS has many locations.

1.1.2. Profit from recurring operations

(EUR millions)	**2017**	**2016**	**2015**
Revenue	43,667	39,503	37,522
Cost of sales	(15,085)	(13,555)	(13,047)
Gross margin	28,582	25,948	24,475
Marketing and selling expenses	(16,958)	(15,636)	(14,850)
General and administrative expenses	(3,253)	(3,068)	(2,789)
Income/(loss) from commercial joint ventures and associates	-	6	(10)
Profit from recurring operations	**8,371**	**7,250**	**6,826**
Current operating margin *(%)*	**19.2**	**18.4**	**18.2**

The Group achieved a gross margin of 28,582 million euros, up 10% compared with 2016. As a percentage of revenue, the gross margin was 65.5% in 2017, compared with 65.7% in 2016.

Marketing and selling expenses, which totaled 16,958 million euros, were up 8%. 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 as a percentage of revenue fell by 0.7 points to 39%. Among these marketing and selling expenses, advertising and promotion costs amounted to 11% of revenue for fiscal year 2017.

Administrative expenses totaled 3,253 million euros, up 6%. They amounted to 7% of revenue, down 0.3 points compared with 2016.

The geographic breakdown of stores was as follows:

(number)	Dec. 31, 2017 [(a)]	Dec. 31, 2016 [(b)]
France	508	507
Europe (excluding France)	1,156	1,106
United States	754	730
Japan	412	403
Asia (excluding Japan)	1,151	1,055
Other markets	393	347
TOTAL	**4,374**	**4,148**

(a) Including 57 stores for Rimowa.
(b) Excluding Rimowa, whose network was integrated in 2017.

Profit from recurring operations by business group

Profit from recurring operations *(EUR millions)*	2017	2016	2015
Wines and Spirits	1,558	1,504	1,363
Fashion and Leather Goods [(a)]	5,022	4,125	3,745
Perfumes and Cosmetics	600	551	524
Watches and Jewelry	512	458	432
Selective Retailing	1,075	919	940
Other activities and eliminations	(396)	(307)	(178)
TOTAL	**8,371**	**7,250**	**6,826**

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE – which is indirectly controlled by Financière Agache – to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for fiscal year 2017 as well as prior fiscal years.

The Group's profit from recurring operations was 8,371 million euros, up 15%. The Group's operating margin as a percentage of revenue was 19.2%, up 0.8 points compared with 2016.

Wines and Spirits

(EUR millions and as %)	2017	2016	2015
Revenue	5,084	4,835	4,603
Profit from recurring operations	1,558	1,504	1,363
Operating margin	30.6	31.1	29.6

Profit from recurring operations for Wines and Spirits was 1,558 million euros, up 4% compared with 2016. Champagne and Wines contributed 674 million euros while Cognacs and Spirits accounted for 884 million euros. This performance was the result of both sales volume growth and a policy of significant price increases. The operating margin as a percentage of revenue for this business group decreased by 0.5 points to 30.6%, still a very high level.

Fashion and Leather Goods [(a)]

(EUR millions and as %)	2017	2016	2015
Revenue	16,519	14,711	14,241
Profit from recurring operations	5,022	4,125	3,745
Operating margin	30.4	28.0	26.3

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE – which is indirectly controlled by Financière Agache – to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for fiscal year 2017 as well as prior fiscal years.

Fashion and Leather Goods posted profit from recurring operations of 5,022 million euros, up 22% compared with 2016. This sharp increase was driven by the very strong performance of certain brands. Louis Vuitton maintained an exceptional level of profitability, while Christian Dior Couture, Kenzo, Givenchy, Loro Piana and Fendi confirmed their profitable growth momentum. The business group's operating margin as a percentage of revenue grew by 2.4 points to 30.4%.

Perfumes and Cosmetics

(EUR millions and as %)	2017	2016	2015
Revenue	5,560	4,953	4,671
Profit from recurring operations	600	551	524
Operating margin	10.8	11.1	11.6

Profit from recurring operations for Perfumes and Cosmetics was 600 million euros, up 9% from 2016. This growth was driven by Parfums Christian Dior, Kendo 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 0.3 points to 10.8%.

Watches and Jewelry

(EUR millions and as %)	2017	2016	2015
Revenue	3,805	3,468	3,308
Profit from recurring operations	512	458	432
Operating margin	13.5	13.2	13.1

Profit from recurring operations for Watches and Jewelry was 512 million euros, up 12% compared with 2016. This increase was the result of strong performance at both Bvlgari and Hublot, with operating margin as a percentage of revenue rising by 0.3 points to 13.5%.

Selective Retailing

(EUR millions and as %)	2017	2016	2015
Revenue	13,311	11,973	11,193
Profit from recurring operations	1,075	919	940
Operating margin	8.1	7.7	8.4

Profit from recurring operations for Selective Retailing was 1,075 million euros, up 17% from 2016. The business group's operating margin as a percentage of revenue rose by 0.4 points to 8.1%, mainly as a result of the improvement in Chinese tourist numbers to destinations where DFS has stores.

Other activities

The net result from recurring operations of "Other activities and eliminations" was a loss of 396 million euros, representing a decline relative to 2016. In addition to headquarters expenses, this heading includes the results of the Media division managed by the Les Echos group, La Samaritaine, the Dutch yacht builder Royal Van Lent, the hotel operations of Cheval Blanc and, since 2013, the Cova pastry business, based in Milan (Italy).

1.1.3. Other income statement items

(EUR millions)	2017	2016	2015
Profit from recurring operations	8,371	7,250	6,826
Other operating income and expenses	(169)	(125)	(218)
Operating profit	8,202	7,125	6,608
Net financial income/(expense)	2,097	(326)	(265)
Income taxes	(2,291)	(2,093)	(2,094)
Net profit before minority interests	**8,008**	**4,706**	**4,249**
Minority interests	(3,761)	(3,260)	(2,934)
Net profit, Group share	**4,247**	**1,446**	**1,315**

"Other operating income and expenses" amounted to a net expense of 169 million euros, compared with a net expense of 125 million euros in 2016. In 2017, "Other operating income and expenses" included 129 million euros in amortization and impairment charges for brands and goodwill. The remainder mainly consists of gains and losses on disposals, reorganization costs, and expenses relating to acquisitions.

The Group's operating profit was 8,202 million euros, up 15% compared with 2016.

The Group recorded net financial income of 2,097 million euros for the fiscal year, compared with a net financial expense of 326 million euros in 2016. This item comprised:

- the aggregate cost of net financial debt totaling 111 million euros and representing an improvement of 22 million euros compared with 2016, mainly due to the positive change in fair value adjustments of borrowings and interest rate hedges (32 million euros), which were 15 million euros positive in 2017, but 17 million euros negative in 2016;
- other financial income and expenses, which amounted to net income of 2,190 million euros, compared with a net expense of 256 million euros in 2016. The net gain/(loss) related to available for sale financial assets and other financial instruments was a net gain of 2,334 million euros, compared with a net gain of 82 million euros in 2016. This change was mainly the result of transactions to simplify the Group's structure (see Note 2 to the consolidated financial statements). Lastly, the expense related to the ineffective portion of foreign exchange derivatives was 125 million euros, versus an expense of 337 million euros a year earlier, thus a decrease of 212 million euros, attributable to the change in the market value of derivatives.

The Group's effective tax rate was 22%, down 9 points relative to 2016. This decrease resulted mainly from (i) the tax relief (*sursis d'imposition*) on Hermès shares tendered in exchange for Christian Dior shares under the simplified public offer, (ii) the reimbursement of the dividend tax, declared invalid by the French Constitutional Court, and (iii) the exceptional surtax imposed by the French state to offset this reimbursement.

Profit attributable to minority interests was 3,761 million euros, compared with 3,260 million euros in 2016. Minority interests essentially comprise LVMH SE shareholders with the exception of Financière Agache's controlling interest, i.e. shareholders owning 59% of LVMH SE; and minority interests in Moët Hennessy, DFS and Christian Dior.

The Group's share of net profit was 4,247 million euros, compared with 1,446 million euros in 2016. This equated to 9.7% of revenue in 2017, compared with 3.7% in 2016, an increase of 6 points. The Group's share of net profit in 2017 was three times higher than in 2016.

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

The impact of exchange rate fluctuations is determined by translating the accounts for the period of entities having 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 by deducting:

- for the period's acquisitions, revenue generated during the period by the acquired entities, as of their initial consolidation;
- for the prior period's acquisitions, current period revenue generated over the months of the prior period during which the acquired entities were not yet consolidated;

And by adding:

- for the period's disposals, prior period revenue generated over the months of the current period during which the entities sold were no longer consolidated;
- for the prior period's disposals, prior period revenue generated by the entities sold.

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

1.2. WINES AND SPIRITS

1.2.1. Highlights

The Wines and Spirits business group posted revenue of 5,084 million euros in 2017, up 5% on a reported basis. Buoyant in Europe and Asia, the business group also saw robust growth in North America. Champagnes grew steadily, with volumes up 4%. Hennessy saw an 8% volume increase and exceeded 7.5 million cases in cognac shipments.

Profit from recurring operations for Wines and Spirits was 1,558 million euros, up 4% compared to calendar year 2016. The operating margin as a percentage of revenue for this business group decreased by 0.5 points to 30.6%, still a very high level.

1.2.2. Main developments

Champagnes and Wines

Moët & Chandon had another record year, with gains across all regions, thus consolidating its leading position. Alongside *Moët Impérial*'s solid growth, *Ice Impérial* built further on its success, while *Nectar Impérial Rosé* maintained its strong momentum in the United States. The release of the *Grand Vintage 2009* was one of the year's highlights.

Dom Pérignon reaffirmed the business group's value-enhancing strategy with the releases of *Dom Pérignon Rosé 2005*, *Dom Pérignon Blanc 2009* (celebrated through a new collaboration with Japanese artist Tokujin Yoshioka), as well as *Dom Pérignon P2 2000* (Second Plénitude), the ultimate expression of the champagne house's quest for excellence.

Mercier continued the targeted expansion of its accessible prestige champagnes.

Ruinart has further enhanced its value proposition around its premium cuvées. Its commitment to contemporary creation has been borne out with a fresh, immersive approach to its digital communications. Among these creative collaborations, the artist Jaume Plensa has offered a homage to Dom Thierry Ruinart in the form of a monumental sculpture.

Veuve Clicquot expanded its presence in all its key markets thanks to the success of its *Brut Carte Jaune* and *Brut Rosé* as well as its innovations *Rich* and *Rich Rosé*. Long known for its bold moves, Veuve Clicquot has launched *Extra Brut Extra Old*, the first champagne to marry a very low dosage with a composition consisting exclusively of reserve wines.

Growth at **Krug** has been buoyed by the launch of edition numbers for its iconic *Grande Cuvée*. "Les Créations de 2004", a duo comprised of *Krug 2004* and *Krug Grande Cuvée 160th Edition*, paired with a musical tribute, has met with great success.

Estates & Wines continued to develop its range of prestige wines with the release of the 2014 vintage of **Ao Yun** and the creation of the *Termanthia Barrel* in partnership with Loewe. **Chandon** has innovated with *Chandon Me*, the first sparkling wine designed to be enjoyed at room temperature, and *Chandon S Orange Bitters*, blended with fruit.

Cognac and Spirits

Hennessy once again achieved revenue growth, confirming the relevance of its strategy. Driven by rising consumer demand, the recovery in China is now reconfirmed for all Hennessy products. The cognac house continued to roll out its range across the rest of Asia, where *Paradis Impérial* has seen strong growth. In its relentless pursuit of quality, Hennessy had to deal with supply constraints, which led to slower growth in the second half of the year. Growth remained robust in the United States, where it pursued its upmarket strategy. It also made strong advances in Canada, Mexico and the Caribbean. Results in Europe have been buoyed by momentum in Russia and emerging markets have also performed well. Innovation is an essential driver for the brand – illustrated in particular by the launch of *Master Blender's Selection N°2* – as are its investments in new communication platforms. Showcasing Hennessy's confidence in the future, the new Pont Neuf facility unveiled in the fall masterfully blends artisanal traditions, manufacturing efficiency, the latest technological advances, and environmental responsibility.

Glenmorangie and **Ardbeg** have reaffirmed their commitment to innovation in the single malt whisky universe, in particular with the releases of *Glenmorangie Bacalta* and *Ardbeg An Oa*. Affected by destocking in Asia, Glenmorangie's activity levels remained strong in Europe and in travel retail channels.

Belvedere saw further growth in Europe, consolidating its leading position in the ultra-premium vodka segment, with the launch of the *Single Estate Rye Series*, underscoring the importance of vodka's place of origin.

The launch of **Volcán De Mi Tierra** tequila in the United States and Mexico, together with the acquisition of **Woodinville Whiskey Company**, have rounded out the business group's spirits portfolio in high-potential segments. **Colgin Cellars**, an estate producing exceptional wines in California, has also joined the Group.

Through its exclusive products and exceptional experiences, **Clos 19**, an online platform created in 2017, invites consumers to discover an art of entertaining that is closely linked to the Group's brands.

1.2.3. Outlook

In 2018, the Wines and Spirits business group will continue to draw strength from its value-enhancing strategy and its entrepreneurial spirit, the creativity nurtured by all its companies, and the excellence of their products. Reinforcing production capabilities to support future growth while maintaining exceptional quality remains a key priority. Innovation is the second essential component: product launches, events, ambitious and groundbreaking communication campaigns, and new digital initiatives will be brought to bear to strengthen the image and desirability of each brand in the portfolio, always with a view to better anticipating the needs and expectations of consumers in rapidly changing markets. Against the backdrop of supplies which will remain relatively constrained, **Hennessy** will continue to rely on excellence and innovation. **Moët & Chandon** will accentuate its global reach by further reinforcing its image. In 2018, **Veuve Clicquot** will celebrate the bicentennial of the first-ever rosé champagne made by blending red and white wines, created by Madame Clicquot, whose heritage can also be found in the launch of the *La Grande Dame* 2008 vintage, another tribute to this exceptional woman.

The business group's powerful and agile worldwide distribution network is a major asset, enabling it to seize opportunities to increase market share and adapt its business activities to a still uncertain geopolitical and economic context. The strong involvement of staff who serve a portfolio of exceptional brands will help the Group further consolidate its leading position in prestige wines and spirits.

1.3. FASHION AND LEATHER GOODS

1.3.1. Highlights

Fashion and Leather Goods posted 2017 revenue of 16,519 million euros, up 12% on a reported basis and up 13% on a like-for-like basis relative to calendar year 2016.

Fashion and Leather Goods posted profit from recurring operations of 5,022 million euros, up 22% with respect to calendar year 2016. The business group's operating margin as a percentage of revenue grew by 2.4 points to 30.4%.

1.3.2. Main developments

Louis Vuitton continues to make solid progress, reflecting its outstanding creativity and the even balance achieved between innovation and reinforcing its iconic lines. All of the company's business segments contributed to its outstanding performance, with leather goods and ready-to-wear achieving particularly impressive growth. One of the highlights for 2017 was the collaboration with the American artist Jeff Koons for the *Masters* collection of bags and accessories recreating masterpieces by renowned painters. The two successive lines released in this collection stand as a technical and aesthetic achievement, illustrating the breadth of Louis Vuitton's expertise and the virtuosity of its artisans. In another important event, the Maison Louis Vuitton Vendôme opened its doors. This new Paris flagship store, which looks out onto one of the city's most legendary squares, offers a fascinating new showcase for the brand's spirit and collections. Accompanying these bold initiatives, Louis Vuitton saw strong momentum in all its business segments with a series of creative triumphs: a highly successful capsule collection in collaboration with the New York-based cult streetwear brand Supreme, the *Tambour Horizon* connected watch, the *Blossom BB* jewelry line, the *Conquêtes* fine jewelry collection, and the new *Horizon* luggage models developed in partnership with the designer Marc Newson. The Miho Museum near Kyoto, designed by I. M. Pei, was the backdrop for the 2018 Cruise collection show, underscoring Louis Vuitton's strong ties with Japan. The actresses Léa Seydoux and Alicia Vikander continue to serve as its brand ambassadors. The "Volez, Voguez, Voyagez" ("Fly, Sail, Travel") exhibition added more stops in its round-the-world itinerary, setting down first in Seoul, and then in New York at the end of October where the exhibition added a virtual reality component: a mobile application treating its visitors to an immersive experience of the Louis Vuitton universe.

Christian Dior Couture's excellent performance has further enhanced its strong reputation and appeal. "Christian Dior: Designer of Dreams", an exhibition at the Musée des Arts Décoratifs in Paris celebrating the fashion house's 70th anniversary, was a huge success. In addition, the 2018 Cruise collection made a powerful impact on the runway in Los Angeles. The ready-to-wear and women's shoe collections received great acclaim. In leather goods, sales of the iconic *Lady Dior* bag have continued to grow, accompanied by the release of a special edition *Dior Lady Art* enlisting the creativity of ten of Dior's artist friends.

Fendi once again made strong advances. Its creative prowess was fully on display with the launch of the new *Kan-I* bag and the shows presenting its ready-to-wear and Haute Fourrure collections. Fendi further expanded the reach of its retail network, with store openings in Australia and Canada, at the Ginza Six shopping mall in Tokyo, as well as in San Francisco, New York, Singapore, and Chongqing in China. Fendi has also strengthened its ties with the city of Rome by becoming the lead partner of the Galleria Borghese.

Loro Piana has placed renewed emphasis on its premium-quality products and a number of iconic standouts. Its communications campaign underscores the excellence of the materials used and the timeless elegance of its creations. The company recently put the finishing touches to its newly renovated flagship store in London, has expanded into Canada, and is reinforcing its presence in Asia. It also opened its first pop-up store in Shanghai.

Céline has shown particularly robust momentum in leather goods, thanks to the excellent performance of its *Belt* handbag and the successful launches of its *Clasp* and *Big Bag* lines. Small leather items, jewelry and eyewear also saw strong growth. The brand has stepped up its digital efforts, with the launch of online sales in France in December.

Kenzo's impressive results continue to be driven by an ever more assured stylistic vision, helmed by its pair of Creative Directors. In January, the brand stepped up its innovative positioning by adopting a new calendar for its runway shows. Fashion Week events in March and September were selected to launch capsule collections *Memento N°1* and *Memento N°2*, celebrating Kenzo's heritage and its bold reinterpretation.

Loewe is seeing a solid level of growth in all its markets. Leather goods sales were buoyed by the strong performance of the *Puzzle* and *Hammock* models, and the ready-to-wear collections also achieved rapid growth. The summer capsule collection, *Paula's Ibiza*, was very well received. Loewe's Creative Director Jonathan Anderson was named Accessories Designer of the Year for 2017 at the Fashion Awards in London. Loewe has strengthened its commitment to preserving know-how by awarding its first Craft Prize celebrating excellence in craftsmanship.

Clare Waight Keller, appointed as **Givenchy**'s new Creative Director, presented her debut collection in October. Other exciting events of the year included the first collections in the new leather goods lines *Infinity* and *Duetto*, the opening of a store in Rome, a revamp for the Givenchy corporate website, and the launch of online sales in France.

Berluti delivered solid results in all its markets and opened its first store in Australia. Creative Director Haider Ackermann has brought a bold, modern aesthetic to the brand. Berluti's leather goods lines are making strong headway. Footwear saw solid growth and the brand is expanding its range of exceptional products.

Marc Jacobs remains focused on its reorganization and developing its contemporary fashion product lines. **Pucci** added to its sneaker collection, paying tribute to famous cities. **Rimowa**, consolidated for the first time in 2017, opened a flagship store in Paris and has launched its online store. **Thomas Pink** appointed John Ray as its Creative Director.

1.3.3. Outlook

In 2018, growth at **Louis Vuitton** will be spurred by its continuing creative momentum and quest for excellence across all its businesses. Its many upcoming developments, which remain focused on eliciting high levels of desirability, will be supported by regular, global communication efforts. Events hosted by the brand will continue to be associated with emblematic places around the world. It will continue reinforcing its production capacity and enhancing the quality of its exclusive retail network, with the constant aim of offering its customers exceptional shopping venues and unique experiences, both in its physical stores and in the digital realm. Product excellence and creativity will continue to drive growth at **Christian Dior Couture** and will be reflected in its communications, with many high-profile events throughout the year. It will also be targeting the expansion of its network of stores and will continue to explore development opportunities offered by digital tools while maintaining its exclusive image. Momentum at **Fendi**, driven by its sophisticated, bold designs, is expected to accelerate, thanks to a number of launches during the year, additional central locations in key cities, and expansion into new markets. All of the companies in the Fashion and Leather Goods business group will remain focused on the creativity of their collections, building on their iconic lines through innovation while achieving excellence in their retail networks, strengthening their online presence and digital communications.

1.4. PERFUMES AND COSMETICS

1.4.1. Highlights

Perfumes and Cosmetics posted revenue of 5,560 million euros in 2017, up 12% on a reported basis and up 14% on a like-for-like basis, representing buoyant growth, with momentum particularly strong in Asia.

Profit from recurring operations was 600 million euros, up 9% compared to calendar year 2016. The business group's operating margin as a percentage of revenue fell by 0.3 points to 10.8%.

1.4.2. Main developments

Parfums Christian Dior saw excellent momentum across all its product categories. Growth in the perfume segment was driven by the vitality of its iconic fragrances *J'adore* and *Miss Dior*, combined with the confirmed success of *Sauvage*. With the new editions *J'adore Injoy* and *Sauvage Very Cool Spray*, as well as the digital launch of an innovative global charitable initiative in connection with *Miss Dior*, called the Dior Love Chain, the brand is expanding its appeal to new generations of consumers. The company continues to reaffirm its status as a leading perfume house, driven by François Demachy's vision of excellence, his strong roots in Grasse where he has set up his creative laboratory Les Fontaines Parfumées, and the rebirth of Château de La Colle Noire, Christian Dior's former residence. This ambition has also inspired the development of a new Maison Christian Dior range, aiming for a unique positioning in terms of its olfactory experiences and its retail model. Under the creative supervision of Peter Philips, Dior's makeup lines strengthened their leading positions worldwide. Lip cosmetics turned in very strong results, in large part due to recent innovations, including *Rouge Dior Liquid* and *Dior Addict Lip Tattoo*. Also noteworthy are the success of *Forever Perfect Cushion* foundation, in great demand in Asia, and the excellent performance of *Diorshow Pump'n'Volume* mascara. The growing use of the digital realm for communications is playing a key role in makeup's steady advances. The *Prestige* skincare line strengthened its positions with the very promising launch of *La Micro-Huile de Rose*. Two standout products, *Dreamskin* and *One Essential*, were relaunched and the new *Dior Hydra Life* line of hydrating products performed well.

Guerlain increased its market shares in France and stepped up its development in China. The year's highlights include significant growth for its perfume segment, driven by the success of *Mon Guerlain*, with Angelina Jolie as the face of its campaign. The initial rollout of the Guerlain Parfumeur retail concept has revealed its potential, with five openings demonstrating both its strong appeal and its value as a highly effective sales model. The company's results were fueled by growth in its *Orchidée Impériale* and *Abeille Royale* skincare lines and the strong advances made by lipsticks. Guerlain celebrated the 10th anniversary of its civic engagement and environmental program, "Au nom de la beauté", through which it has promoted sustainable design, biodiversity and social responsibility.

Parfums Givenchy had an excellent year, making further headway in Asia thanks to the success of its makeup lines. *Le Rouge*, its collection of leather-encased lipsticks, continues to show spectacular growth. The brand expanded its range with two key innovations: *Perfecto* and *Rouge Interdit*. In foundations, growth has been driven by *Prisme Libre* face powder, which enjoys a strong following among Chinese customers. Givenchy's classic men's fragrance *Gentleman* was met with success in its reinterpretation.

Momentum at **Kenzo Parfums** was driven by its women's fragrance lines, especially by *FlowerbyKenzo* and by *Kenzo World*, which continued its international rollout. Digital innovations have strengthened the offbeat positioning and free-spirited vision that distinguish the brand.

Benefit Cosmetics extended its *Brow Collection*, consolidating its position as the world's leading authority in this makeup segment, and is exploring innovative concepts for foundations. **Make Up For Ever** focused on expanding its store network. The success of its new *Water Blend* foundation in Asia and the launch of the *Artist Face Color* blush palette were among the year's highlights. **Fresh** made further strong gains, fueled in particular by the success of its *Black Tea* and *Rose* lines in Asia. **Acqua di Parma** expanded its offerings with *Colonia Pura*, which had a very successful launch. **Kat Von D** and **Marc Jacobs Beauty** continued to expand at a fast pace. The makeup line **Fenty Beauty by Rihanna**, launched worldwide in the fall and available exclusively at Sephora, has already amassed a huge following.

Maison Francis Kurkdjian, an icon of a new generation of exclusive and highly promising perfumers since its creation in 2009, has joined the Group.

1.4.3. Outlook

In 2018, the Perfumes and Cosmetics business group will continue to make gains, fueled by the creativity of all its companies, the excellence of its research teams, as well as its considerable investments in communications and a strong digital presence. **Parfums Christian Dior** will continue to strengthen and reinterpret its iconic fragrances. Innovations in makeup will showcase its expertise, its mastery of the art of color, and its firm roots in fashion, with further developments in its digital platforms. Dior's skincare lines will be buoyed by the launch of a *Capture Youth* line specifically targeting consumers in their thirties and the extension of the *Prestige Micro-Huile* line. Dior will also be making a strong foray into the Asian markets, which are showing extremely large potential in skincare. **Guerlain** will celebrate 190 years of creativity with an exceptional exhibition at its flagship location on the Champs-Élysées in Paris during the LVMH Journées Particulières open-days event. Reaffirming its top-ranking status among perfumers, Guerlain will expand its cosmetics lines and continue to pursue growth internationally, in particular by opening new locations for its Guerlain Parfumeur stores. **Parfums Givenchy** will release innovative new lip cosmetics and foundation products, and will be revisiting its classic women's fragrance *Irrésistible*. **Kenzo Parfums** will boost growth for its iconic *FlowerbyKenzo* line with a new communications campaign and will introduce a new series in the *Kenzo World* line. **Benefit Cosmetics** will launch a new mascara while continuing to innovate in the brow segment. **Make Up For Ever**, renowned for its expertise in foundations, will draw strength from its singular initiatives in this segment and from the international expansion of its online sales platform. **Fenty Beauty by Rihanna** will continue its rollout in 2018, supported by a robust program of innovations, particularly in the lip segment, with the lipstick *Mattemoiselle*.

1.5. WATCHES AND JEWELRY

1.5.1. Highlights

Watches and Jewelry posted 2017 revenue of 3,805 million euros, up 10% on a reported basis and up 12% on a like-for-like basis.

Profit from recurring operations for Watches and Jewelry was 512 million euros, up 12% with respect to calendar year 2016. This increase was the result of strong performance at both Bvlgari and Hublot, with operating margin as a percentage of revenue rising by 0.3 points to 13.5%.

1.5.2. Main developments

Growth for the Watches and Jewelry business group was driven by the creativity of its brands, their masterful watch craftsmanship and jewelry-making expertise, alongside the strong performance delivered by their stores. Momentum in the jewelry segment was remarkably robust and the watch business made solid gains despite market conditions which remain challenging, with particularly excellent results for the new products unveiled at Baselworld.

Bvlgari had an excellent year, further increasing its market share. The brand's jewelry lines reaped the full benefit of its creative prowess, wide-reaching reputation and effective event marketing strategy. New additions to the *Serpenti*, *B.zero1* and *Diva* lines respectively include the *Viper* rings as well as the *Design Legend* and *Diva's Dream* collections. *Festa*, the year's high-end jewelry release, showcases Bvlgari's creative daring and Roman roots. In watches, the *Serpenti Skins*, fully customizable via an application, was highly successful and the *Octo* men's collection built on its breakthrough results, spurred by the launch of *Octo Finissimo*, twice prizewinner at the Grand Prix d'Horlogerie de Genève. Advances made by leather articles include the successful *Serpenti Forever* collection and a capsule collection developed with Nicholas Kirkwood. The spectacular transformation of Bvlgari's New York store on Fifth Avenue illustrates its unstinting commitment to the quality of its retail network. Bvlgari also continued with its program of pop-up store openings, which rounds out and energizes the network. Two new Bvlgari Hotels & Resorts locations were also opened in Beijing and Dubai. The ramp-up of the new manufacturing facility in Valenza is proceeding apace. A new training center for Bvlgari's artisans has opened its doors, propelling its teams to new heights of jewelry-making excellence.

Revenue growth at **TAG Heuer** substantiates the effectiveness of its core product development strategy, with additions to its leading *Carrera*, *Aquaracer* and *Formula 1* lines, and the reinterpretation of its iconic *Autavia* model. A next-generation smartwatch has been launched offering numerous customization options. The company continued to improve its retail network, opening new stores in Melbourne, Las Vegas and London. New brand ambassadors have helped to raise TAG Heuer's profile among its target customers and boost its social media presence. Apart from its many contracts in the world of competitive sports, TAG Heuer has also joined forces with the avant-garde American graffiti artist Alec Monopoly.

Hublot continued its steady growth, driven by its *Classic Fusion* and *Big Bang* lines, but also by *Spirit of Big Bang*'s strong showing, which confirms its status as the brand's third core collection. Hublot once again demonstrated its creativity by releasing a range of extraordinary or highly technical models, including the *Techframe Ferrari 70 Years*, the timepieces in its new *Italia Independent* collection, and the *Spirit of Big Bang Sapphire*. New stores have been opened in Kyoto, Cannes and Las Vegas. Hublot's brand recognition has been further enhanced thanks to its communications, combining prestigious partnerships, a strong digital presence, and sporting and cultural events. Two new partnerships were signed with the Portuguese soccer team Benfica and the International Cricket Council.

Alongside its work on strengthening its organization, **Zenith** introduced additions to its *Chronomaster* and *Elite* collections. Illustrating its capacity for innovation, the new *Defy El Primero 21* displays hundredths of a second and the *Defy Lab* took home the prize in this category in Geneva.

Growth at **Chaumet** was fueled by the successful *Liens* and *Joséphine* collections, along with its ongoing shift further upmarket. *Liens Séduction* and *Insolence* have enhanced Chaumet's legendary collections. The release of its latest fine jewelry range, *Chaumet est une fête*, was celebrated by staging an extraordinary event in Paris. Chaumet has raised its profile in China with its successful Imperial Splendours exhibition in Beijing and new pop-up stores in several cities across the country.

Fred's *Force 10* line and its new *8°0* collection were its main growth drivers, while new stores were opened in Tokyo, Hong Kong, Shanghai and Seoul.

The Christian Dior group sold **De Beers** its stake in the joint venture they held together.

1.5.3. Outlook

The Watches and Jewelry business group is actively pursuing its market share growth target. It is therefore paying close attention to market developments and remains highly selective in the allocation of resources. Thanks to the talents of their artisans and their great capacity for innovation, all of the business group's brands will continue to develop their iconic lines and launch new collections with a constant focus on excellence, product innovation and creativity. To this end, increases in production capacity are planned in order to maintain the business group's world-class craftsmanship and technological leadership. All of the brands will pursue sustained and targeted investments to strengthen their visibility and raise their profile in key regions, especially in the digital realm. Improvements in the quality, productivity and profitability of retail networks also remain a strategic priority. Selective new store openings will take place at prestigious, high-footfall locations. **Bvlgari** will continue to focus as a priority on developing women's jewelry and watches, with major initiatives in store for the *B.zero1*, *Serpenti* and *Lvcea* lines. It will also proceed with its renovation projects for several of its stores, including those in Hong Kong, Shanghai, London and Milan. **Hublot** will step up the targeted expansion of its retail network, with store openings in Geneva and London. **TAG Heuer** plans to open stores on Fifth Avenue in New York City and on Chuo-dori, the main shopping street in Tokyo's famed Ginza district. **Chaumet** will continue rolling out its new store concept.

1.6. SELECTIVE RETAILING

1.6.1. Highlights

Selective Retailing posted 2017 revenue of 13,311 million euros, up 11% on a reported basis and up 13% on a like-for-like basis.

Profit from recurring operations for Selective Retailing was 1,075 million euros, up 17% compared to calendar year 2016. The business group's operating margin as a percentage of revenue rose by 0.4 points to 8.1%, mainly as a result of the improvement in Chinese tourist numbers to destinations where DFS has stores.

1.6.2. Main developments

Sephora once again performed very well, as it continued to gain market share in all the countries where it operates. Its growth was particularly strong in North America and Asia. Currently operating in 34 countries, with over 1,800 stores and 27 online sales platforms, Sephora serves its customers on every occasion. Sephora further expanded its presence in 2017, opening its first points of sale in Germany and launching online sales in Scandinavia, Mexico and Saudi Arabia. The modernization plan for Sephora's existing stores continued, with renovations completed during the year at its flagship stores in New York City, on 34th Street and on Fifth Avenue, and at the Mirdif shopping mall in Dubai. Thanks to a gradual rollout of new store concepts that dovetail with Sephora's digital ecosystem – including *Beauty Board*, *Virtual Artist*, and *Digital Skincare Guide* – its physical locations offer an unparalleled, highly interactive shopping experience. By expanding the palette of services available at its stores, Sephora continually renews its personalized approach to customers, while at the same time building loyalty. Sephora's omnichannel strategy is a key aspect of this approach: smart mobile applications plug into social networks so that its *Beauty Insiders* can become members of a thriving beauty community. Sephora has continued to expand and refresh its selection of products, bringing the innovations it offers exclusively to the fore, as illustrated by the launch of Fenty Beauty by Rihanna, which has been a phenomenal worldwide success.

Le Bon Marché saw solid gains and a number of major events in 2017. With the completed transformation of its women's fashion department, spanning two floors, the store now offers its clientele beautiful, reinvented shopping spaces as well as unique personalization services. In-store events included an exhibition of sculptures by the Japanese artist Chiharu Shiota at the start of the year, which enjoyed exceptional media coverage. With the June launch of 24 Sèvres, its new digital platform, Le Bon Marché has invented a new online shopping experience, featuring an unequaled selection of women's fashion, innovative virtual storefronts, and expert customer service. Lastly, Le Bon Marché's food hall, La Grande Épicerie de Paris, opened a second location on the city's Right Bank in November, housed in the former premises of the Franck et Fils store. The warm and friendly atmosphere and quality of service offered by Le Bon Marché continue to set it apart from all other department stores for its French and international clientele. Its loyalty program is still as popular as ever.

DFS turned a positive corner in 2017, thanks to more buoyant markets, especially in the second half, while also reaping the rewards of its cost control efforts over the past two years. The recovery in revenue, particularly strong in Hong Kong and Macao, was boosted by high-impact marketing campaigns, continuous improvements in store offerings, and digital initiatives designed to better serve travelers. Investments made in its *T Galleria* stores as well as its airport locations continued, as work was completed at the Sydney store and several renovation projects were launched at stores in Hong Kong and Auckland. The ramp-up of new stores in Cambodia and Venice continued, while a fourth DFS Wines & Spirits store opened its doors at Singapore's Changi Airport. DFS has entered into an agreement to operate luxury boutiques at Kansai International Airport in Japan and the concession held at San Francisco International Airport was renewed for a further 14 years. The expiry of the loss-making concession at Hong Kong International Airport at the end of the year will help to increase profit in 2018.

Starboard Cruise Services is expanding its presence along cruise routes in Asia, while enhancing the appeal of its stores and further refining its offerings for specific lines and different customer segments.

1.6.3. Outlook

In order to improve geographical coverage and serve customers with agility wherever they may be and at any time, **Sephora** will stay focused on its key strategic drivers of success: the dedication and professionalism of its teams at its physical stores and online, increasingly innovative and personalized offerings of both products and services, expanding and renovating its store network, the ongoing rollout of its omnichannel strategy, and customer loyalty initiatives. **Le Bon Marché** will continue to cultivate its uniqueness, its creative and exclusive offerings, and its dual identity as both a major trendsetting retail destination and a venue for art and culture. One of the highlights of 2018 will be the transformation of its children's department. The second location of La Grande Épicerie de Paris on the city's Right Bank will attract a new clientele, with the aim of becoming as much of a magnet for food lovers as the original store on the Left Bank. While working to further improve the attractiveness of its stores and their selection of brands and products, **DFS** will move forward with its expansion strategy while stepping up its digital marketing campaigns, in order to strengthen its ties with international travelers wherever they may be. Building on its success, the *Loyal T* rewards program will be rolled out to more destinations. **Starboard Cruise Services** will continue fine-tuning its offerings by cruise route and investing in the transformation of its boutiques to win over customers and provide them with unique experiences.

1.7. COMMENTS ON THE CONSOLIDATED BALANCE SHEET

ASSETS *(EUR billions)*	2017	2016	Change
Tangible and intangible fixed assets	41.8	40.3	+1.5
Other non-current assets	5.8	9.5	-3.7
Non-current assets	**47.6**	**49.8**	**-2.2**
Inventories	11.1	11.1	-
Other current assets	17.6	9.6	+8.0
Current assets	**28.7**	**20.7**	**+8.0**
ASSETS	**76.3**	**70.5**	**+5.8**

LIABILITIES AND EQUITY *(EUR billions)*	2017	2016	Change
Equity	26.9	33.8	-6.9
Long-term borrowings	12.3	5.9	+6.4
Other non-current liabilities	17.0	15.8	+1.2
Equity and non-current liabilities	**56.2**	**55.5**	**+0.7**
Short-term borrowings	9.6	5.1	+4.5
Other current liabilities	10.5	9.9	+0.6
Current liabilities	**20.1**	**15.0**	**+5.1**
LIABILITIES AND EQUITY	**76.3**	**70.5**	**+5.8**

Financière Agache's consolidated balance sheet totaled 76.3 billion euros as of year-end 2017, up 5.8 billion euros, representing an 8% increase from year-end 2016. Non-current assets fell by 2.2 billion euros and represented 62% of total assets, compared with 71% as of year-end 2016.

Tangible and intangible fixed assets grew by 1.5 billion euros, of which 1.1 billion euros were due to changes in the scope of consolidation during the year, primarily the acquisition of Rimowa. The revaluation of purchase commitments for minority interests gave rise to an additional increase of 1.0 billion euros, while investments for the year, net of amortization and depreciation charges and disposals, added a further 0.6 billion euros. The comments on the cash flow statement include information on the year's investments. Conversely, exchange rate fluctuations, mainly involving the US dollar, had a negative impact of 1.1 billion euros on the value of tangible and intangible fixed assets.

Other non-current assets decreased by 3.7 billion euros, amounting to 5.8 billion euros. This decrease was mainly the result of the Hermès International shares tendered under the public offer for Christian Dior shares (see Note 2 to the consolidated financial statements). It also resulted from the reduction in deferred tax assets, in particular due to the tax reform decided in the United States, which lowers the overall corporate income tax rate from 40% to 27% beginning in 2018, leading to a decrease in the value of deferred tax assets for the entities concerned.

The value of inventories as of December 31, 2017 was similar to that as of December 31, 2016 due to a 0.1 billion euro decrease arising from changes in the scope of consolidation in the fiscal year, and a 1.0 billion euro increase resulting from business growth (further details of this change can be found in the comments on the cash flow statement). In addition, exchange rate fluctuations, mainly involving the US dollar, had a negative impact of 0.6 billion euros. Net provisions for inventory impairment represented an additional negative impact of 0.3 billion euros.

Other current assets grew by 8.0 billion euros, mainly due to the following movements:

- the 4.1 billion euro increase in the cash balance;
- the 3.1 billion euro increase in current available for sale financial assets, reflecting a net increase in term deposits and shares for 1.9 billion euros, the reclassification of the remaining stake in Hermès International for 0.8 billion euros, and the increase in their fair value for 0.3 billion euros;
- the 0.5 billion euro increase in income tax receivables; and
- the 0.2 billion euro increase in the market value of derivatives.

Other non-current liabilities, totaling 17.0 billion euros, grew by 1.2 billion euros, mainly due to the 1.3 billion euro increase in the liability in respect of purchase commitments for minority interests.

Lastly, other current liabilities increased by 0.7 billion euros, amounting to 10.5 billion euros, of which 0.2 billion euros related to the increase in trade accounts payable and 0.4 billion euros to the increase in income tax payable.

Net financial debt and equity

(EUR billions and as %)	2017	2016	Change
Long-term borrowings [(a)]	12.3	5.9	+6.4
Short-term borrowings and derivatives [(a)]	9.5	5.1	+4.4
Gross borrowings after derivatives [(a)]	**21.8**	**11.0**	**+10.8**
Cash and cash equivalents, and current and non-current available for sale financial assets used to hedge financial debt	(11.8)	(4.6)	-7.2
Net financial debt [(a)]	**10.0**	**6.4**	**+3.6**
Total equity (Group share and minority interests)	**26.9**	**33.8**	**-6.9**
Net financial debt/Equity ratio	**37.1%**	**18.9%**	**+18.2 pts**

(a) Excluding purchase commitments for minority interests' shares, included in "Other liabilities".

The ratio of net financial debt to total equity (including minority interests), which was 18.9% as of December 31, 2016, rose 18.2 points to 37.1% as of December 31, 2017, due to the combined impact of the 3.6 billion euro increase in net financial debt and the 6.9 billion euro decrease in equity.

Total equity, including both Group share and minority interests, amounted to 26.9 billion euros as of December 31, 2017, down 6.9 billion euros relative to December 31, 2016. This change reflects the following:

- the negative impacts of 9.3 billion euros from the public offer initiated by Semyrhamis for the Christian Dior shares not owned by the Arnault Family Group, and of 1.2 billion euros from additional purchases of Christian Dior shares made by the Group between the close of the public offer and December 31, 2017;
- the positive impact of the Group's earnings, which totaled 8 billion euros;
- the negative impact of dividend payments amounting to 1.9 billion euros;
- the negative 1.0 billion euro impact of translation adjustments, due to exchange rate fluctuations and mainly involving the depreciation of the US dollar and the Swiss franc against the euro between December 31, 2016 and December 31, 2017;
- the negative 1.0 billion euro impact of the change in revaluation reserves. In respect of available for sale financial assets, the negative impact was 1.3 billion euros, including a positive impact arising from an increase in market value, and a negative impact mainly resulting from the recognition in the income statement of the gain that arose when Hermès International shares were exchanged for Christian Dior shares under the public offer. Other revaluation reserves had a positive impact of 0.3 billion euros;
- the negative 0.4 million euro impact of purchase commitments for minority interests, with other items having a further 0.1 billion euro negative impact.

As of December 31, 2017, total equity was equal to 35% of total assets, compared to 48% as of year-end 2016.

Gross borrowings after derivatives totaled 21.8 billion euros as of year-end 2017, up 10.8 billion euros compared with year-end 2016. This increase was driven by:

- the cash impact of financing activities during the fiscal year, amounting to 11.2 billion euros (see Note 18.1 to the consolidated financial statements);
- exchange rate fluctuations, mainly involving the US dollar and the Japanese yen, which had a negative impact of 0.4 billion euros on the change in gross borrowings.

In connection with the public offer for the Christian Dior shares not owned by the Arnault Family Group, the Financière Agache subsidiary Semyrhamis entered into agreements for long-term syndicated loans in the total amount of 9.0 billion euros to finance the cash portion of that offer as well as subsequent purchases of Christian Dior shares.

Financière Agache issued a 50 million euro bond in August 2017 maturing in August 2022, which was followed by a 70 million euro tap issue in December 2017. These bonds pay a coupon of 1.20% and are redeemable at par.

During the fiscal year, Financière Agache redeemed the 275 million euro bond issued in 2012.

In May 2017, LVMH SE conducted a euro bond issue in four tranches totaling 4.5 billion euros, supplemented in June 2017 by a 400 million pound sterling bond issue. The 850 million US dollar bond issued in 2012, the 150 million euro bond issued in 2009, and the 350 million pound sterling bond issued in 2014 were repaid during the fiscal year.

Amounts outstanding under LVMH's short-term negotiable debt instrument programs – euro-denominated commercial paper (including Negotiable EUropean Commercial Paper) and US dollar-denominated commercial paper – increased by 0.8 billion euros.

Cash, cash equivalents, and current and non-current available for sale financial assets used to hedge financial debt totaled 11.8 billion euros at the end of the fiscal year, up 7.2 billion euros compared with year-end 2016. This change was mainly due to transactions to simplify the structure of the Christian Dior – LVMH group, notably reflected in the sale of the Christian Dior Couture segment by Christian Dior SE to LVMH SE (see Note 2 to the consolidated financial statements) and the reclassification of the remaining stake in Hermès International following the simplified public offer initiated by Semyrhamis for the Christian Dior shares not owned by the Arnault Family Group from "Non-current available for sale financial assets" to "Current available for sale financial assets".

As of year-end 2017, undrawn confirmed credit lines amounted to 8.3 billion euros, substantially exceeding the amounts outstanding under the Group's short-term negotiable debt instrument programs, which came to 2.7 billion euros as of December 31, 2017.

1.8. COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement, presented in the consolidated financial statements, details the main financial flows in the fiscal year ended December 31, 2017.

(EUR millions)	2017	2016	Change
Cash from operations before changes in working capital	**10,543**	**9,118**	**1,425**
Cost of net financial debt: interest paid	(103)	(118)	15
Tax paid on operating activities	(2,858)	(2,004)	(854)
Net cash from operating activities before changes in working capital	**7,582**	**6,996**	**586**
Change in working capital	(521)	(584)	63
Operating investments	(2,516)	(2,438)	(78)
Free cash flow	**4,545**	**3,974**	**571**
Financial investments	(469)	92	(561)
Transactions related to equity	(8,975)	(2,407)	(6,568)
Change in cash before financing activities	**(4,899)**	**1,659**	**(6,558)**

Cash from operations before changes in working capital totaled 10,543 million euros in fiscal year 2017, up 16% from 9,118 million euros in 2016. Net cash from operating activities before changes in working capital (i.e. after interest and income taxes paid) amounted to 7,582 million euros, up 8% from fiscal year 2016.

Interest paid totaled 103 million euros, lower than in 2016.

Tax paid on operating activities totaled 2,858 million euros, up 43% from 2,004 million euros the previous year, in line with growth in the Group's earnings and the exceptional surtax affecting French companies in 2017.

The 521 million euro increase in the working capital requirement was lower than the 584 million euro increase observed a year earlier. The cash requirement relating to the increase in inventories amounted to 1,045 million euros, versus 889 million euros a year earlier; financing for this higher requirement related to the increase in activity was partly provided by the increase in trade account payables and tax and social charge liabilities, which was higher in 2017 than in 2016 (657 million euros in 2017 versus 424 million euros in 2016). The increase in inventories mainly related to Wines and Spirits and Fashion and Leather Goods.

Operating investments net of disposals resulted in an outflow of 2,516 million euros in 2017, compared to 2,438 million euros a year earlier. These mainly included investments by the Group's brands, notably Sephora, Louis Vuitton, Christian Dior Couture, Bvlgari, Parfums Christian Dior, Fendi and DFS, in their distribution networks. They also included investments related to the La Samaritaine project, as well as investments by Hennessy, the champagne houses, and LVMH Métiers d'Art in their production equipment. Non-current available for sale financial assets and transactions in consolidated investments generated a net outflow of 469 million euros in 2017 (acquisitions net of disposals), including 615 million euros relating to the acquisition of Rimowa.

Transactions relating to equity generated an outflow of 8,975 million euros. Of this amount, 7,607 million euros relates to acquisitions and disposals of minority interests. This mainly relates to the cash portion of the public offer initiated by Semyrhamis for the Christian Dior shares not owned by the Arnault Family Group, as well as purchases of Christian Dior shares subsequent to that offer (see Note 2 to the consolidated financial statements). It also includes 317 million euros in respect of cash dividends paid by Financière Agache to its shareholders and 1,557 million euros in respect of dividends paid to minority shareholders of

consolidated subsidiaries. The latter are mainly non-controlling shareholders of LVMH SE, minority shareholders of DFS and Diageo (which holds a 34% stake in Moët Hennessy), as well as minority shareholders of Christian Dior. Conversely, taxes on transactions relating to equity generated an inflow of 475 million euros, mainly as a result of the reimbursement by the French state of the dividend tax, in place since 2012, after it was declared invalid by the French Constitutional Court.

All operating, investment and equity-related activities thus generated an outflow of 4,899 million euros in the fiscal year.

Cash flows from financing activities totaled 9,273 million euros, mainly as a result of the financing drawn down by Semyrhamis in connection with its public offer, as well as bonds issued by LVMH SE.

Since the change in the cumulative translation adjustment relating to cash flows resulted in a negative impact of 132 million euros, the cash balance at the end of the fiscal year came in at 7,831 million euros, up 4,243 million euros from its level as of December 31, 2016.

2. Financial policy

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

- transactions to simplify the Group's structure, reflected in:
  - total equity, including both the Group share and minority interests, which was 26.9 billion euros as of December 31, 2017, down 6.9 billion euros relative to December 31, 2016. This change reflects the negative impacts of 9.3 billion euros from the public offer initiated by Semyrhamis for the Christian Dior shares not owned by the Arnault Family Group, and of 1.2 billion euros from purchases of Christian Dior shares made by the Group between the close of the public offer and December 31, 2017. This decrease was partially offset by the positive impact of the strong earnings achieved by the Group (8 billion euros), net of dividend payments (1.9 billion euros),
  - net financial debt (excluding purchase commitments for minority interests' shares), which increased to 10.0 billion euros, compared with 6.4 billion euros as of December 31, 2016. In connection with the simplified public offer, Semyrhamis entered into agreements for syndicated loans amounting to 9.0 billion euros, with maturities ranging from 18 months to five years;
- improvements in the Group's financial structure and flexibility, evidenced by the following key indicators:
  - the Group's access to liquidity, notably through its short-term debt securities (commercial paper) issuance programs, which benefit from favorable rates and spreads, as well as its option of calling on bond markets on a regular basis over medium- or long-term maturities, with issue spreads that remained low in 2017,
  - an increase in the already substantial level of cash and cash equivalents with a diversified range of top-tier banking partners and short-term money market funds. This increase was particularly significant at Christian Dior SE, after recognizing the gain on the disposal of the Christian Dior Couture segment,
  - the Group's financial flexibility, facilitated by a significant reserve of undrawn confirmed credit lines totaling 8.3 billion euros, including a 2 billion euro syndicated loan to LVMH SE with a residual term of four years, and a 0.6 billion euro syndicated loan to Christian Dior SE;
- 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 operations and to hedge its debt;
- a greater concentration of Group liquidity owing to the ongoing rollout of cash pooling practices worldwide, ensuring the fluidity of cash flows throughout the Group and optimal management of surplus cash. As a rule, the Group applies a diversified investment policy;
- pursuing a dynamic policy of dividend payouts to Financière Agache shareholders and the Group's minority interests, in line with the Group's operating and financial performance. Accordingly, final and interim dividends authorized for payment to minority interests of the consolidated subsidiaries, chief among them LVMH SE and Christian Dior SE, amounted to 1.9 billion euros;
- with respect to foreign exchange risks, maintaining the Group's policy 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 Japanese yen weakened throughout the 2017 fiscal year. The hedging strategies resulted in exchange rates for the US dollar and the Japanese yen better than the respective average exchange rates over the year, and for the pound sterling the hedged exchange rate was in line with the average for the year.

3. Operating investments

3.1. COMMUNICATION AND PROMOTION EXPENSES

The Group's total investments in communication, in absolute values and as a percentage of revenue, were as follows:

(EUR millions)	**2017**	**2016**	**2015**
Communication and promotion expenses	4,979	4482	4,287
As % of revenue	*11.4*	*11.3*	*11.4*

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.

3.2. RESEARCH AND DEVELOPMENT COSTS

The Group's research and development investments were as follows:

(EUR millions)	**2017**	**2016**	**2015**
Research and development costs	130	113	99

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

3.3. 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.

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

(EUR millions)	**2017**	**2016**	**2015**
Purchase of tangible and intangible fixed assets [(a)]	2,538	2,428	2,220
As % of cash from operations before changes in working capital	*24*	*27*	*27*

(a) See Note 14.4 to the consolidated financial statements.

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 owned stores or franchises for retail sales.

In 2017, apart from acquisitions of property assets, operating investments mainly related to points of sale, with the Group's total retail network increasing in 2017 from 4,148 to 4,374 stores.

In particular, Sephora continued to expand its worldwide retail network, which reached 1,825 stores as of December 31, 2017, compared to 1,726 the previous year.

In Wines and Spirits, in addition to necessary replacements of barrels and production equipment, investments in 2017 were related to ongoing investments in Champagne (initiated in 2012) as well as the start of construction on a new packaging and shipping site at Hennessy.

4. Main locations and properties

4.1. PRODUCTION

4.1.1. Wines and Spirits

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

(in hectares)	December 31, 2017		December 31, 2016	
	Total	Of which under production	Total	Of which under production
France				
Champagne appellation	1,845	1,718	1,837	1,695
Cognac appellation	187	160	187	159
Vineyards in Bordeaux	194	152	193	152
Vineyards in Burgundy	13	13	11	11
International				
California (United States)	441	327	433	316
Argentina	1,677	967	1,683	988
Australia, New Zealand	681	603	690	609
Brazil	204	119	232	82
Spain	116	80	112	80
China	68	60	68	48
India	4	2	4	-

In the table above, the total number of hectares owned presented is determined exclusive of surfaces 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, and visitor and customer centers for each of its main champagne brands and its production operations in France, the United Kingdom, the United States, Argentina, Australia, China, New Zealand, Brazil, India and Spain, as well as distilleries and warehouses in Cognac and Poland. These buildings represent a total surface area of around 820,000 square meters in France and 300,000 square meters abroad.

4.1.2. Fashion and Leather Goods

Louis Vuitton owns its eighteen leather goods and shoe production facilities, in addition to its perfume production facility; most of them are in France, but there are also major workshops located near Barcelona in Spain; in Fiesso, Italy; and in San Dimas, California. Overall, the production facilities and warehouses it owns represent approximately 193,000 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.

Céline also owns manufacturing and logistics facilities near Florence, 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 in Germany and has several production facilities in Germany, the Czech Republic and the United Kingdom. Overall, this property represents approximately 70,000 square meters.

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

The other facilities utilized by this business group are leased.

4.1.3. Perfumes and Cosmetics

Buildings located near Orleans in France housing the Group's Perfumes and Cosmetics research and development operations, as well as the manufacturing and distribution of Parfums Christian Dior, are owned by Parfums Christian Dior and occupy a surface area of 140,000 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, which handles the production of Givenchy and Kenzo product lines, corresponding to a total surface area of 19,000 square meters. 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.

4.1.4. 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 facility where its movements and watches are manufactured in Le Locle, Switzerland. All of its European warehouses are leased.

Hublot owns its production facilities and its office premises.

Bvlgari owns its production facilities in Italy and Switzerland.

The facilities operated by this business group's remaining brands (Chaumet and Fred) are leased.

4.2. 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 Group own the buildings that house its stores.

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 8,000 square meters.

Christian Dior Couture owns certain buildings that house its stores in France (Paris, Saint-Tropez and Cannes), South Korea, Japan, the United Kingdom and Spain, for a total surface area of approximately 5,400 square meters.

Céline, Fendi and Berluti also own some of their stores in Paris and Italy.

In Selective Retailing:

- Le Bon Marché group owns some of its stores, for a total area of approximately 80,000 square meters;
- DFS owns its stores in Guam, Saipan and Hawaii.

As of December 31, 2017, the store network broke down as follows:

(number of stores)	**Dec. 31, 2017**	**Dec. 31, 2016**
France	508	507
Europe (excluding France)	1,156	1,106
United States	754	730
Japan	412	403
Asia (excluding Japan)	1,151	1,055
Other	393	347
TOTAL	**4,374**	**4,148**

(number of stores)		Dec. 31, 2017	Dec. 31, 2016
Fashion and Leather Goods [(a)]		1,769	1,708
Perfumes and Cosmetics		302	248
Watches and Jewelry		405	397
Selective Retailing:	*- Sephora*	1,825	1,726
	- Other, including DFS	55	52
	Subtotal: Selective Retailing	**1,880**	**1,778**
Other			17
TOTAL		**4,374**	**4,148**

(a) Including Christian Dior Couture stores.

4.3. ADMINISTRATIVE SITES AND INVESTMENT PROPERTY

The Group owns buildings located at 11-17 rue Francois 1er and 28-30 avenue Montaigne in Paris.

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 Couture, Parfums Christian Dior and Zenith.

The Group holds a 40% stake in the company that owns the building housing the LVMH headquarters on avenue Montaigne in Paris. It also owns three buildings in New York with about 15,000 square meters of office space and two buildings in London with about 3,000 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 22,000, 6,000, 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 La Samaritaine's department store in Paris are the focus of a redevelopment project, which will transform it into a complex comprising mainly offices, shops and a luxury hotel.

5. Subsequent events

No other significant subsequent events occurred between December 31, 2017 and April 27, 2018, the date on which the financial statements were approved for publication by the Board of Directors.

6. Recent developments and prospects

In an environment that remains buoyant at the beginning of the year and despite unfavorable currencies and geopolitical uncertainties, the Financière Agache group is well equipped to continue its growth momentum across all business groups in 2018. The Group will maintain a strategy focused on developing its brands by continuing to build on strong innovation and investments as well as a constant quest for quality in their products and their distribution.

Driven by the agility of its teams, their entrepreneurial spirit, the balance of its different businesses and its geographic diversity, the Financière Agache group enters 2018 with cautious confidence and has, once again, set an objective of increasing its global leadership position in luxury goods.

Management Report of the Board of Directors

MANAGEMENT OF NON-FINANCIAL AND FINANCIAL RISKS

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Financière Agache's financial and non-financial risk management procedures take into consideration the Group's specific structure. Financière Agache is a holding company which, as of December 31, 2017, directly and indirectly controls two main assets: a 94.5% equity stake in Christian Dior and a 42.6% equity stake in LVMH. The business of Financière Agache is mainly concerned with protecting the legal title to these equity holdings and exercising the rights and powers of a majority shareholder, notably by attending the Board meetings and Shareholders' Meetings of its subsidiaries Christian Dior and LVMH. Financière Agache also produces comprehensive financial reporting, in accordance with laws and regulations in force.

All the Group's operational activities take place at the LVMH level; as a result, the following report mainly presents the procedures implemented and monitored at that level.

1. Group ethics and Codes of Conduct

The Group's success requires everyone to adhere to rules, user practices and principles that guide our day-to-day conduct all over the world in terms of ethics, protecting human rights and fundamental liberties, social responsibility and respecting the environment. Since it does not employ any staff outside of LVMH and its subsidiaries, the Financière Agache group adheres to the Groupe Arnault Code of Conduct.

The Code provides a common foundation in terms of ethics and formally sets out a series of fundamental principles that guide the Group in conducting its business and guide employees in carrying out their responsibilities.

At LVMH, which comprises all Group companies and operating companies, Executive Management coordinates the efforts of the Risk Management, Operations, Purchasing, Environment, Social Development and Financial Communications Departments, which work together to raise awareness and help the Group's companies make progress, especially in the areas of risk management and supplier relations.

1.1. COMPLIANCE WITH INTERNATIONAL CONVENTIONS

Since 2003, the Group has shown its support for universal values as a signatory, via LVMH, of the United Nations Global Compact. As such, the Group has undertaken to align its operations and its strategy with ten principles related to human rights, working standards, respect for the environment, and combating corruption. The Group also supports the Universal Declaration of Human Rights, the OECD Guidelines for Multinational Enterprises, the International Labor Organization's Fundamental Conventions, the United Nations' Millennium Development Goals, Sustainable Development Goals and Women's Empowerment Principles, and the French Diversity Charter.

Taking each individual and his or her freedom and dignity, personal growth and health into consideration in each decision is the foundation of a doctrine of responsibility to which all Group companies adhere.

Concerning employees, all Group companies have policies for equal opportunity and treatment irrespective of discriminatory factors such as gender, race, religion or political opinion, as defined in the standards of the International Labor Organization. This culture and these practices also generate respect for freedom of association, respect for the individual, and the prohibition of child labor and forced labor.

As regards the environment, the Group strictly adheres to applicable laws, regulations and standards in all countries. The Group always aims to go above and beyond these legal and regulatory requirements to address the needs and concerns of society, and plays an active role, through its companies, employees and partners, in defining and implementing ever more responsible practices in its business sectors, in particular by adopting a precautionary approach. These commitments have been set out formally in the Environmental Charter adopted in 2001 and applicable to all Group companies.

Since it was created, the Group has endeavored 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 companies 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.

1.2. CODES OF CONDUCT AND PRINCIPLES

1.2.1. Groupe Arnault Code of Conduct

The Code of Conduct adopted by Groupe Arnault, the Group's holding company, applies to all of its subsidiaries, including in particular Financière Agache.

The Code of Conduct describes the principles of conduct that should guide the actions of all employees.

It sets out all of the principles to be implemented by the Group in conducting its activities. It outlines the rules to be followed by all employees as they carry out their roles and responsibilities, with a special emphasis on integrity, a key requirement for everyone. In particular, it reiterates the Group's zero-tolerance policy towards corruption.

The Code of Conduct is based on the following six core principles:

- acting responsibly and in solidarity;
- offering a fulfilling working environment and making the most of talented people;
- committing to protecting the environment;
- earning customers' trust;
- earning shareholders' trust;
- instilling and promoting integrity in business conduct.

The Groupe Arnault Code of Conduct does not replace existing codes of conduct and charters in place at Christian Dior, LVMH, and its subsidiaries. Rather, it provides a common foundation in terms of ethics and a source of inspiration for these other codes and charters.

1.2.2. LVMH Code of Conduct

The LVMH Code of Conduct, which was adopted in 2009 and disseminated to all its employees, was revised in 2017 in order to reassert, specify and refine the principles of conduct intended to guide the actions of all employees.

The revised Code sets out all of the principles to be implemented by LVMH in conducting its activities. It brings together the rules to be followed by all employees as they carry out their roles and responsibilities, with a special emphasis on integrity, a key requirement for everyone. In particular, LVMH has reiterated its zero-tolerance policy towards corruption. Lastly, the Code ensures consistency and ongoing improvement in the practices of all Group companies.

It is structured around the same principles as the Groupe Arnault Code of Conduct.

The LVMH Code of Conduct does not replace existing codes and charters within Group companies; it serves as a shared foundation and source of inspiration.

Where appropriate, the policies of the Code may be defined in greater detail by each Group company according to its business sector or location. Furthermore, locally applicable codes or charters can be implemented where this is appropriate in light of local legislation and regulations.

At the LVMH group level, the Environmental Charter and the Supplier Code of Conduct, as well as the various guidelines and internal charters, are modified versions of the LVMH Code of Conduct applied to specific areas.

The Code of Conduct is available on the LVMH website and can also be downloaded in ten languages from the Group's new Ethics and Compliance Intranet, where employees can access all the Group's ethics and compliance-related documents and tools. The Code of Conduct is distributed to all new employees. All employees must adhere to the Code and its principles. To encourage all employees to embrace the principles of the Code, an online training tool has been made available to them since late 2017.

In addition to the Code of Conduct, a series of internal documents – known as the guiding principles – has been put together to guide employees of the Group and Group companies in implementing the Code on a day-to-day basis. These documents, which employees can also access on the Ethics and Compliance Intranet, serve as reference guides for certain topics relating to business ethics.

1.2.3. Supplier Code of Conduct

It is of great importance to Groupe Arnault SEDCS that the Group as a whole abide by a shared body of rules, practices and principles in relation to ethics, social responsibility, and environmental protection. Each Group company is therefore required to put in place and promote exemplary relationships – characterized by responsibility, fairness and integrity – with all its partners, notably including suppliers.

In turn, Groupe Arnault and all its subsidiaries, including Financière Agache, also ask their suppliers to comply with the ethical principles set out in the Supplier Code of Conduct and to ensure that their own suppliers and subcontractors comply with those principles.

Suppliers are a key component of the LVMH group's value chain. As such, LVMH places a priority on maintaining responsible relations with its partners, suppliers and subcontractors, and works to continually strengthen those relationships. LVMH undertakes to maintain balanced commercial relations with its partners and pays particular attention to respecting negotiated terms and payment times.

In 2008, LVMH implemented a Supplier Code of Conduct which sets out its requirements in the fields of social responsibility, the environment and the fight against corruption. The Supplier Code of Conduct has been disseminated to Group companies, and all relations with partners require that the partner in question undertake to comply with all ethical principles laid down in the Code.

In 2017, LVMH's Supplier Code of Conduct was revised in order to provide more detail about the principles of conduct expected of suppliers, particularly in terms of professional integrity.

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

The Supplier Code of Conduct specifies that suppliers of LVMH and Group companies are guarantors of the work carried out by their own subcontractors and suppliers, and must guarantee that these subcontractors and suppliers comply with the principles set out in the Code as well as 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 Group company concerned reserves the right to review, and possibly end, the commercial relationship subject to the conditions provided by law.

1.2.4. Other LVMH charters and strategic policies

The Group's social and environmental strategy plays a key role in managing its ethical commitments.

Environmental Charter

Signed in 2001 by Bernard Arnault, the **Environmental Charter** is the founding document for LVMH's five main aims with regard to the environment: striving for high environmental performance standards, encouraging collective commitment, controlling environmental risks, designing products that factor in innovation and environmental creativity, and making a commitment that goes beyond the scope of the company. It also encourages the President of each Group company to get involved in this approach through specific initiatives.

The Environmental Charter has been significantly boosted by the **LIFE** (LVMH Initiatives For the Environment) **strategic program**, which was launched in 2011 in order to reinforce the incorporation of environmental concerns into management processes, facilitate the development of new coordination tools, and take into account developments and improvements arising from innovative practices at Group companies. Since 2014, Group companies have incorporated the LIFE program into their strategic plans, which include environmental and social targets in relation to suppliers. The LIFE program is implemented by the Steering Committee of each Group company and is based on nine key aspects of environmental performance and risk management, including issues relating to the supply of strategic raw materials, raw material traceability and compliance, and suppliers' social and environmental responsibility.

To further improve consistency and efficiency, in 2016 the Group gave its companies – regardless of business sector – four shared targets to be achieved by 2020 (the baseline year being 2013) relating to (1) sustainable product design, (2) suppliers and raw materials, (3) CO_2 emissions reduction and (4) making all production sites and stores more environmentally friendly. Regarding the supply target in particular, Group companies 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. This target, which relates to the production of raw materials, farming, breeding and extraction, also concerns the production plants of Group suppliers. LVMH's environmental performance is closely linked to its ability to involve suppliers and subcontractors in its approach and make them part of its sustainable procurement policy.

Social responsibility

Based on an analysis of the challenges facing the Group and interactions with its stakeholders, LVMH has identified **four social priorities** for all its companies: (1) developing talent and skills, (2) paying constant attention to working conditions, (3) preventing all forms of discrimination, and (4) engaging with communities to help local populations.

The Group's social responsibility efforts, which are based on these four priorities throughout the world, therefore include an important aspect relating to employee health, safety and well-being. The LVMH group's CSR approach is also aimed at preventing any risk of discrimination, and ensuring respect for each person's individuality.

The **Recruitment Code of Conduct** was adopted in 2009 and 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. As regards hiring new employees, LVMH uses mandatory anti-discrimination training to raise awareness at its companies of the importance of recruiting people from all walks of life, including those with and without disabilities. With regard to the links between continued employment and preventing discrimination, various policies and best practices have been applied by Group companies.

Internal Competition Law Compliance Charter

While the Code of Conduct includes targets in terms of respecting the principles of competition, observing trade restrictions and international sanctions programs, as well as faithful intervention in the public sphere, LVMH's commitment to respecting the principles of competition has been set out formally by the adoption of the Internal Competition Law Compliance Charter, the aim of which is to contribute within the Group to the development of a true culture of compliance with competition rules. LVMH is concerned about preserving free and fair competition respecting laws and practices in force, without any interference with competition rules.

This charter sets out the main rules that should be known by all employees in conducting commercial relationships on a day-to-day basis, and provides a pragmatic explanation of the standards of conduct expected of them. For example, LVMH prohibits any abuse of dominant position, concerted practice or unlawful agreement, notably through understandings, projects, arrangements or behaviors which have been coordinated between competitors concerning prices, territories, market shares or customers.

Internal IT Systems Security Charter

The use of IT resources is subject to compliance with the rules and principles set out in the LVMH Internal IT Systems Security Charter. Personal use of communication tools such as e-mail and the Internet can be tolerated provided that such use is occasional, does not interfere with the employee's work, does not result in additional costs for the company, complies with current law and does not damage LVMH's reputation.

More generally, it is the responsibility of each employee to defend LVMH's heritage and resources in order to avoid any loss, misuse, deterioration or waste thereof. These resources include the Group's equipment, goods, financial resources and any other assets. The Group has introduced internal guiding principles dedicated to protecting resources that must also be observed by employees.

1.2.5. Definitions and objectives of risk management and internal control at LVMH

Framework

Risk management and internal control draw upon the Reference Framework issued by the AMF on July 22, 2010 relating to processes for monitoring the effectiveness of risk management and internal control systems.

With more specific regard to internal control, the Group uses an internal reference guide which is consistent with COSO principles (Committee of Sponsoring Organizations of the Treadway Commission).

Definition and objectives of risk management

According to the definition set out in the AMF's Reference Framework, risk represents the possibility of an event occurring that could affect the Company's personnel, assets, environment, objectives or reputation. The Group has defined "major" risks as risks with the potential to jeopardize the continuity of operations and/or the achievement of strategic objectives, and/or the Group's reputation.

The objectives of risk management are to:

- protect the value, assets and reputation of the Group and, in particular, its brands;
- secure decision-making and operational processes by providing a comprehensive, objective and shared overview of potential threats and opportunities;
- ensure that all employees embrace a shared view of the principal risks and challenges surrounding the Group's business activities.

Definition and objectives of internal control

Internal control refers to a set of control procedures and actions tailored to the specific characteristics of each of the Group's businesses; this contributes to the development and lasting success of the Group's brands, supporting each department with a view to:

- respecting the Group's values and ethics;
- preventing and managing operating, financial and legal risk across all business lines;
- protecting the Group's assets and reputation;
- ensuring and developing the effectiveness and resilience of its procedures and organizational structures.

Limitations

No matter how well-designed and applied, the risk management and internal control system can only provide reasonable (not absolute) assurance that the Group's overall risks and objectives are properly managed. Internal control is subject to inherent limitations as a result of uncertainties in the international environment, the judgment required to choose between costs and opportunities, and potential problems caused by human error or failure.

The structure of the Group, consisting of a large number of subsidiaries of varying sizes, is a particular risk factor.

2. Risk identification

The Financière Agache group's activities are exposed to various risks that are subject to regular risk management and identification procedures, particularly within the context of regulatory changes. Operational risks are managed at the level of LVMH and its subsidiaries. In this regard, the implementation at LVMH of the French Law of March 27, 2017 concerning the duty of reasonable vigilance by parent and ordering companies has resulted in improved identification of risks and helps to prevent serious abuses of human rights and fundamental liberties, health and safety of persons, and the environment.

2.1. STRATEGIC AND OPERATIONAL RISKS

2.1.1. Group image and reputation

Around the world, the Group is known for its brands, unrivaled expertise and production methods unique to its products. The reputation of the Group's brands rests on the quality and exclusiveness of its products, their distribution networks, and the promotional and marketing strategies applied. Products or marketing strategies not in line with brand image objectives; inappropriate behavior by brand ambassadors, the Group's employees, distributors or suppliers; or detrimental information circulating in the media might endanger the reputation of the Group's brands and adversely impact sales. The net value of brands, trade names and goodwill recorded in the Financière Agache group's balance sheet as of December 31, 2017 amounted to 28.6 billion euros.

The Group maintains an extremely high level of vigilance with respect to any inappropriate use by third parties of its brand names, in both the physical and digital worlds. In particular, this vigilance involves the systematic registration of all brand and main product names, whether in France or in other countries; communications to limit the risk of confusion between the Group's brands and others with similar names; and constant monitoring, which may prompt legal action by the Group, if required. 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 vigilance in relation to unlawful acts online to be shared by all actors at every link in the digital value chain.

In its Wines and Spirits and Perfumes and Cosmetics business groups, and to a lesser extent in Watches and Jewelry and Fashion and Leather Goods, the Group sells a portion of its products to distributors outside the Group, which are thus responsible for sales to end customers. The reputation of the Group's products thus rests in part on compliance by all distributors with the Group's requirements in terms of their approach to the handling and presentation of products, marketing and communications policies, and respecting brand image. In order to discourage inappropriate practices, distribution agreements include strict guidelines on these matters, which are also monitored on a regular basis by Group companies.

Furthermore, the Group supports and develops the reputations of its brands 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 brand's unique personality. All Group employees are conscious of the importance of acting in accordance with the ethical guidelines communicated within the Group at all times. Finally, to protect itself from the risk of a public campaign against the Group or one of its brands, the Group continuously monitors developments in the media and maintains a permanent crisis management unit.

2.1.2. Counterfeit and parallel retail networks

The Group's brands, expertise and production methods can be counterfeited or copied. Its products – leather goods, perfumes and cosmetics in particular – may be distributed in parallel retail networks, including online sales networks, without the Group's consent. As part of a joint effort aimed at developing new solutions to get consumers more engaged in their digital experience, while also preserving brand value and promoting creativity, the Group and several major Internet companies (pure plays) have announced that they are working together to protect the Group's intellectual property rights and combat the online advertising and sale of counterfeit products.

Counterfeiting and parallel distribution have an immediate adverse effect on revenue and profit. Activities in these illegitimate channels may gradually damage the brand image of the products concerned and lower consumer confidence. The Group therefore does all it can to protect its assets and resources, particularly its intellectual property rights. Group companies pursue an anti-counterfeiting strategy based on prevention, cooperation and communication.

Action plans have been specifically drawn up to address the counterfeiting of products, in addition to the systematic protection of brand and main product names discussed above. 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 the Group also ensures are made aware of the adverse consequences of counterfeiting. The Group also plays a

key 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, all of which are essential in successfully combating the problem. In addition, the Group takes various measures to fight 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.

Beyond the borders of the European Union, the Group is not subject to any legal constraints that might impede the full exercise of its selective retail distribution policy, or limit its ability to bring proceedings against any third parties distributing Group products without proper approval. In the European Union, competition law guarantees strictly equal treatment of all economic operators, particularly in terms of distribution, potentially posing an obstacle to companies refusing to distribute their products outside a network of authorized distributors. However, Commission Regulation (EC) No. 2790/1999 (known as the 1999 Block Exemption Regulation), by authorizing selective retail distribution systems, established an exemption to this fundamental principle, under which the Group operates, thus providing greater protection for Group customers. This exemption was confirmed in April 2010, when the Commission renewed the 1999 Block Exemption Regulation and extended its application to retail sales over the Internet. This legal protection gives the Group more resources in the fight against counterfeit goods and the parallel distribution of its products, a battle waged as much in the digital as in the physical world.

In 2017, anti-counterfeiting measures generated internal and external costs for the Group of around 42 million euros.

2.1.3. Contractual constraints

In the context of its business activities, the Group enters into multi-year agreements with its partners and some of its suppliers (especially lease, concession, distribution and procurement agreements). Should any of these agreements be terminated before its expiration date, compensation is usually provided for under the agreement in question, which would represent an expense without any immediate offsetting income item. As of December 31, 2017, the total amount of minimum commitments undertaken by the Group in respect of multi-year lease, concession and procurement agreements amounted to 13.3 billion euros. Detailed descriptions of these commitments may be found in Notes 30.1 and 30.2 to the consolidated financial statements.

Any potential agreement that would result in a commitment by the Group over a multi-year period is subjected to an approval process at the Group company involved, adjusted depending on the related financial and operational risk factors. Agreements are also reviewed by the Group's in-house legal counsel, together with its insurance brokers.

In addition, the Group has made commitments to its partners in some of its business activities to acquire their stakes in the activities in question should they express an interest in such a sale, according to a contractual pricing formula. As of December 31, 2017, this commitment is valued at 9.2 billion euros and is recognized in the Group's balance sheet under "Other non-current liabilities" (see Note 20 to the consolidated financial statements).

The Group has also made commitments to some of the shareholders of its subsidiaries to distribute a minimum amount of dividends, provided the subsidiaries in question have access to sufficient cash resources. This relates in particular to the businesses of Moët Hennessy and DFS, for which the minimum dividend amount is contractually agreed to be 50% of the consolidated net profit of these entities.

2.1.4. Anticipating expectations of Group customers

Understanding the needs of customers is vital in order to be able to offer suitable products and a personalized customer experience. Therefore, the Group is committed to supplying its customers with sincere and clear information about the manufacturing method, effects and correct use of its products, and to not making any misleading statements concerning its products and their methods of production. The Group is aware of the impact on society of its products and their image, and is committed to being as vigilant as possible in its commercial and advertising communications, promoting responsible behavior.

Brands must also identify new trends, changes in consumer behavior, and in consumers' tastes, in order to offer products and experiences that meet their expectations. Failing this, the continued success of their products would be threatened. By cultivating strong ties and continually replenishing their traditional sources of inspiration – ranging from art to sports, cinema and new technologies – the Group's various brands aim at all times to better anticipate and fully respond to their customers' changing needs, in line with each brand's specific identity and its particular affinities in its sphere of activity.

2.1.5. International exposure of the Group

The Group conducts business internationally and as a result is subject to various types of risks and uncertainties. These include changes in customer purchasing power and the value of operating assets located abroad, economic changes that are not necessarily simultaneous from one geographic region to another, and provisions of corporate or tax law, customs regulations or import restrictions imposed by some countries that may, under certain circumstances, penalize the Group. Some of the Group's activities were thus penalized in 2014 and 2015 by the "anti-extravagance" measures instated by China in late 2012. This was notably the case of the Cognac business, which, affected by the decline in receptions and banquets, suffered a drop in sales volumes in 2014 and 2015 related to the substantial volumes of inventories held by its distributors at the end of 2013. The fall in volumes of corporate gift-giving also had an adverse impact on the Watches and Jewelry business in 2014.

In order to protect itself from the risks associated with an inadvertent failure to comply with a change in regulations, the Group has established a regulatory monitoring system in each of the regions where it operates.

The Group maintains very few operations in politically unstable regions. The legal and regulatory frameworks governing the countries where the Group operates are well established.

It is important to Note that the Group's activity is spread for the most part between three geographical and monetary regions: Asia, Western Europe and the United States. This geographic balance helps to offset the risk of exposure to any one area.

Furthermore, a significant portion of Group sales is directly linked to fluctuations in the number of tourists. This is especially the case for the travel retail activities within Selective Retailing, but tourists also make up a large percentage of customers frequenting the stores operated by companies in the Fashion and Leather Goods business group. Events likely to reduce the number of tourists (geopolitical instability and insecurity, weakening of the economic environment, natural disasters, etc.) could have an adverse impact on Group sales.

Lastly, the Group 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. Thus, despite a tense security situation leading member states to request enhanced border checks, the European Commission has proposed the creation of a "touring visa" (with an extended stay period and permission to travel around the entire Schengen area) that will facilitate luxury tourism shopping in the European Union.

2.1.6. Seasonality

Nearly all of the Group's activities are subject to seasonal variations in demand. A significant proportion of the Group's sales – approximately 30% of the annual total for all of the Group's businesses – is generated during the peak holiday season in the fourth quarter of the year. Unexpected events in the final months of the year may have a significant impact on the Group's business volume and earnings.

2.1.7. Strategic competencies

The Group's professions require highly specific skills and expertise, in the areas of leather goods or watchmaking, for example. To avoid any dissipation of this expertise, the Group implements a range of measures to encourage training and to safeguard these professions, which are essential to the quality of its products, 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.

Skills management is a significant aspect of risk management and internal control. The Group devotes special care to matching employee profiles and responsibilities, formalizing annual performance reviews, developing skills through continuing training, and promoting internal mobility.

Lastly, the Group's success also rests on the development of its retail network and on its ability to obtain the best locations without undermining the future profitability of its points of sale. The Group has built up specific real estate expertise that is shared among its different brands and contributes to the optimal development of its retail network.

2.1.8. Information systems

The Group is exposed to the risk of information systems failure resulting from a malfunction or malicious intent. The occurrence of this type of risk event may result in the loss or corruption of sensitive data, including information relating to products, customers or financial data. Such an event may also involve the partial or total unavailability of some systems, impeding the normal operation of the processes concerned. To guard against this risk, the Group puts in place a decentralized architecture to avoid risk propagation. Supported by its network of IT security managers, the Group continues to implement a full set of measures to protect its sensitive data as well as business continuity plans at each Group company.

The Group has established a global approach to ensure compliance with the General Data Protection Regulation (GDPR) in Europe and with similar laws in other countries; each Group company is responsible for adapting this approach to its specific situation.

Protecting the personal data of our customers and employees in particular is a sensitive issue. The Group has thus developed good governance tools intended for use by all Group companies, including guidelines for online marketing and data protection. The Group and its companies act with full transparency, in accordance with applicable regulations concerning protection of their customers' personal data. Group companies give their customers clear information about the personal data they provide and ensure that confidentiality is maintained. The Group and its companies do not sell their customers' personal data and only send commercial communications to customers with their prior consent.

2.1.9. Industrial, environmental and meteorological risks

A detailed presentation of the Group's environmental risk factors and the measures taken to ensure that its business activities comply with legal and regulatory provisions is provided in the "Environment" section of the Management Report of the Board of Directors in Christian Dior's Annual Report.

The Group's wines and spirits production activities depend on weather conditions before the grape harvest. Champagne growers and merchants have set up a mechanism to cope with variable harvests, which involves stockpiling wines in a qualitative reserve.

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, the Group relies on a combination of independent experts and qualified professionals from various Group companies, in particular safety, quality and environmental managers. The definition and implementation of the risk management policy are handled by the Finance Department.

Protecting the 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, the

Group has adopted HPR (Highly Protected Risk) standards, the objective of which is 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. In 2017, engineering consultants audited about 55 LVMH sites.

In addition, prevention and protection plans include contingency planning to ensure business continuity.

Lastly, financial risks relating to the effects of climate change and the measures adopted to mitigate those risks are described in the "Environment" section of the Management Report of the Board of Directors in Christian Dior's Annual Report (§4. "Combating and adapting to climate change").

The majority of the nine topics and objectives of the LIFE 2020 environmental strategy program also include a supply chain-related dimension, such as the sustainable design, traceability and compliance of materials, and reducing greenhouse gas emissions, which result in the need to develop a range of collaborative initiatives with our partners. Two other issues have a particularly substantial impact on the Group's activities: securing access to strategic raw materials and supply channels, and the environmental and social responsibility of suppliers.

In 2012, the Group reinforced its various decision-making support and training tools to help identify suppliers that might need to be audited. This approach enables each Group company to identify at-risk suppliers based on a number of criteria including the purchasing category, the strategic importance of the products in question, the supplier's degree of financial dependency and its geographic location.

The Group has launched a new methodological project with the aim of enhancing and updating its scoring of countries in which suppliers are based.

See §3.6 below on the procedures for regular assessment of subcontractor and supplier situations.

2.1.10. Health and safety

The Group's health and safety-related risks mainly concern employees and consumers.

- As regards employee health and safety measures, the Group believes that the skills and motivation of its employees are what underpin the excellence of the products and services offered by its brands. Their working conditions must enable them to optimally express their talent and feel fulfilled in carrying out their tasks. That is why the Group's commitment to managing well-being at work is closely focused on meeting employees' needs. Actions concerning workplace safety and the prevention of workplace accidents take a variety of forms within the framework of an overall investment, certification and training program, and are adapted to the varying range of situations encountered within business groups. In addition to health and safety issues, Group companies take into consideration the broader concept of well-being in the workplace, which is reflected by a number of initiatives including measures to prevent work-related stress, services and flexible working hours to help employees achieve a better work-life balance, and improvements in the quality of the working environment.
- Measures concerning consumer health and safety focus on two main issues: cosmetics product safety and cosmetovigilance, and responsible consumption of the Group's champagnes, wines and spirits. The Group cares about the health and safety of its customers and applies the precautionary principle in the design, manufacture and distribution of its products. The Group is continuously looking to offer its customers products of the highest quality, through research and innovation and the highest of standards in the selection of materials and the implementation of expertise in its activities. The Group pays particular attention to production and supply conditions relating to these high-quality materials in order to ensure both the durability of these resources and observance of its principles.

2.1.11. Human rights and fundamental liberties

The Group encourages ongoing improvement in working conditions, societal conditions and health conditions, which are key factors in developing and protecting human rights. In this regard, the Group identifies two levels of issues that can violate human rights and fundamental liberties.

Internally, the Group takes account of principles relating to fundamental rights at work: elimination of professional and employment discrimination, elimination of all forms of forced and compulsory labor, effective abolition of child labor, respect for freedom of association and effective recognition of the right to collective bargaining. The Group promotes diversity in terms of backgrounds and experience. This commitment is enshrined in LVMH's Recruitment Code of Conduct and embodied by its signing of the Business Diversity Charter. The Group ensures that all of its employees are able to exercise their rights with no distinction on the grounds of skin color, gender, religion, political beliefs, national or social origin, age, disability, trade union affiliation, sexual orientation or gender identity. Particular attention is paid to the rights of vulnerable people.

Externally, the Group is committed to demonstrating vigilance in identifying the potential negative effects – whether direct or indirect – of its business activities on society in order to prevent these effects and, if applicable, remedy them. The Group asks each Group company to work with suppliers that agree to follow the Supplier Code of Conduct and support within their sphere of influence the values, liberties and fundamental rights of the international regulations on which it is based. The exemplary behavior expected of suppliers in terms of social responsibility includes in particular the prohibition of child labor, forced labor, illegal, undeclared and unrecorded labor, harassment, abuse and discrimination, as well as various legal requirements concerning wages and benefits, working hours, freedom of association, health and safety, and the protection of personal information.

In consultation with Kering and sector professionals, LVMH also decided to draw up a charter on working relationships with models.

2.2. FINANCIAL RISKS

2.2.1. Credit risk

Due to the nature of its activities, a significant portion of the Group's sales is not exposed to customer credit risk. Sales are made directly to customers through the Selective Retailing network, the Fashion and Leather Goods stores and, to a lesser extent, the Watches and Jewelry stores; these sales accounted for approximately 75% of revenue in 2017.

Furthermore, for the remaining revenue, the Group's businesses are not dependent on a limited number of customers whose default would have a significant impact on Group activity levels or earnings. The extent of insurance against customer credit risk is satisfactory, with around 91% of LVMH's credit coverage requests granted by insurers as of December 31, 2017.

2.2.2. Counterparty risk

Through its financing, investment and market risk hedging operations, the Financière Agache group is exposed to counterparty risk, mainly banking-related, which must be regularly and actively managed. Diversification of this risk is a key objective. Special attention is given to the exposure of our bank counterparties to financial and sovereign credit risks, in addition to their credit ratings, which must always be in the top-level categories.

2.2.3. Foreign exchange risk

A substantial portion of the Group's sales is denominated in currencies other than the euro, particularly the US dollar (or currencies tied to the US dollar such as the Hong Kong dollar) and the Japanese yen, while most of its manufacturing expenses are euro-denominated.

Exchange rate fluctuations between the euro and the main currencies in which the Group's sales are denominated can therefore significantly impact its revenue and earnings reported in euros, and complicate comparisons of its performance between different fiscal years.

The Group actively manages its exposure to foreign exchange risk in order to reduce its sensitivity to unfavorable currency fluctuations by implementing hedges such as forward sales and options. An analysis of the sensitivity of the Group's net profit to fluctuations in the main currencies to which the Group is exposed, as well as a description of the extent of cash flow hedging for 2018 relating to the main invoicing currencies are provided in Note 22.5 to the consolidated financial statements.

Owning substantial assets denominated in currencies other than the euro (primarily the US dollar and Swiss franc) is also a source of foreign exchange risk with respect to the Group's net assets. This currency risk may be hedged either partially or in full using borrowings or financial futures denominated in the same currency as the underlying asset. An analysis of the Group's exposure to foreign exchange risk related to its net assets for the main currencies involved is presented in Note 22.5 to the consolidated financial statements.

2.2.4. Interest rate risk

The Financière Agache group's exposure to interest rate risk may be assessed with respect to the amount of its consolidated net financial debt, which totaled approximately 10.0 billion euros as of December 31, 2017. After hedging, 47% of gross financial debt outstanding was subject to a fixed rate of interest and 53% was subject to a floating rate. An 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 are presented in Notes 18.4 and 18.6 to the consolidated financial statements.

The Group's debt is denominated in various currencies, with the portion denominated in currencies other than the euro most often converted to euros via cross-currency swaps; the Group is then mainly exposed to fluctuations in euro interest rates. This 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.

Through its use of forwards and options to hedge foreign exchange risk as described above, the Group is also exposed to the spreads in interest rates between the euro and the hedged currencies.

2.2.5. Equity market risk

The Group's exposure to equity market risk mainly relates to its ownership interests in Christian Dior and LVMH as well as to Christian Dior and LVMH treasury shares, which are primarily held to cover stock option plans and plans for the granting of bonus and performance share awards.

Moreover, listed securities may be held by some of the funds in which the Group has invested, or directly in non-current or current available for sale financial assets.

The Group may use derivatives to reduce its risk exposure, particularly by hedging against fluctuations in share prices. For instance, coverage of compensation plans or financial instruments index-linked to the LVMH share price may be implemented. Derivatives may also be used to create a synthetic long position.

2.2.6. Commodity market risk

The Group – mainly through its Watches and Jewelry business group – may be exposed to changes in the prices of certain precious metals, such as gold. In certain cases, to ensure visibility with regard to production costs, hedges may be implemented. This is achieved either by negotiating the price of future deliveries of alloys with precious metal refiners, or the price of semi-finished products with producers, or directly by purchasing hedges from top-ranking banks. In the latter case, hedging consists of purchasing gold from banks, or taking out future and/or options contracts with physical delivery upon maturity.

2.2.7. Liquidity risk

Aside from local liquidity risks, which are generally immaterial, the Financière Agache group's exposure to liquidity risk can be assessed either (i) with regard to the amounts outstanding under its short-term negotiable debt instrument programs (2.7 billion euros) or (ii) by comparing the amount of its short-term borrowings, excluding the impact of derivatives (9.6 billion euros) to the net amount of cash and cash equivalents (8.0 billion euros). Should any of these borrowing facilities not be renewed, the Group has access to undrawn confirmed credit lines totaling 8.3 billion euros.

Therefore, the Group's liquidity is based on the large amount of its investments and long-term borrowings, the diversity of its investor base (bonds and short-term debt securities), and the quality of its banking relationships, whether evidenced or not by confirmed credit lines.

Agreements governing financial debt and liabilities are not associated with any specific clause likely to significantly modify their terms and conditions.

The breakdown of financial liabilities by contractual maturity is presented in Note 22.7 to the consolidated financial statements.

2.2.8. Organization of foreign exchange, interest rate and equity market risk management

The Group applies an exchange rate and interest rate management strategy designed primarily to reduce any negative impacts of foreign currency or interest rate fluctuations on its business and investments.

The Group has implemented policies, guidelines and procedures to measure, manage and monitor these market risks.

These activities are organized based on a segregation of duties between hedging (front office), administration (back office) and control.

This organization relies on integrated information systems that allow hedging 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 that includes regular presentations to the management bodies concerned and detailed supporting documentation.

3. Assessment and control procedures in place

As all of the Group's operating activities are carried out by LVMH and its subsidiaries, the assessment and control procedures for operating activities described below have been implemented at the level of LVMH.

3.1. ORGANIZATION

3.1.1. Risk management and control activities within Financière Agache

The control environment

Given the fact that it belongs to a group with the necessary administrative skills, Financière Agache uses the specialized services of Groupe Arnault SEDCS, which mainly relate to legal, financial and accounting matters. A service agreement has been entered into with Groupe Arnault SEDCS for this purpose.

Regarding the Group's external services, the Shareholders' Meeting of Financière Agache appointed two first-tier accounting firms as Statutory Auditors, which also serve in the same capacity on behalf of Christian Dior and LVMH.

Key elements of internal control procedures

Risk management is based first and foremost on a regular review of the risks incurred by the Company so that internal control procedures can be adapted. Given the nature of the Company's activity, the primary objective of internal control systems is to mitigate risks of error and fraud in accounting and finance. The following principles form the basis of the Company's organization:

- very limited, very precise delegations of power, which are known by the counterparties involved, with sub-delegations reduced to a minimum;
- upstream legal control before signing agreements;
- separation of the expense and payment functions;
- secured payments;
- procedural rules known by potential users;
- integrated databases (single entry for all users);
- frequent audits (internal and external).

Internal controls relating to the preparation of the parent company's financial and accounting information

The individual company and consolidated financial statements are subject to a detailed set of instructions and a specially adapted data submission system designed to facilitate complete and accurate data processing within suitable timeframes. Exhaustive controls at the Christian Dior and LVMH sub-consolidation levels ensure that integrated information is of high quality.

Legal control

Securities held by the subsidiaries are subject to reconciliation between the Company's Accounting Department and the Group's Securities Department on a regular basis.

3.1.2. Organization of the LVMH 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 consist 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 is based on the following organizational principles:

- the holding companies – including LVMH SE – are responsible for their own risk management and internal control system. LVMH SE also acts as a leader and coordinator on behalf of all LVMH group companies, providing them with a reference framework and methodology as well as an application platform that centralizes all risk and internal control data (see §3.5.1 below);
- the President of each Group company 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.

3.1.3. Organization and parties involved in financial and accounting information

At Financière Agache level

As previously indicated, as of December 31, 2017 Financière Agache directly and indirectly controls two main assets: a 94.5% equity stake in Christian Dior and a 42.6% equity stake in LVMH. The Group's **Finance Department** oversees the production of the individual and consolidated financial statements.

At Christian Dior level

Christian Dior is a holding company that directly and indirectly controls a 41% stake in LVMH. LVMH is a listed company with a governance structure that checks the integrity and relevance of its own financial information. Its organization is described in detail in the sections above and below. At the level of Christian Dior, financial information intended for the financial markets (financial analysts, investors, individual shareholders, market authorities) is provided under the supervision of the Group's **Finance Department**, which in particular oversees the production of the parent company and consolidated financial statements as well as the publication of the Annual Report and the Interim Financial Report. This information is strictly defined by current market rules, specifically the principle of equal treatment of investors.

At LVMH level

Risk management and internal controls of accounting and financial information are the responsibility of the following departments, which are all part of the LVMH group's Finance Department: Accounting and Consolidation, Management Control, Information Systems, Corporate Finance and Treasury, Tax, and Financial Communication.

The Accounting and Consolidation function is responsible for preparing and producing the individual company accounts of LVMH SE and of 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 Reference Document. To this end, the Accounting Standards and Practices team defines and disseminates the Group's accounting policies, monitors and enforces their application and organizes any related training programs that may be deemed necessary. The Consolidation Department also coordinates the LVMH 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 (see §3.4.3 "Management reporting" below); it also tracks capital expenditures and cash flow, as well as producing statistics and specific operational indicators. By virtue of its area of competence and the structure of the reports it produces, Management Control is an essential participant in the internal control and financial risk management system.

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 LVMH 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 across the Group, by business group and by entity. It defines strategic orientations in terms of cybersecurity, devises and publishes internal policies and shared plans of action, and helps brands to implement detection and incident response systems, as well as to devise backup plans.

Corporate Finance and Treasury is responsible for implementing the LVMH 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 and 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 team, the separation of front office and back office activities, combined with an independent control team reporting to the Deputy CFO, allow for a greater segregation of duties. This organization relies on an integrated computerized system allowing real-time controls on hedging transactions. The hedging mechanism is presented regularly to the LVMH group's Executive Committee and LVMH's Performance Audit Committee, and is thoroughly documented.

The Tax Department ensures compliance with applicable laws and regulations, advises the various business groups and companies and proposes tax solutions appropriate to the LVMH group's operational requirements. It organizes appropriate training courses in response to major changes in tax legislation and provides uniform reporting of tax data.

The Financial Communications Department is responsible for coordinating all information issued to the financial community so as to provide the latter 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 Group's main companies and the LVMH departments listed above periodically organize joint finance committees. Run and coordinated by the central departments, these committees deal particularly 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**, LVMH provides its subsidiaries with a set of codes, charters and principles intended to guide all Group companies and their employees in conducting their activities. These include primarily the LVMH group Code of Conduct, the LVMH group's internal guiding principles, the Supplier Code of Conduct and various charters (Charter of the Board of Directors, Charter on Working Relations with Fashion Models and Their Well-being, Competition Law Compliance Charter, Environmental Charter, Information Systems Security Charter, Privacy Charter, etc.).

Through its **Finance Intranet**, LVMH provides access to all its rules and procedures relating to accounting information and financial disclosures, applicable to all subsidiaries, particularly those relating 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 to share **internal control principles and best practices**:

- the LVMH internal control framework, which covers 14 key business processes shared by all of the Group's activities: Sales, Retail Sales, Purchases, Licenses, Travel, Inventory, Production, Cash Management, Fixed Assets, Human Resources, Information Systems, Accounting Period-End Procedures, Environment, and Insurance;
- the minimum basis for internal control, "IC Base", made up of 70 key controls taken from the LVMH framework, used for the annual self-assessment (see "The Enterprise Risk and Internal Control Assessment (ERICA) approach" below);
- the business frameworks developed to reflect the specific characteristics of the Group's activities (Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, and Concessions for duty-free activities);
- best practices and tools relating to issues that the Group considers important: fraud, conflicts of interest, delegations of authority, business continuity plans, IT disaster recovery plans, IT security policies and rules, segregation of duties, control of media spend, and in-store best practices.

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. These materials may be accessed by all personnel involved in the application of the Group's risk management.

Lastly, the **Group Legal Department** prepares tools for Group companies 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 new EU General Data Protection Regulation.

3.3. INFORMATION AND COMMUNICATION SYSTEMS

Strategic plans for developing information and communication systems at LVMH are coordinated by the Information Systems Department, which ensures that all solutions implemented are harmonized and that business continuity plans are in place. 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 LVMH to outline a Business Continuity Plan and a Disaster Recovery Plan for each significant entity. A Business Continuity Plan and a Disaster Recovery Plan have been developed and tested at the level of Groupe Arnault SEDCS, with which Financière Agache SA has entered into a service agreement.

All significant entities have appointed a Chief Information & Security Officer (CISO). The activities of CISOs are coordinated by the Group CISO; together they constitute a vigilance network to monitor the development of risks affecting information systems, and implement adequate defenses depending on the likelihood of a given type of risk and its potential impact.

Audit programs, intrusion testing and vulnerability audits are performed by entities and by the Group Information Systems Department.

In April 2015, LVMH set up an operations center to monitor and assess information systems security on behalf of all Group companies.

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 (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 President 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 Group company and business group level, which act as primary control filters and help ensure consistency.

At the level of LVMH, 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 LVMH's consolidated entities produce a strategic plan, a complete budget and annual updates. 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 companies and the Group – an essential feature of the financial internal control mechanism.

A team of controllers at LVMH, 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 half-yearly and annual financial statements are attended by the departments concerned and the LVMH Finance Department; during those meetings the Statutory Auditors present their conclusions with regard to the quality of financial and accounting information and the internal control environments of the different LVMH companies.

3.5. FORMALIZATION AND MANAGEMENT OF RISK MANAGEMENT AND INTERNAL CONTROL SYSTEMS

The LVMH internal control system includes procedures to check compliance with its Code of Conduct. The internal and external accounting control procedures put in place ensure in particular that the financial statements are not used to conceal acts of bribery or influence-peddling, and to assess the due diligence measures taken to prevent and combat any form of bribery or influence-peddling.

3.5.1. The Enterprise Risk and Internal Control Assessment (ERICA) approach

In line with European directives and the ordinance of December 2008, the Group introduced its Enterprise Risk and Internal Control Assessment (ERICA) approach, a comprehensive process for improving and integrating systems for managing major risks and internal control related to its ordinary activities.

Since 2015, this approach has been rolled out across all of the Group's brands. It comprises in particular annual mapping of the major risks for each brand and self-assessment of 69 key controls taken from the internal control guidelines by all Group entities at least every three years. During this three-year period, the Group actions self-assessment across a limited number of entities that is revised each year. Group companies have full autonomy to extend the process across the scope that they deem appropriate.

Recently acquired entities are allowed two years to implement this approach once the integration process has been completed;

The Group's companies 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 the 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, Group company and business group); they are forwarded to the Group Finance Department and to the Group Audit and Internal Control Department. They are also made available to the Statutory Auditors;
- the annual letter of representation on financial reporting, including a paragraph devoted to internal control, mentioned above ("Consolidation process").

Since 2013, depending on the circumstances, Presidents of Group companies have been required to give a presentation each year to the Performance Audit Committee on their achievements, action plans in progress, and the outlook for their area of responsibility, in terms of internal control and risk management.

3.5.2. Management of major risks and of the internal control system

Major risks relating to the Group's brands and operating activities are managed at the business group and LVMH group company level. 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 (BCPs) and crisis management plans in order to organize the best response to risks once they have arisen. Finally, 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.

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 Group companies are given the responsibility, with the support of internal control personnel, for assessing the level of internal control on the basis of key controls, identifying weaknesses and taking corrective action. Exception reports help improve 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 (see above);
- 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 LVMH's Internal Audit team and the Statutory Auditors, whose findings and recommendations are passed on to management at the entities and to LVMH's 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. PROCEDURES FOR REGULAR ASSESSMENT OF SUBCONTRACTOR AND SUPPLIER SITUATIONS

LVMH implements verification audits and due diligence measures among its stakeholders in order to help to identify, assess and anticipate the risks and opportunities for improvement, and thereby ensure more in-depth knowledge of its partners. These procedures are used to verify that the performance of its partners is in line with its own requirements and respects the best practices set out in the LVMH Code of Conduct, in particular as regards ethics, social issues, the environment and respecting human rights. By means of the controls performed, LVMH can also help its partners to implement and comply with best practices in order to resolve minor cases of non-compliance. These measures and their implementation are included in agreements between LVMH and its partners.

Group companies structure their approach to suppliers in three stages: identifying the most at-risk suppliers, selecting key product categories within each business group, and developing an ongoing social and environmental audit program.

3.6.1. Identification of at-risk suppliers

The approach for identifying at-risk suppliers takes account of various fields of analysis. In 2012, LVMH reinforced its various decision-making support and training tools to help identify suppliers that might need to be audited. This approach enables each Group company to identify at-risk suppliers based on a number of criteria including the purchasing category, the strategic importance of the products in question, the supplier's degree of financial dependency and its geographic location.

Strategic supply sources

The attractiveness of the Group's products depends, from a quantitative and qualitative standpoint, on being able to ensure adequate supplies of certain raw materials. In addition, from a qualitative perspective, these products must meet the Group's exacting quality standards. This mainly involves the supply of grapes and eaux-de-vie in connection with the activities of the Wines and Spirits business group; leathers, canvases, wools and furs in connection with the activities of the Fashion and Leather Goods business group; and watchmaking components, gemstones and precious metals in connection with the activities of the Watches and Jewelry business group. In order to guarantee sources of supply corresponding to its demands, the Group sets up preferred partnerships with the suppliers in question. Although the Group enters into these partnerships in the context of long-term commitments, it is constantly on the lookout for new suppliers also able to meet its requirements. By way of illustration, an assessment of the risk that a vendor may fail has been carried out and good practices have been exchanged, leading notably to implementing the policy of splitting supplies for strategic Perfumes and Cosmetics products.

In addition, for some rarer materials, or those whose preparation requires very specific expertise, such as certain precious leathers or high-end watchmaking components, the Group pursues a vertical integration strategy on an ad hoc basis.

Geographical exposure

In late 2017, identification of at-risk suppliers was enhanced by means of a new methodological project to specify the different levels of geographical exposure for the activities of LVMH and Group companies on the basis of three issues: corruption, human rights and environment.

Each mapping allows for levels of risk to be viewed for each country with regard to Group companies' administrative, production and distribution activities.

This methodological project has been carried out with the help of an external consulting firm using an external database containing ten years' worth of information about countries and products, as well as economic, environmental, political and human rights-related issues.

This data has been cross-referenced with qualitative and quantitative information provided internally by Group companies, such as the level of activity, amount of procurement by category, number of stores and number of employees in each country. This methodological project will be updated regularly.

3.6.2. Targets relating to business group-specific challenges

The Group's Fashion and Leather Goods companies have developed a number of initiatives relating to what are seen as strategic materials and supplies. The target for 2020 is to consolidate the social audit of more than 90% of suppliers. In addition, four product categories have been identified as priorities for all Group companies:

- **leather:** the target for 2020 is to obtain at least 70% of total supplies from tanneries that meet the requirements of the Leather Working Group (LWG). For example, in 2017, supplies obtained by Loewe from LWG-certified tanneries accounted for 71% of total supplies. As regards Heng Long – the exotic leather tannery in Singapore – 100% of its farms supplying crocodile skin will be audited and certified in 2020 by NSF (National Sanitation Foundation) on the basis of LVMH's guiding principles. In 2017, Louis Vuitton decided to extend the scope of environmental audits to include leather suppliers for shoes and accessories. The leather goods business has continued with its efforts by auditing Tier 2 suppliers. In 2018, Louis Vuitton intends to focus on obtaining LWG accreditation for three main tanneries, as well as the environmental audit of two tanneries among new Tier 2 suppliers.

In order to reinforce the environmental commitment of its tanneries, Louis Vuitton has introduced key environmental indicators within the framework of a half-yearly activity review. Group companies systematically share the Business for Social Responsibility (BSR) network's Animal Sourcing Principles with their suppliers. LVMH is also a member of several working parties involved in the adoption of best practices within networks like BSR for fur, the Responsible Ecosystems Sourcing Platform (RESP) for snakeskin and the Leather Working Group (LWG) for cattle hides;

- **fabric:** LVMH and its Group companies continue to strive to obtain sustainable cotton supplies. The target for 2020 is to obtain at least 70% of total cotton supplies from producers that adhere to the BCI (Better Cotton Initiative). As regards sheep's wool, LVMH has decided to encourage two approaches within its supply chain: the best practices defined by the IWTO (International Wool Textile Organisation) and the RWS (Responsible Wool Standard). For example, Thomas Pink has made major changes to its cotton purchasing practices. In 2016, 60% of cotton used by the company came from BCI suppliers. For 2018 and beyond, Thomas Pink's aim is to increase its procurement of supplies that meet this standard;
- **chemicals** (particularly in metal parts): LVMH has put in place an in-house standard, the LVMH RSL (Restricted Substances List), which prohibits the use of hazardous substances in items placed on the market, as well as their use by suppliers. This standard, which has been rolled out to all Fashion and Leather Goods companies, includes the most stringent regulatory requirements and anticipates future regulations. It also allows suppliers to better understand their obligations and to take a continuous improvement approach;
- **finished and semi-finished products:** following the partnership with MADE-BY in 2016, Loewe worked on clarifying its ready-to-wear supply chain by adding certain suppliers to the internal supplier risk assessment tool.

The Wines and Spirits business group has identified a number of priority areas to ensure sustainable development in its activities. This plan of action is centered on meeting environmental, social and societal targets in the areas of:

- **transportation:** the aim is to reduce the environmental footprint of Group companies by increasing the ratio of transportation by sea and rail, as well as stepping up the use of compressed natural gas (CNG) vehicles for the transportation of finished products;
- **packaging:** in 2017, 100% of new packaging developed for the champagne and cognac brands was tested to calculate its Environmental Performance Index (EPI);
- **advertising materials:** 100% of at-risk suppliers have been audited in Europe and Asia. The aim is to extend this policy to all countries where relevant.

Each year, the Perfumes and Cosmetics business group defines CSR actions and objectives for its suppliers of packaging, raw materials, promotional articles and advertising materials. In 2016, social audits covered 100% of Tier 1 suppliers in at-risk regions for glass, cardboard and metal/plastic. In addition, in 2016, environmental audits covered 100% of Tier 1 glass suppliers. At the end of 2017, environmental audits were extended to all cardboard packaging suppliers. As regards other key supplies, it should be noted that in 2017:

- 100% of alcohol and vegetable glycerin suppliers were audited (social and environmental audits);
- social audits were made mandatory to confirm approval of all of our suppliers of promotional items.

Furthermore, the Group's Perfumes and Cosmetics companies use palm oil derivatives and have set themselves a target of using at least 50% RSPO (Roundtable on Sustainable Palm Oil) certified palm oil derivatives by the end of 2018. In 2017, the Perfumes and Cosmetics division signed up to the Responsible Mica Initiative while also stepping up its efforts by carrying out audits within this business line.

Lastly, a Responsible Purchasing Charter was adopted in 2014 by six of the Group's Perfumes and Cosmetics companies. The aim is to formally set out the conditions for a responsible relationship with all suppliers. In order to support us in this approach, a partnership was formed with EcoVadis in 2017. This partnership should enable us to assess the CSR commitments of 350 suppliers in 2018.

All of the Group's Watches and Jewelry companies have been certified by the Responsible Jewellery Council (RJC). Bvlgari has also had its gold product lines certified under the Responsible Jewellery Council's traceability audit program. The Watches and Jewelry business group has identified three main categories of strategic raw materials:

- **diamonds and precious metals:** the RJC has developed a certification system designed, in particular, to ensure that diamonds used in manufacturing do not come from conflict zones. The Kimberly Process is applied to diamonds. In 2016, exhaustive mapping was carried out of supplies obtained directly and indirectly from subcontractors;
- **colored gemstones:** in March 2016, the RJC announced that it had added colored gemstones to its certification scope within the framework of a new standard to be launched in 2018-2019. Bvlgari is a member of the working party to develop a standard to be incorporated into the RJC certification, in partnership with The Dragonfly Initiative, an NGO that brings together European and American businesses involved in the fine jewelry supply chain and works to develop best practices for the extraction of colored gemstones.

Within the Selective Retailing business group, Sephora has identified two major procurement categories: indirect procurement and procurement on behalf of its private label, S+. In 2017, Sephora identified suppliers deemed to be at risk in terms of social and environmental factors for both of these procurement categories. In Europe, social audits covered 100% of at-risk factories, while at the same time Sephora increased the number of environmental audits of at-risk suppliers, with the aim of auditing 100% of them in 2020. By 2020, all at-risk suppliers worldwide will have undergone social and environmental audits for both of these procurement categories.

3.6.3. Supplier audit and assessment processes

At the level of LVMH, 1,497 social and/or environmental audits were carried out in 2017 – more than 80% of them by specialized external service providers – at 1,015 of the Group's suppliers. Of these audits, 58% related to both social and environmental criteria. 55% of audits carried out were in line with the Group's requirements, 30% found minor instances of non-compliance, 12% highlighted a need for significant improvement by suppliers and 3% found major instances of non-compliance. Non-compliance issues identified related primarily to the Health & Safety indicator.

In all, 570 corrective action plans were put in place following these audits.

The use of preliminary audits also enabled better advance identification of supplier practices, resulting in decisions to refrain from working with certain potential suppliers.

The number of follow-up audits increased in 2017, showing that Group companies regularly monitor their suppliers and support them in their efforts to improve.

In some cases, LVMH and/or certain Group companies have had to terminate existing relationships with suppliers whose social audit findings revealed major instances of non-compliance with the LVMH Code of Conduct. There were 26 such cases in 2017.

In the interest of continued improvement in this area, in 2018 Group companies will continue to audit suppliers and follow up on action plans as well as developing synergies arising from the Group's membership of Sedex. In 2017, LVMH, the Perfumes and Cosmetics business group, and Louis Vuitton also joined forces with EcoVadis to develop an even more exhaustive approach to controlling their supply chains. The Group will also aim to strengthen the working groups for each of its businesses to best reflect their specific characteristics and requirements.

	Europe	Asia	North America	Other [b]
Breakdown of suppliers *(as %)*	71	17	9	3
Breakdown of audits [a] *(as %)*	71	24	1	4

(a) Of which 57% initial audits and 43% follow-up audits.
(b) Including Africa.
Scope: Wines and Spirits, Perfumes and Cosmetics, Louis Vuitton, Christian Dior Couture, Loro Piana, Berluti, Fendi, Givenchy Couture, Loewe, Marc Jacobs, Céline, Rossimoda, Bvlgari, Fred, Hublot, TAG Heuer, Zenith, DFS, Sephora and Le Bon Marché.

4. Lines of defense

As all of the Group's operating activities are carried out by LVMH and its subsidiaries, the lines of defense described below have been implemented at the level of LVMH.

4.1. APPROPRIATE ACTIONS TO MITIGATE RISK OR PREVENT SERIOUS ATTACKS

4.1.1. 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 0.15% 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 property damage and business interruption, transportation, terrorism, construction, credit, third-party liability and product recall.

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 totals 75 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, specific coverage in the amount of 18 billion yen was taken out for this risk. These limits are in line with the Group companies' risk exposures.

Transportation insurance

All Group operating entities are covered by an international cargo and transportation insurance contract. The coverage limit of this program is 60 million euros, which corresponds to the maximum possible transport loss arising as a result of transportation in progress at a given moment.

Third-party liability

The Group has established a third-party liability and product recall 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. As regards product recalls, the cover purchased is considerably more than the average available on the worldwide market.

This program covers environmental losses arising from gradual or sudden accidental pollution and environmental liability (Directive 2004/35/EC).

Specific insurance policies have been implemented for countries where work-related accidents are not covered by state insurance plans or 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.

Coverage for special risks

Insurance coverage for political risks, company officers' liability, fraud and malicious intent, trade credit risk, acts of terrorism, loss or corruption of computer data, construction project risks and environmental risks is obtained through specific worldwide or local policies.

4.1.2. 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 companies 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 LVMH entity to report any instances of actual or attempted fraud to LVMH's Audit and Internal Control Director. In addition to 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 CFOs of all Group companies.

The Audit and Internal Control Department at LVMH has therefore introduced a program to raise awareness of the risk of fraud through periodic communiqués identifying scenarios of actual and attempted fraud within the Group. A prevention plan is presented for each scenario. Group companies and their subsidiaries are responsible for verifying whether or not these scenarios apply to their operations. These communiqués are disseminated widely within the Group to ensure ongoing awareness among those staff most exposed to this risk.

Lastly, a specific fraud module has been added that forms part of LVMH's new "The Fundamentals" training program at its Internal Control Academy (see "Whistleblowing system" section below).

4.1.3. Internal and external initiatives to support suppliers

Taking action to support suppliers

The Group maintains regular dialogue with its suppliers and is highly involved in their operations, which has led it to help them implement and comply with environmental, workforce-related and societal best practices, while raising awareness and providing training on the corporate social responsibility (CSR) issues specific to their business. For a number of years, Group companies have provided their suppliers with tools in order to help them better understand their regulatory obligations relating to REACH (the EU chemicals regulation), for example, and make progress in this area. For example, in 2017 Sephora was particularly active in its two major supply categories – indirectly and on behalf of its own brand (S+) – providing CSR coaching and training for its main suppliers in order to help them improve their performance in annual reassessments. Every year since 2014, a Supplier Forum has been held to bring together representatives of the Group's companies and their suppliers. This event is an opportunity to present the responsible purchasing standards of LVMH and its companies, get feedback from suppliers who have made improvements in synergy with Group companies, and share best practices.

Following Italy in 2014 and China in 2015, the 2016 Supplier Forum was held in Hong Kong. The 2016 event did not relate to just one specific region, as had been the case for previous forums, but to specific purchasing categories shared by the majority of Group companies, including packaging, which represents a major environmental performance issue for the Group. The 2017 event was held in Shenzhen and Hong Kong, with over one hundred Tier 1 or above suppliers attending four one-day training sessions. These training sessions focused on control of environmental risk at the production plants of our suppliers and subcontractors.

Sharing best practices internally

It is also vitally important to raise awareness among in-house staff who are directly or indirectly involved in relations with suppliers (buyers, production teams, etc.).

Since 1992, the LVMH Environment Committee has gathered together environment officers from the various Group companies to talk about internal and external best practices, including those relating to suppliers. The Environment Department also works with the Purchasing Department to devise a shared responsible purchasing policy. Since 2005, the two departments have worked together to organize an annual Supplier Sustainability Day bringing together the Purchasing, Environment, Legal and Internal Control departments of the various Group companies in order to raise awareness and train purchasing staff and suppliers in responsible purchasing. All of the Group's business activities are represented at this event, which provides a forum for Group companies to present their plans, actions and progress on sustainable and responsible purchasing, and to exchange with the Group on the LIFE 2020 objectives. At the 2015 event, the decision was made to set up working groups specific to each business group to ensure that action plans better reflect their specific issues and characteristics. The aim is to identify the most sensitive procurement categories for each activity and increase their level of maturity in terms of responsible purchasing.

4.1.4. Actions relating to environmental issues

The "Environment" section of Christian Dior's Management Report of the Board of Directors, included in its Annual Report, sets out targets and initiatives allowing for an understanding of the nature of environmental risks and opportunities, particularly with regard to supply issues, as well as the environmental impact of the activities of Group companies and issues relating to health and safety.

As regards in particular issues relating to obtaining supplies and supplier integration, the Group's approach is structured around different procedures and initiatives.

As part of its LIFE 2020 strategic program, LVMH has set itself the target of implementing best practices in 70% of its supply chains, reaching 100% in 2025. This target, which relates to the production of raw materials, farming, breeding and extraction, also concerns the production plants of Group suppliers. The LVMH group's environmental performance is closely linked to its ability to involve suppliers and subcontractors in its approach and make them part of its sustainable procurement policy.

In addition to verification audits and due diligence measures conducted among suppliers and subcontractors (see §3.6 above), a number of initiatives have been implemented by Group companies spanning all the issues covered by the LIFE 2020 strategic program, concerning, for example, ISO 14001 certification for supply chains or collaboration in obtaining supplies, sustainable design and transportation. LVMH is involved in various technical and academic collaborations that allow it to analyze the environmental performance of its core business lines. For example, in 2016 LVMH was involved in drafting the new version of the BSR (Business for Social Responsibility) Animal Sourcing Principles, a document setting out general principles to ensure animal well-being in supply chains. LVMH is also involved in the work of the Leather Working Group and Textile Exchange, which aim to define best practices for cattle and sheep breeding. The Group's fashion companies have made a commitment not to use fur from endangered species. LVMH works hand in hand with its European and North American suppliers and gives absolute priority to certified skins from farms that are audited regularly in accordance with recognized standards and verified by independent third parties. Lastly, in the Wines and Spirits sector, the Belvedere distillery has created a program dedicated to raw alcohol with suppliers and scientists in Poland. The aim is to safeguard and improve the quality of its supplies by guaranteeing the local provenance of alcohol and environmentally friendly farming practices.

As regards in particular the traceability and compliance of all materials and substances used in the manufacturing of products sold, the Group focuses its vigilance on compliance with regulatory requirements, while monitoring the opinions of scientific committees and the recommendations of industry associations in Europe and throughout the world, as well as making an ongoing effort to raise awareness among and train employees. LVMH is also governed by stringent internal rules on the development of new products, which it makes its suppliers apply. Regulatory pressure has increased over recent years and all new suppliers receive the REACH compliance letter, created following the adoption in 2006 of the European regulations that rationalized and improved the European Union's former regulatory framework on chemical substances. By signing the document, these suppliers commit to complying with the requirements of the REACH (Registration, Evaluation, Authorization and Restriction of Chemicals) regulations or similar regulations. For Fashion and Leather Goods as well as Watches and Jewelry companies, the risk management policy is reflected in a comprehensive program based on a new in-house standard, the LVMH Restricted Substances List (RSL), which prohibits or restricts the use of certain substances in items placed on the market, as well as their use by suppliers. In 2016, the Group began training its staff in using the RSL, which will help Group companies to enter a process of ongoing improvement. Another internal tool, the LVMH Testing Program, enhances the control system of the Group's Fashion and Leather Goods companies, allowing them to test the highest-risk substances depending on the materials at five partner laboratories. LVMH's Environment Department has also drawn up and disseminated specific technical guidelines to help suppliers to eliminate certain substances and use alternatives. In parallel with these initiatives, the Group is continuing to talk to other operators in the luxury goods industry and industry federations to develop best practices.

Since 2016, an Environment Academy has been charged with developing the competency of LVMH group employees. The training provided for LVMH employees via the Academy responds to the main aspects of the LIFE program. A complete training course has been devised on the basis of a core lesson plan comprising nine "à la carte" business modules and one "soft skills" module. Business training is also available. For example, Group buyers are invited to take part in a one-day session entitled "Constructing environmental performance with suppliers". Here they learn to identify the environmental risks relating to supplier practices and to better assess these risks with the help of a grid of ten questions developed by LVMH. In-store employees and staff in charge of purchasing can also follow the training offered by the Environment Academy on the CITES convention (Convention on International Trade in Endangered Species of Wild Fauna and Flora) in order to better understand how this applies to their day-to-day activities. Overall in 2016, more than 18,841 hours of training were provided by the Group and Group companies on environmental issues, including around 2,735 hours directly managed by the Academy. Some Group companies have also stepped up their Supplier Environmental Diagnostics training efforts.

4.1.5. Actions relating to social issues

The "Human resources" section of Christian Dior's Management Report of the Board of Directors, included in its Annual Report, describes the various social responsibility programs and initiatives that have been implemented. Three categories of information can be highlighted with regard to issues relating to human rights, employee health and safety and relations with suppliers.

Respecting and promoting human rights and fundamental liberties

The Group respects and defends the principles of the Global Compact, in particular those relating to fundamental rights at work: elimination of professional and employment discrimination, elimination of all forms of forced and compulsory labor, effective abolition of child labor, respect for freedom of association and effective recognition of the right to collective bargaining. The Group promotes diversity in terms of backgrounds and experience. This commitment is enshrined in LVMH's Recruitment Code of Conduct and embodied by its signing of the Business Diversity Charter. The Group ensures that all of its employees are able to exercise their rights with no distinction on the grounds of skin color, gender, religion, political beliefs, national or social origin, age, disability, trade union affiliation and sexual orientation or gender identity. Particular attention is paid to the rights of vulnerable people. For example, the human resources management policy takes account of non-discrimination and diversity in the workplace.

The Group respects its employees' right to freedom of expression and opinion, which is formulated within the framework of constructive dialogue. The Group respects its employees' right to incorporate freely and voluntarily and to join groups to promote and defend their professional interests. The Group encourages meaningful dialogue and consultation with employee representatives as well as the respect and consideration for employee representatives in each of the countries where it has a presence.

Promoting workplace well-being

The Group cares about the health and safety of its employees, makes sure that all its activities respect current health and safety legislation and regulations in all the countries in which it operates and pays particular attention to implement best practice with regard to safety in the workplace. The Group protects its employees in the context of their professional duties from any exposure to hazardous materials or situations, and signals any potential risks. Rules of procedure in force within the Group specify rules relating to health and safety at work. Employees are made aware of these rules. The Group is committed to helping its employees maintain a satisfactory work-life balance.

At Group level, as part of a project looking at the possibility of standardizing healthcare benefits, the "Cœur Social" program provides for the introduction of common core benefits.

Implementing and promoting a responsible approach with partners

LVMH asks its suppliers to comply with the ethics principles set out in the Supplier Code of Conduct. This Code specifies requirements relating to labor (prohibition of forced labor, child labor, harassment, 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.

As regards relations with its suppliers, the Group also encourages its companies to develop their relations with companies that employ people with permanent or temporary severe disabilities, and provide them with special facilities and support (known as the sheltered and supported employment sector).

4.2. TRAINING AND OVERSIGHT SYSTEM

Training

The Group has adopted appropriate training tools. These training programs are defined in terms of their content and the choice of employees concerned on the basis of risk mapping (in terms of regions, activities, business line and job profile), particularly for training for managers and Group employees who are most exposed to the risk of corruption.

Within the Ethics & Compliance Intranet, an online training tool was made available to all employees in 2017 covering the principles of the LVMH Code of Conduct in order to encourage understanding and assimilation by everyone of the rules, practices and values that form a common ethical framework for the Group and Group companies worldwide.

In 2017, LVMH's Internal Control Department launched the LVMH Internal Control Academy, the main aim of which is to provide structured management for the entire network of controllers, internal auditors and officers in these areas. A three- or four-day training course – called "The Fundamentals" – has been introduced in France and abroad; the entire course is designed and taught by senior internal controllers within LVMH group companies.

The Group's training efforts also include a number of programs and modules dedicated to the environment, such as safety and preventing risks at work.

As regards social responsibility, training on preventing discrimination is provided for recruiters, directors and managers. Ongoing checks of recruitment practices are in place, with

discrimination tests performed by an independent firm. Because social responsibility is a vital part of any manager's job, all newly hired managers systematically receive training in CSR, its implementation and the role it plays, through their induction seminar and online induction session.

Disclosures and oversight

Within the Ethics & Compliance Intranet, LVMH employees have access to internal documents on combating corruption and influence peddling. This includes in particular the new LVMH Code of Conduct, as well as the "Internal Guiding Principles" serving as a reference guide concerning certain specific issues relating to business ethics.

Via its Finance Intranet, LVMH makes available to all employees all rules and procedures relating to accounting and financial information applicable to each subsidiary. The Finance Intranet is also used for the dissemination of internal control principles and best practices. 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 information is available to all parties involved in risk management.

In addition, on the LVMH Intranet, the Group's Legal Affairs Department provides an overview of legislation in place within the Group's principal markets, relating to the prevention of money laundering and to limitations applicable to cash payments, as well as US, European and Swiss regulations on embargoes and economic sanctions.

As regards the environment, LVMH's Environment Department is in charge of helping Group companies to pursue their own environmental policy by making useful expertise and information available to them, as well as practical tools, à la carte training and customized support. For example, in order to progress in the matter of materials and product compliance, LVMH has developed a forward-looking approach that aims to anticipate changes in international regulations. Its experts regularly take part in working parties of national and European authorities and keep an eye on all new regulations, as well as changes in scientific knowledge. LVMH can ban the use of certain substances in advance and work at a very early stage on reformulating certain products.

In addition, at the instigation of LVMH's Human Resources Department, Group companies are careful to implement a global approach to professional equality and combating discrimination. For example, LVMH's "Mission Handicap" initiative, established in 2007, aims to promote access to employment for people with disabilities. It is backed by a network of 35 disability correspondents and steers the Group's actions in this area by raising employee awareness and providing support for training people with disabilities.

4.3. WHISTLEBLOWING SYSTEM, SANCTIONS AND MONITORING

LVMH whistleblowing system

Any employees who are unsure of what position to take or how to interpret the principles set out in the Code of Conduct, or who are directly or indirectly confronted with failures to comply with the Code, are encouraged to first report to their line manager, their ethics and compliance officer, their human resources manager, LVMH's Ethics and Compliance Director or any other authorized person.

In addition to these usual existing communication and warning channels within the Group and Group companies, LVMH has developed a centralized whistleblowing system 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. In accordance with applicable regulations, this system ensures confidentiality insofar as possible and within the limits established in law, in particular as regards its implementation in France, under the terms set out by Unique Authorization No. AU-004 of the French National Commission for Data Protection (CNIL). No acts of repression are tolerated against anyone who has made use of this system in good faith, even if the suspicions giving rise to the alert prove to be incorrect.

Alerts handled through dedicated systems may help improve risk identification procedures, as part of a continuous improvement approach.

Disciplinary sanctions

Failure by employees to comply with the rules of the Code of Conduct, as well as specific codes, charters and internal policies, the guiding principles and more generally the Internal Rules of Procedure (or any equivalent document) of the company that employs them can be considered to be a failing.

Where applicable, the Group may take appropriate and opportune measures to put an end to the shortcoming observed, including any suitable disciplinary sanctions proportionate to the seriousness of the infringement observed, in accordance with the provisions of the Internal Rules of Procedure (or any equivalent document) or applicable laws and regulations.

Monitoring

A report shall be submitted each year to the Ethics and Sustainable Development Committee of the LVMH Board of Directors on implementation of the principles of the LVMH Code of Conduct.

Management Report of the Board of Directors

FINANCIÈRE AGACHE SA

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1. Key event during the fiscal year

Financière Agache increased its direct and indirect investment in its subsidiary Christian Dior by acquiring 36,363,863 Christian Dior shares for 9,319 million euros under the public offer initiated by Semyrhamis. Between the close of the public offer and December 31, 2017, Semyrhamis also acquired 4,097,750 Christian Dior shares for an amount of 1,167 million euros.

On July 3, 2017, as part of the project aimed at simplifying the structures of the Christian Dior – LVMH group and in accordance with the terms of the memorandum of understanding signed with LVMH on April 24, 2017, Christian Dior SE – which is directly and indirectly controlled by Financière Agache – sold 100% of the Christian Dior Couture segment to LVMH for 6 billion euros.

2. Results of Financière Agache SA

Total income from equity investments came to 81.6 million euros in 2017, compared with 85.4 million euros in 2016.

Net financial income totaled 185.3 million euros, compared with 119.6 million euros a year earlier.

Net profit was 181.5 million euros.

The proposed appropriation of the distributable profit for the fiscal year ended December 31, 2017 is as follows:

Amount available for distribution (*EUR*)

Net profit	181,539,653.29
Retained earnings	2,951,944,042.56
DISTRIBUTABLE EARNINGS	**3,133,483,695.85**
Proposed appropriation	
Distribution of a gross dividend of 100 euros per share	317,335,200.00
Retained earnings	2,816,148,495.85
TOTAL	**3,133,483,695.85**

Should this appropriation be approved, the gross dividend distributed would be 100 euros per share. As an interim dividend of 100 euros per share was paid on December 14, 2017, no further dividend payments will be made in respect of the fiscal year under review.

Under existing tax law applicable to the interim dividend and the final dividend as of January 1, 2018, individuals whose tax residence is in France and who are subject to personal income tax at a progressive rate (by right in 2017 and by electing to do so in 2018) will be entitled to the 40% tax deduction for this dividend distribution.

Lastly, should the Company hold, at the time of payment of this dividend, any treasury shares under authorizations granted, the corresponding amount of unpaid dividends will be allocated to retained earnings.

Distribution of dividends

As required by law, the Board of Directors observes that the gross cash dividends per share paid out in respect of the past three fiscal years were as follows:

Fiscal year	Type	Payment date	Gross dividend (a) (EUR)	Tax deduction (b) (EUR)
2016	Interim	December 13, 2016	26.00	10.40
	Final	-	-	-
	TOTAL		**26.00**	**10.40**
2015	Interim	September 24, 2015	18.50	7.40
	Interim	December 17, 2015	155.00	62.00
	Final	-	-	-
	TOTAL		**173.50**	**69.40**
2014	-	-	-	-

(a) Excluding the impact of tax regulations applicable to recipients.
(b) For individuals with tax residence in France.

Information relating to payment terms

In accordance with Article D.441-4 of the French Commercial Code, it is specifically stated that as of December 31, 2017:

- no trade accounts payable were past due;
- no trade accounts receivable were past due.

3. Information regarding the Company's share capital

As of December 31, 2017, the share capital totaled 50,773,632 euros, represented by 3,173,352 shares with a par value of 16 euros each. As of December 31, 2017, 3,619 of these shares (0.11% of the share capital) were held by the Company, with a total market value of 448,396 euros.

Since 1996, the Company's shares have not been traded on a regulated market. As required by law, they therefore have the mandatory status of registered shares.

Financière Agache is happy to assist its shareholders with the procedures and formalities involved in the event they wish to trade their shares and, where applicable, to help them find a suitable counterparty.

Pursuant to the provisions of Article L. 225-102 of the French Commercial Code, we hereby inform you that no employee of the Company, or of any affiliated company, holds shares in the Company through the types of mutual funds referred to in this legislation.

4. Membership of the Board of Directors

It is proposed that you renew the terms of office of Florian Ollivier and Lord Powell of Bayswater as Directors.

Board of Directors' report on corporate governance

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2. Summary of existing delegations and financial authorizations and use made of them 58

3. Information on the related-party agreements covered by Article L. 225-37-4 2° of the French Commercial Code 58

This report, which was drawn up in accordance with the provisions of Article L. 225-37 et seq. of the French Commercial Code, was approved by the Board of Directors at its meeting of April 27, 2018, and will be submitted for shareholder approval at the Shareholders' Meeting of May 30, 2018.

1. List of all corporate offices and positions held by company officers

1.1. DIRECTORS WHOSE TERMS OF OFFICE ARE PROPOSED FOR RENEWAL AT THE SHAREHOLDERS' MEETING

Florian OLLIVIER, Chairman and Chief Executive Officer

Company	Position
Agache Développement SA	Permanent Representative of Financière Agache, Director
Escorial Development SA	Director
Europatweb SA	Chairman and Chief Executive Officer
Europatweb Placements SAS	Legal representative of Europatweb, Chairman
Financière Agache SA	Chairman and Chief Executive Officer
Financière Jean Goujon SAS	Chairman
FJG Patrimoine SAS	Chairman
GA Placements SA	Permanent Representative of Invry, Director
Gestion Mobilière Patrimoniale et Immobilière SA	Director
Groupe Arnault SEDCS	Chief Executive Officer – Member of the Executive Board
Hermiole SAS	Chairman
Invry SAS	Chairman
JGPG SAS	Chairman
Kléber Participations SARL	Managing Director
Montaigne Finance SAS	Chairman
Montaigne Services SNC	Managing Director
Semyrhamis SA	Managing Director, non-Director
	Permanent Representative of Financière Agache, Director
Semyrh-Europe SA	Director
Sevrilux SNC	Legal representative of Financière Agache, Managing Director

Lord POWELL of BAYSWATER

Company	Position
Financière Agache SA	Director
Hong Kong Land Holdings	Director
LVMH Moët Hennessy - Louis Vuitton SE	Director
LVMH Services Limited	Chairman of the Board of Directors
Mandarin Oriental International Holdings	Director
Matheson & Co. Ltd	Director
Northern Trust Corporation	Director

1.2. CURRENTLY SERVING DIRECTORS

MONTAIGNE FINANCE SAS

Financière Agache SA	Director
GA Placements SA	Director

Pierre DE ANDREA, Permanent Representative

Agache Développement SA	Chairman and Chief Executive Officer
CD Investissements SAS	Chairman
CPV Investissement SARL	Managing Director
Delcia SA	Director
Europimmo SNC	Managing Director
Fimeris SA	Director
Financière Agache SA	Permanent Representative of Montaigne Finance, Director
Foncière du Nord SC	Managing Director
GA Placements SA	Permanent Representative of Groupe Arnault, Director
Goujon Holding SAS	Chairman
Goujon Participations SAS	Chairman
Mandarine SARL	Managing Director
Métropole 1850 SNC	Managing Director
Montaigne Finance SAS	Member of the Supervisory Committee
Sadifa SA	Chairman and Chief Executive Officer
Sanderson International SA	Director
Société de Gestion Financière et de Patrimoine SARL	Managing Director
Société en Nom Collectif Jardin Bleu	Managing Director
Sophiz SA	Director
Westley International SA	Director

GA PLACEMENTS SA

Financière Agache SA	Director

Pierre DEHEN, Permanent Representative

Agache Développement SA	Permanent Representative of Groupe Arnault, Director
Asopis SAS	Chairman
Financière Agache SA	Permanent Representative of GA Placements, Director
GA Placements SA	Chairman and Chief Executive Officer
LC Investissements SAS	Member of the Management Committee
Union +	Permanent Representative of LVMH Moët Hennessy - Louis Vuitton, Director

GROUPE ARNAULT SEDCS

Agache Développement SA	Director
Europatweb SA	Director
Financière Agache SA	Director
GA Placements SA	Director
Semyrhamis SA	Director

Nicolas BAZIRE, Permanent Representative and Group Managing Director

Agache Développement SA	Director
Atos SE	Director
Carrefour SA	Director
Christian Dior SE	Director
Europatweb SA	Director
Financière Agache SA	Managing Director and Permanent Representative of Groupe Arnault, Director
GA Placements SA	Permanent Representative of Montaigne Finance, Director
Groupe Arnault SEDCS	Chief Executive Officer
Groupe Les Echos SA	Director
Les Echos SAS	Vice-Chairman of the Supervisory Board
LVMH Moët Hennessy - Louis Vuitton SE	Director
Louis Vuitton, Fondation d'Entreprise	Director
Louis Vuitton Malletier SA	Permanent Representative of Ufipar, Director
LV Group SA	Director
Montaigne Finance SAS	Member of the Supervisory Committee
Semyrhamis SA	Managing Director, non-Director Permanent Representative of Groupe Arnault, Director
Société des Bains de Mer de Monaco SA	Permanent Representative of Ufipar, Director
Suez SA	Director

2. Summary of existing delegations and financial authorizations and use made of them

Authorizations to increase the share capital
(Articles L. 225-129, L. 225-129-2 and L. 228-92 of the French Commercial Code)

Type	Authorization date	Expiry/ Duration	Amount authorized	Issue price determination method	Use as of Dec. 31, 2017
Through the capitalization of profit, reserves, additional paid-in capital or other items (L. 225-130)	05/31/2017 (7th resolution)	07/30/2019 (26 months)	32 million euros [(a)]	Not applicable	None
With preferential subscription rights: ordinary shares and securities giving access to the share capital	05/31/2017 (8th resolution)	07/30/2019 (26 months)	32 million euros [(a)]	Free	None

(a) As a guide, this equates to 2,000,000 shares on the basis of the authorized share capital as of December 31, 2017. Maximum nominal amount. The nominal amount of any capital increase decided in application of other delegations of authority would be offset against this amount (Resolution 10 – Overall limit).

3. Information on the related-party agreements covered by Article L. 225-37-4 2° of the French Commercial Code

We hereby inform you that no related-party agreements covered by Article L. 225-37-4 2° of the French Commercial Code were entered into in fiscal year 2017.

Consolidated financial statements

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1. Consolidated income statement

(EUR millions, except earnings per share)	*Notes*	2017	2016	2015
Revenue	*23-24*	**43,667**	**39,503**	**37,522**
Cost of sales		(15,085)	(13,555)	(13,047)
Gross margin		**28,582**	**25,948**	**24,475**
Marketing and selling expenses		(16,958)	(15,636)	(14,850)
General and administrative expenses		(3,253)	(3,068)	(2,789)
Income/(loss) from commercial joint ventures and associates	*7*	-	6	(10)
Profit from recurring operations	*23-24*	**8,371**	**7,250**	**6,826**
Other operating income and expenses	*25*	(169)	(125)	(218)
Operating profit		**8,202**	**7,125**	**6,608**
Cost of net financial debt		(111)	(133)	(142)
Income/(loss) from non-operating joint ventures and associates	*7*	18	63	95
Other financial income and expenses		2,190	(256)	(218)
Net financial income/(expense)	*26*	**2,097**	**(326)**	**(265)**
Income taxes	*27*	(2,291)	(2,093)	(2,094)
Net profit before minority interests		**8,008**	**4,706**	**4,249**
Minority interests	*17*	3,761	3,260	2,934
Net profit, Group share		**4,247**	**1,446**	**1,315**
Basic Group share of net earnings per share *(EUR)*	*28*	**1,339.86**	**456.19**	**414.86**
Diluted Group share of net earnings per share *(EUR)*	*28*	**1,336.07**	**453.35**	**411.39**

2. Consolidated statement of comprehensive gains and losses

(EUR millions)	*Notes*	2017	2016	2015
Net profit before minority interests		**8,008**	**4,706**	**4,249**
Translation adjustments	*15.4*	(990)	109	646
Amounts transferred to income statement		25	(32)	-
Tax impact		(49)	(9)	135
		(1,014)	**68**	**781**
Change in value of available for sale financial assets	*7, 8, 13*	1,027	1,067	306
Amounts transferred to income statement		(2,281)	(140)	(220)
Tax impact		(25)	(28)	17
		(1,279)	**899**	**103**
Change in value of hedges of future foreign currency cash flows		266	47	(63)
Amounts transferred to income statement		(1)	(26)	40
Tax impact		(76)	(1)	1
		189	**20**	**(22)**
Gains and losses recognized in equity, transferable to income statement		**(2,104)**	**987**	**862**
Change in value of vineyard land	*6*	(35)	30	64
Amounts transferred to consolidated reserves		-	-	-
Tax impact		81	108	(21)
		46	**138**	**43**
Employee benefit commitments: change in value resulting from actuarial gains and losses	*29*	58	(87)	42
Tax impact		(23)	16	(16)
		35	**(71)**	**26**
Gains and losses recognized in equity, not transferable to income statement		**81**	**67**	**69**
Gains and losses recognized in equity		**(2,023)**	**1,054**	**931**
Comprehensive income		**5,985**	**5,760**	**5,180**
Minority interests		3,339	3,422	3,454
COMPREHENSIVE INCOME, GROUP SHARE		**2,646**	**2,338**	**1,726**

3. Consolidated balance sheet

Assets

(EUR millions)	*Notes*	2017	2016	2015
Brands and other intangible assets	*3*	15,913	15,899	16,145
Goodwill	*4*	12,660	11,402	11,125
Property, plant and equipment	*6*	13,230	12,974	11,969
Investments in joint ventures and associates	*7*	1,657	1,450	1,244
Non-current available for sale financial assets	*8*	1,038	4,623	3,717
Other non-current assets	*9*	1,373	1,261	603
Deferred tax	*27*	1,743	2,182	2,077
Non-current assets		**47,614**	**49,791**	**46,880**
Inventories and work in progress	*10*	11,066	11,079	10,577
Trade accounts receivable	*11*	2,737	2,785	2,610
Income taxes		789	302	404
Other current assets	*12*	6,163	2,772	3,219
Cash and cash equivalents	*14*	7,951	3,806	3,890
Current assets		**28,706**	**20,744**	**20,700**
TOTAL ASSETS		**76,320**	**70,535**	**67,580**

Liabilities and equity

(EUR millions)	*Notes*	2017	2016	2015
Share capital	*15.1*	51	51	51
Share premium account	*15.1*	442	442	442
Financière Agache treasury shares	*15.2*	(6)	(6)	(6)
Cumulative translation adjustment	*15.4*	137	394	380
Revaluation reserves		2,161	3,320	2,435
Other reserves		(367)	6,926	5,959
Net profit, Group share		4,247	1,446	1,315
Equity, Group share		**6,665**	**12,573**	**10,576**
Minority interests	*17*	20,259	21,257	19,720
Equity		**26,924**	**33,830**	**30,296**
Long-term borrowings	*18*	12,295	5,914	6,197
Non-current provisions	*19*	2,572	2,390	1,986
Deferred tax	*27*	4,545	4,877	5,543
Other non-current liabilities	*20*	9,858	8,509	7,967
Non-current liabilities		**29,270**	**21,690**	**21,693**
Short-term borrowings	*18*	9,555	5,142	6,170
Trade accounts payable	*21.1*	4,541	4,384	4,157
Income taxes		853	457	678
Current provisions	*19*	406	356	424
Other current liabilities	*21.2*	4,771	4,676	4,162
Current liabilities		**20,126**	**15,015**	**15,591**
TOTAL LIABILITIES AND EQUITY		**76,320**	**70,535**	**67,580**

4. Consolidated statement of changes in equity

(EUR millions)	Number of shares	Share capital	Share premium account	Treasury shares	Cumulative translation adjustment	Revaluation reserves: Available for sale financial assets	Revaluation reserves: Future cash flow hedges	Revaluation reserves: Vineyard land	Revaluation reserves: Employee benefit commitments	Net profit and other reserves	Total equity: Group share	Total equity: Minority interests	Total equity: Total
Notes		*15.1*		*15.2*	*15.4*							*17*	
As of December 31, 2014	**3,173,352**	**51**	**442**	**(6)**	**164**	**1,981**	**1**	**286**	**(43)**	**6,642**	**9,518**	**17,776**	**27,294**
Gains and losses recognized in equity					208	189	(4)	10	8	-	411	520	931
Net profit					-	-	-	-	-	1,315	1,315	2,934	4,249
Comprehensive income					**208**	**189**	**(4)**	**10**	**8**	**1,315**	**1,726**	**3,454**	**5,180**
Stock option plan and similar expenses										17	17	29	46
(Acquisition)/disposal of treasury shares				-						-	-	-	-
Capital increase in subsidiaries										-	-	18	18
Interim and final dividends paid										(550)	(550)	(1,348)	(1,898)
Changes in control of consolidated entities										(3)	(3)	(5)	(8)
Acquisition and disposal of minority interests' shares				-	8	1	1	5	-	(396)	(381)	(135)	(516)
Purchase commitments for minority interests' shares										249	249	(69)	180
As of December 31, 2015	**3,173,352**	**51**	**442**	**(6)**	**380**	**2,171**	**(2)**	**301**	**(35)**	**7,274**	**10,576**	**19,720**	**30,296**
Gains and losses recognized in equity					10	859	5	36	(18)	-	892	162	1,054
Net profit					-	-	-	-	-	1,446	1,446	3,260	4,706
Comprehensive income					**10**	**859**	**5**	**36**	**(18)**	**1,446**	**2,338**	**3,422**	**5,760**
Stock option plan and similar expenses										19	19	32	51
(Acquisition)/disposal of treasury shares				-						-	-	-	-
Capital increase in subsidiaries										-	-	41	41
Interim and final dividends paid										(82)	(82)	(1,498)	(1,580)
Changes in control of consolidated entities										(2)	(2)	19	17
Acquisition and disposal of minority interests' shares				-	4	-	-	4	(1)	(301)	(294)	(376)	(670)
Purchase commitments for minority interests' shares										18	18	(103)	(85)
As of December 31, 2016	**3,173,352**	**51**	**442**	**(6)**	**394**	**3,030**	**3**	**341**	**(54)**	**8,372**	**12,573**	**21,257**	**33,830**
Gains and losses recognized in equity					(322)	(1,363)	59	14	11	-	(1,601)	(422)	(2,023)
Net profit					-	-	-	-	-	4,247	4,247	3,761	8,008
Comprehensive income					**(322)**	**(1,363)**	**59**	**14**	**11**	**4,247**	**2,646**	**3,339**	**5,985**
Stock option plan and similar expenses										29	29	44	73
(Acquisition)/disposal of treasury shares				-						-	-	-	-
Capital increase in subsidiaries										-	-	31	31
Interim and final dividends paid										(317)	(317)	(1,556)	(1,873)
Changes in control of consolidated entities										(2)	(2)	101	99
Impact of the sale of Christian Dior Couture to LVMH [(a)]										(464)	(464)	316	(148)
Impact of the public offer for Christian Dior shares					63	18	9	90	(11)	(6,990)	(6,821)	(2,515)	(9,336)
Acquisition and disposal of minority interests' shares				-	2	4	2	9	(1)	(955)	(939)	(378)	(1,317)
Purchase commitments for minority interests' shares										(40)	(40)	(380)	(420)
AS OF DEC. 31, 2017	**3,173,352**	**51**	**442**	**(6)**	**137**	**1,689**	**73**	**454**	**(55)**	**3,880**	**6,665**	**20,259**	**26,924**

(a) The transactions to simplify the structures of the Christian Dior – LVMH group reduced the Financière Agache group's ownership interest in Christian Dior Couture from 72% to 41%. See Note 2.

5. Consolidated cash flow statement

(EUR millions)	*Notes*	2017	2016	2015
I – OPERATING ACTIVITIES AND OPERATING INVESTMENTS				
Operating profit		8,202	7,125	6,608
Adjustment for income/(loss) and dividends from commercial joint ventures and associates	*7*	22	14	24
Net increase in depreciation, amortization and provisions		2,463	2,309	2,195
Other computed expenses		(25)	(167)	(434)
Other adjustments		(119)	(163)	(93)
Cash from operations before changes in working capital		**10,543**	**9,118**	**8,300**
Cost of net financial debt: interest paid		(103)	(118)	(148)
Tax paid on operating activities		(2,858)	(2,004)	(1,921)
Net cash from operating activities before changes in working capital		**7,582**	**6,996**	**6,231**
Change in working capital	*14.3*	(521)	(584)	(446)
Net cash from operating activities		**7,061**	**6,412**	**5,785**
Operating investments	*14.4*	(2,516)	(2,438)	(2,213)
Net cash from operating activities and operating investments (free cash flow)		**4,545**	**3,974**	**3,572**
II – FINANCIAL INVESTMENTS				
Purchase of non-current available for sale financial assets [(a)]	*8-13*	(127)	(41)	(183)
Proceeds from sale of non-current available for sale financial assets	*8*	144 [(b)]	262	97
Dividends received	*8*	47	36	79
Tax paid on financial investments		(9)	(475)	(275)
Impact of purchase and sale of consolidated investments	*2.4*	(524)	310	(272)
Net cash from/(used in) financial investments		**(469)**	**92**	**(554)**
III – TRANSACTIONS RELATING TO EQUITY				
Capital increases of subsidiaries subscribed by minority interests	*17*	31	42	10
Interim and final dividends paid by Financière Agache SA	*15.3*	(317)	(82)	(550)
Tax paid related to interim and final dividends paid and other consolidated investments		475	(189)	(406)
Interim and final dividends paid to minority interests in consolidated subsidiaries	*17*	(1,557)	(1,491)	(1,364)
Purchase and proceeds from sale of minority interests	*2.4*	(7,607) [(c)]	(687)	(177)
Net cash from/(used in) transactions relating to equity		**(8,975)**	**(2,407)**	**(2,487)**
Change in cash before financing activities		**(4,899)**	**1,659**	**531**
IV – FINANCING ACTIVITIES				
Proceeds from borrowings	*14.2*	13,891	1,751	1,506
Repayment of borrowings	*14.2*	(2,987)	(3,155)	(3,162)
Non-Group financial current accounts	*18.1*	211	(52)	430
Purchase and proceeds from sale of current available for sale financial assets	*8-13*	(1,842)	(130)	(180)
Net cash from/(used in) financing activities	*14.2*	**9,273**	**(1,586)**	**(1,406)**
V – EFFECT OF EXCHANGE RATE CHANGES		**(132)**	**(47)**	**(32)**
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)		**4,243**	**26**	**(907)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	*14.1*	**3,589**	**3,563**	**4,470**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	*14.1*	**7,831**	**3,589**	**3,563**
TOTAL TAX PAID		**(2,392)**	**(2,668)**	**(2,602)**

(a) The cash impact of non-current available for sale financial assets used to hedge net financial debt (see Note 18) is presented under "IV. Financing activities" as "Purchase and proceeds from sale of current available for sale financial assets".
(b) The Hermès International shares were exchanged for Christian Dior shares without any impact on cash.
(c) Without taking into account the 6,980,933 Hermès International shares tendered under the public offer by Semyrhamis for Christian Dior.

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6. Notes to the consolidated financial statements

NOTE 1 – ACCOUNTING POLICIES

1.1. General framework and environment

The consolidated financial statements for the fiscal year ended December 31, 2017 were established in accordance with the international accounting standards and interpretations (IAS/IFRS) adopted by the European Union and applicable on December 31, 2017. These standards and interpretations have been applied consistently to the fiscal years presented. The 2017 consolidated financial statements were approved for publication by the Board of Directors on April 27, 2018.

1.2. Changes in the accounting framework applicable to the Group

Standards, amendments and interpretations for which application became mandatory in 2017

Only the amendment to IAS 7 requiring a separate presentation of changes in financial debt applies to the Group for accounting periods beginning on or after January 1, 2017. This presentation is provided in Note 18.1, and the reconciliation between cash flows related to changes in net financial debt and net cash from/(used in) financing activities is presented in Note 14.2.

Other changes in the accounting framework and standards for which application will become mandatory later than January 1, 2018

The impact of IFRS 15 on revenue recognition, which enters into effect for accounting periods beginning on or after January 1, 2018, will be marginal, given the nature of the Group's business activities.

The impact of the new standard on financial instruments (IFRS 9), which also enters into effect for accounting periods beginning on or after January 1, 2018, will mainly involve the change in the recognition method for the ineffective portion of derivatives designated as hedging instruments, which will be recognized as follows:

- for hedges that are commercial in nature, the changes in the value of forward points associated with forward contracts and in the time value component of options will be included in gains and losses recognized directly in equity until the hedged item is recognized in the balance sheet, on which date the cost of the forward contracts (forward points) and of the options (premiums) will be transferred to net financial income/(expense);
- for hedges that are financial in nature or tied to the Group's investment portfolio, expenses and income arising from forward points will be recognized in net financial income/(expense) on a pro rata basis over the term of the hedging instruments. The difference between the amounts recognized in net financial income/(expense) and the change in the value of forward points will be included in gains and losses recognized directly in equity.

At the end of 2016, the Group launched its project for the implementation of IFRS 16 relating to leases, which applies to accounting periods beginning on or after January 1, 2019. When entering into a lease involving fixed payments, this standard requires that a liability be recognized in the balance sheet, offset against a right-of-use asset and measured at the discounted present value of future lease payments. The liability amount recognized therefore depends quite heavily on the assumptions used for the discount rate and lease term; extension and early termination options offered by lease agreements will also need to be included in the calculation of the liability if their exercise is considered reasonably certain when entering into the lease.

The inventory of the leases and the gathering of the information required to precisely estimate the balance sheet impact of the initial application of IFRS 16 are underway. The approximate impact on the balance sheet of the first-time adoption of IFRS 16 may be assessed based on the amount of lease commitments as of December 31, 2017, i.e. 11 billion euros (see Note 30). Depending on the assumptions used for the discount rates and lease terms, the definitive amount might range from 13 to 16 billion euros.

The impact of applying IFRS 16 on profit from recurring operations and net profit will not be significant.

The Group is following the ongoing discussions held at IFRIC and IASB related to the recognition of purchase commitments for minority interests' shares and changes in their amount. See Note 1.12 for a description of the recognition method applied by LVMH to these commitments.

1.3. First-time adoption of IFRS

The first accounts prepared by the Group in accordance with IFRS were the financial statements for the year ended December 31, 2005, with a transition date of January 1, 2004. IFRS 1 allowed for exceptions to the retrospective application of IFRS at the transition date. The procedures implemented by the Group with respect to these exceptions are as follows:

- business combinations: the exemption from retrospective application was not applied. The Financière Agache group has retrospectively restated acquisitions made since 1988, the date of the initial consolidation of LVMH, and all subsequent acquisitions have been restated in accordance with IFRS 3. IAS 36 Impairment of Assets and IAS 38 Intangible Assets have been applied retrospectively since that date;
- measurement of property, plant and equipment and intangible assets: the option to measure these assets at fair value at the date of transition was not applied, with the exception of the real estate holdings of Christian Dior Couture, Belle Jardinière and Le Bon Marché. These assets have not been remeasured since that date;

- foreign currency translation of the financial statements of subsidiaries outside the eurozone: translation reserves relating to the consolidation of subsidiaries that prepare their accounts in foreign currency were reset to zero as of January 1, 2004 and offset against "Other reserves".

1.4. Presentation of the financial statements

Definitions of "Profit from recurring operations" and "Other operating income and expenses"

The Group's main business is the management and development of its brands and trade names. "Profit from recurring operations" is derived from these activities, whether they are recurring or non-recurring, core or incidental transactions.

"Other operating income and expenses" comprises income statement items, which – due to their nature, amount or frequency – may not be considered inherent to the Group's recurring operations or its profit from recurring operations. This caption reflects in particular the impact of changes in the scope of consolidation, the impairment of goodwill and the impairment and amortization of brands and trade names, as well as any significant amount of gains or losses arising on the disposal of fixed assets, restructuring costs, costs in respect of disputes, or any other non-recurring income or expense which may otherwise distort the comparability of profit from recurring operations from one period to the next.

Cash flow statement

Net cash from operating activities is determined on the basis of operating profit, adjusted for non-cash transactions. In addition:

- dividends received are presented according to the nature of the underlying investments; thus, dividends from commercial joint ventures and associates are presented in "Net cash from operating activities", while dividends from non-operating joint ventures and associates and from unconsolidated entities are presented in "Net cash from financial investments";
- tax paid is presented according to the nature of the transaction from which it arises: in "Net cash from operating activities" for the portion attributable to operating transactions; in "Net cash from financial investments" for the portion attributable to transactions in available for sale financial assets, notably tax paid on gains from their sale; in "Net cash from transactions relating to equity" for the portion attributable to transactions in equity, notably distribution taxes arising on the payment of dividends.

1.5. Use of estimates

For the purpose of preparing the consolidated financial statements, the measurement of certain balance sheet and income statement items requires the use of hypotheses, estimates or other forms of judgment. This is particularly true of the valuation of intangible assets (see Note 5), the measurement of purchase commitments for minority interests' shares (see Note 20), and the determination of the amount of provisions for contingencies and losses (see Note 19) or for impairment of inventories (see Note 10) and, if applicable, deferred tax assets (see Note 27). Such hypotheses, estimates or other forms of judgment which are undertaken on the basis of the information available, or situations prevalent as of the date of preparation of the financial statements, may prove different from the subsequent actual events.

1.6. Methods of consolidation

The Group's subsidiaries, in which the Group holds a direct or indirect de facto or de jure controlling interest, are fully consolidated.

Jointly controlled companies and companies where the Group has significant influence but no controlling interest are accounted for under the equity method. Although jointly controlled, those entities are fully integrated within the Group's operating activities if their businesses are related to those of the Group. Financière Agache discloses their net profit, as well as that of other operating entities accounted for under the equity method (see Note 7), on a separate line, which forms part of profit from recurring operations.

Net profit for non-operating joint ventures and associates is disclosed on a specific line within "Net financial income/(expense)".

The assets, liabilities, income, and expenses of the Wines and Spirits distribution subsidiaries held jointly with the Diageo group are consolidated only in proportion to the Group's share of operations (see Note 1.25). The consolidation, whether individually or collectively, of unconsolidated subsidiaries (see the list of companies not included in the scope of consolidation) would not have a significant impact on the Group's main aggregates.

1.7. Foreign currency translation of the financial statements of subsidiaries outside the eurozone

The consolidated financial statements are presented in euros; the financial statements of entities presented in a different functional currency are translated into euros:

- at the period-end exchange rates for balance sheet items;
- at the average rates for the period for income statement items.

Translation adjustments arising from the application of these rates are recorded in equity under "Cumulative translation adjustment".

1.8. Foreign currency transactions and hedging of exchange rate risks

Transactions of consolidated companies denominated in a currency other than their functional currencies are translated to their functional currencies at the exchange rates prevailing on the transaction dates.

Accounts receivable, accounts payable and debts denominated in currencies other than the entities' functional currencies are translated at the applicable exchange rates at the balance sheet date. Unrealized gains and losses resulting from this translation are recognized:

- within cost of sales in the case of commercial transactions;
- within net financial income/(expense) in the case of financial transactions.

Foreign exchange gains and losses arising from the translation or elimination of intercompany transactions or receivables and payables denominated in currencies other than the entity's functional currency are recorded in the income statement unless they relate to long-term intercompany financing transactions, which can be considered as transactions relating to equity. In the latter case, translation adjustments are recorded in equity under "Cumulative translation adjustment".

Derivatives that are designated as hedges of commercial transactions denominated in a currency other than the functional currency of the entity are recognized in the balance sheet at their market value (see Note 1.9) at the balance sheet date, and any change in the market value of such derivatives is recognized:

- within cost of sales for the effective portion of hedges of receivables and payables recognized in the balance sheet at the end of the period;
- within equity (as "Revaluation reserves") for the effective portion of hedges of future cash flows (this part is transferred to cost of sales at the time of recognition of the hedged assets and liabilities);
- within net financial income/(expense) for the ineffective portion of hedges; changes in the value of forward points associated with forward contracts, as well as the time value component of options, are systematically considered as ineffective portions.

When derivatives are designated as hedges of the net worth of subsidiaries whose functional currency is not the euro (net investment hedge), any change in fair value of the derivatives is recognized within equity under "Cumulative translation adjustment" for the effective portion and within net financial income/(expense) for the ineffective portion. Market value changes of derivatives not designated as hedges are recorded within net financial income/(expense). See also Note 1.21 regarding the definition of the concepts of effective and ineffective portions.

1.9. Fair value measurement

Fair value (or market value) is the price that would be obtained from the sale of an asset or paid to transfer a liability in an orderly transaction between market participants.

The assets and liabilities measured at fair value in the balance sheet are as follows:

	Approaches to determining fair value	**Amounts recorded at balance sheet date**
Vineyard land	Based on recent transactions in similar assets. See Note 1.13.	Note 6
Grape harvests	Based on purchase prices for equivalent grapes. See Note 1.16.	Note 10
Derivatives	Based on market data and according to commonly used valuation models. See Note 1.21.	Note 22
Borrowings hedged against changes in value due to interest rate fluctuations	Based on market data and according to commonly used valuation models. See Note 1.20.	Note 18
Liabilities in respect of purchase commitments for minority interests' shares priced according to fair value	Generally based on the market multiples of comparable companies. See Note 1.12.	Note 20
Available for sale financial assets	Quoted investments: price quotations at the close of trading on the balance sheet date. Unquoted investments: estimated net realizable value, either according to formulas based on market data or based on private quotations. See Note 1.15.	Note 8, Note 13
Cash and cash equivalents (SICAV and FCP funds)	Based on the liquidation value at the balance sheet date. See Note 1.18.	Note 14

No other asset or liability has been remeasured at market value at the balance sheet date.

1.10. Brands and other intangible assets

Only acquired brands and trade names that are well known and individually identifiable are recorded as assets, based on their market values as of the acquisition date.

Brands and trade names are chiefly valued using the forecast discounted cash flow method, or based on comparable transactions (i.e. using the revenue and net profit coefficients employed for recent transactions involving similar brands) or stock market multiples observed for related businesses. Other complementary methods may also be employed: the relief from royalty method, involving equating a brand's value with the present value of the royalties required to be paid for its use; the margin differential method, applicable when a measurable difference can be identified in the amount of revenue generated by a branded product in comparison with a similar unbranded product; and finally the equivalent brand reconstitution method involving, in particular, estimation of the amount of advertising and promotion expenses required to generate a similar brand.

Costs incurred in creating a new brand or developing an existing brand are expensed.

Brands, trade names and other intangible assets with finite useful lives are amortized over their estimated useful lives. The classification of a brand or trade name as an asset of definite or indefinite useful life is generally based on the following criteria:

- the brand or trade name's overall positioning in its market expressed in terms of volume of activity, international presence and reputation;
- its expected long-term profitability;
- its degree of exposure to changes in the economic environment;
- any major event within its business segment liable to compromise its future development;
- its age.

Amortizable lives of brands and trade names with definite useful lives range from 8 to 20 years, depending on their estimated period of utilization.

Impairment tests are carried out for brands, trade names and other intangible assets using the methodology described in Note 1.14.

Research expenditure is not capitalized. New product development expenditure is not capitalized unless the final decision has been made to launch the product.

Intangible assets other than brands and trade names are amortized over the following periods:

- leasehold rights, key money: based on market conditions, generally over the lease period;
- rights attached to sponsorship agreements and media partnerships: over the life of the agreements, depending on how the rights are used;
- development expenditure: three years at most;
- software, websites: one to five years.

1.11. Changes in ownership interests in consolidated entities

When the Group takes de jure or de facto control of a business, its assets, liabilities and contingent liabilities are estimated at their market value as of the date when control is obtained and the difference between the cost of taking control and the Group's share of the market value of those assets, liabilities and contingent liabilities is recognized as goodwill.

The cost of taking control is the price paid by the Group in the context of an acquisition, or an estimate of this price if the transaction is carried out without any payment of cash, excluding acquisition costs, which are disclosed under "Other operating income and expenses".

The difference between the carrying amount of minority interests purchased after control is obtained and the price paid for their acquisition is deducted from equity.

Goodwill is accounted for in the functional currency of the acquired entity.

Goodwill is not amortized but is subject to annual impairment testing using the methodology described in Note 1.14. Any impairment expense recognized is included within "Other operating income and expenses".

1.12. Purchase commitments for minority interests' shares

The Group has granted put options to minority shareholders of certain fully consolidated subsidiaries.

Pending specific guidance from IFRSs regarding this issue, the Group recognizes these commitments as follows:

- the value of the commitment at the balance sheet date appears in "Other non-current liabilities", or in "Other current liabilities" if the minority shareholder has provided notice of exercising its put option before the balance sheet date;
- the corresponding minority interests are cancelled;
- for commitments granted prior to January 1, 2010, the difference between the amount of the commitments and cancelled minority interests is maintained as an asset on the balance sheet under goodwill, which also reflects subsequent changes in this difference. For commitments granted as from January 1, 2010, the difference between the amount of the commitments and minority interests is recorded in equity, under "Other reserves".

This recognition method has no effect on the presentation of minority interests within the income statement.

1.13. Property, plant and equipment

With the exception of vineyard land and the real estate holdings of Christian Dior Couture, Belle Jardinière and Le Bon Marché, the gross value of property, plant and equipment is stated at acquisition cost.

Any borrowing costs incurred prior to the placed-in-service date or during the construction period of assets are capitalized.

Vineyard land is recognized at the market value at the balance sheet date. This valuation is based on official published data for recent transactions in the same region. Any difference compared to historical cost is recognized within equity in "Revaluation reserves". If the market value falls below the acquisition cost, the resulting impairment is charged to the income statement.

Buildings mostly occupied by third parties are reported as investment property, at their acquisition cost. Investment property is thus not remeasured to market value.

Assets acquired under finance leases are capitalized on the basis of the lower of their market value and the present value of future lease payments.

The depreciable amount of property, plant and equipment comprises the acquisition cost of their components less residual value, which corresponds to the estimated disposal price of the asset at the end of its useful life.

Property, plant and equipment is depreciated on a straight-line basis over its estimated useful life; the estimated useful lives are as follows:

- buildings, including investment property 20 to 50 years;
- machinery and equipment 3 to 25 years;
- leasehold improvements 3 to 10 years;
- producing vineyards 18 to 25 years.

Expenses for maintenance and repairs are charged to the income statement as incurred.

1.14. Impairment testing of fixed assets

Intangible and tangible fixed assets are subject to impairment testing whenever there is any indication that an asset may be impaired (particularly following major changes in the asset's operating conditions), and in any event at least annually in the case of intangible assets with indefinite useful lives (mainly brands, trade names and goodwill). When the carrying amount of assets with indefinite useful lives is greater than the higher of their value in use or market value, the resulting impairment loss is recognized within "Other operating income and expenses", allocated on a priority basis to any existing goodwill.

Value in use is based on the present value of the cash flows expected to be generated by these assets. Market value is estimated by comparison with recent similar transactions or on the basis of valuations performed by independent experts for the purposes of a disposal transaction.

Cash flows are forecast for each business segment, defined as one or several brands or trade names under the responsibility of a dedicated management team. Smaller-scale cash-generating units, such as a group of stores, may be distinguished within a particular business segment.

The forecast data required for the cash flow method is based on annual budgets and multi-year business plans prepared by management at the business groups concerned. Detailed forecasts cover a five-year period, which may be extended in the case of certain brands undergoing strategic repositioning, or which have a production cycle exceeding five years. An estimated terminal value is added to the value resulting from discounted forecast cash flows, which corresponds to the capitalization in perpetuity of cash flows most often arising from the last year of the plan. Discount rates are set for each business group with reference to companies engaged in comparable businesses. Forecast cash flows are discounted on the basis of the rate of return to be expected by an investor in the applicable business and an assessment of the risk premium associated with that business. When several forecast scenarios are developed, the probability of occurrence of each scenario is assessed.

1.15. Available for sale financial assets

Available for sale financial assets are classified as current or non-current based on their nature.

Non-current available for sale financial assets comprise strategic and non-strategic investments whose estimated period and form of ownership justify such classification.

Current available for sale financial assets (presented in "Other current assets"; see Note 12) include temporary investments in shares, shares of SICAVs, FCPs and other mutual funds, excluding investments made as part of the daily cash management, which are accounted for as "Cash and cash equivalents" (see Note 1.18).

Available for sale financial assets are measured at their year-end listed value in the case of quoted investments, and at their estimated net realizable value in the case of unquoted investments, assessed either according to formulas based on market data or based on private quotations at the fiscal year-end.

Positive or negative changes in the value of available for sale financial assets are taken to equity within "Revaluation reserves". If an impairment loss is judged to be definitive, an impairment is recognized and charged to net financial income/(expense); the impairment is only reversed through the income statement at the time of sale of the underlying available for sale financial assets.

When the assets are held for trading, changes in value are recognized in net financial income/expense.

1.16. Inventories and work in progress

Inventories other than wine produced by the Group are recorded at the lower of cost (excluding interest expense) and net realizable value; cost comprises manufacturing cost (finished goods) or purchase price, plus incidental costs (raw materials, merchandise).

Wine produced by the Group, including champagne, is measured on the basis of the applicable harvest market value, which is determined by reference to the average purchase price of equivalent grapes, as if the grapes harvested had been purchased from third parties. Until the date of the harvest, the value of grapes is calculated on a pro rata basis, in line with the estimated yield and market value.

Inventories are valued using the weighted average cost or FIFO (first in, first out) method, depending on the type of business.

Due to the length of the aging process required for champagne and spirits (cognac, whisky), the holding period for these inventories generally exceeds one year. However, in accordance with industry practices, these inventories are classified as current assets.

Provisions for impairment of inventories are chiefly recognized for businesses other than Wines and Spirits. They are generally required because of product obsolescence (end of season or collection, expiration date approaching, etc.) or lack of sales prospects.

1.17. Trade accounts receivable, loans and other receivables

Trade accounts receivable, loans and other receivables are recorded at their face value. A provision for impairment is recorded if their net realizable value, based on the probability of their collection, is less than their carrying amount.

The amount of long-term loans and receivables (i.e. those falling due in more than one year) is subject to discounting, the effects of which are recognized under net financial income/(expense), using the effective interest rate method.

1.18. Cash and cash equivalents

Cash and cash equivalents comprise cash and highly liquid money-market investments subject to an insignificant risk of changes in value over time.

Money-market investments are measured at their market value, based on price quotations at the close of trading and on the exchange rate prevailing at the fiscal year-end, with any changes in value recognized as part of net financial income/expense.

1.19. Provisions

A provision is recognized whenever an obligation exists towards a third party resulting in a probable disbursement for the Group, the amount of which may be reliably estimated. See also Notes 1.23 and 19.

When execution of its obligation is expected to occur in more than one year, the provision amount is discounted, the effects of which are recognized in net financial income/(expense) using the effective interest rate method.

1.20. Borrowings

Borrowings are measured at amortized cost, i.e. nominal value net of premium and issue expenses, which are charged progressively to net financial income/(expense) using the effective interest method.

In the case of hedging against fluctuations in the value of borrowings resulting from changes in interest rates, both the hedged amount of borrowings and the related hedging instruments are measured at their market value at the balance sheet date, with any changes in those values recognized within net financial income/(expense). Market value of hedged borrowings is determined using similar methods to those described in Note 1.21 below.

In the case of hedging against fluctuations in future interest payments, the related borrowings remain measured at their amortized cost while any changes in value of the effective hedge portions are taken to equity as part of "Revaluation reserves".

Changes in value of non-hedging derivatives, and of the ineffective portions of hedges, are recognized within net financial income/(expense).

Net financial debt comprises short- and long-term borrowings, the year-end market value of interest rate derivatives, less the year-end amount of non-current available for sale financial assets used to hedge financial debt, current available for sale financial assets, cash and cash equivalents, in addition to the market value as of that date of foreign exchange derivatives related to any of the aforementioned items.

See also Note 1.21 regarding the definition of the concepts of effective and ineffective portions.

1.21. Derivatives

The Group enters into derivative transactions as part of its strategy for hedging foreign exchange, interest rate and gold price risks.

IAS 39 subordinates the use of hedge accounting to demonstration and documentation of the effectiveness of hedging relationships when hedges are implemented and subsequently throughout their existence. A hedge is considered effective if the ratio of changes in the value of the derivative to changes in the value of the hedged underlying remains within a range of 80% to 125%.

Derivatives are recognized in the balance sheet at their market value at the balance sheet date. Changes in their value are accounted for as described in Note 1.8 in the case of foreign exchange hedges, and as described in Note 1.20 in the case of interest rate hedges.

Market value is based on market data and commonly used valuation models.

Derivatives with maturities in excess of twelve months are disclosed as non-current assets and liabilities.

1.22. Financière Agache, Christian Dior and LVMH treasury shares

Financière Agache treasury shares

Financière Agache shares held by the Group are measured at their acquisition cost and recognized as a deduction from consolidated equity, irrespective of the purpose for which they are held.

In the event of disposal, the cost of the shares disposed of is determined using the FIFO method. Gains and losses on disposal are taken directly to equity.

Christian Dior and LVMH treasury shares

Purchases and sales by Christian Dior and LVMH of their own shares, resulting in changes in the ownership interests held by the Financière Agache group in Christian Dior and LVMH, are accounted for in the Financière Agache consolidated financial statements as changes in ownership interests in consolidated entities.

As from January 1, 2010, in accordance with the revised version of IFRS 3, changes in the Financière Agache group's ownership interests in Christian Dior and LVMH have been taken to equity within "Other reserves". As this standard is applied prospectively, goodwill recognized until December 31, 2009 has been maintained as an asset on the balance sheet.

1.23. Pensions, contribution to medical costs and other employee benefit commitments

When retirement benefit plans, pension plans, contribution to medical costs and other commitments entail the payment by the Group of contributions to third-party organizations that assume sole responsibility for subsequently paying the retirement benefits, pensions or contribution to medical costs, these contributions are expensed in the period in which they fall due with no liability recorded on the balance sheet.

When retirement benefit plans, pension plans, contribution to medical costs and other commitments are to be borne by the Group, a provision is recorded in the balance sheet in the amount of the corresponding actuarial commitment. Changes in this provision are recognized as follows:

- the portion related to the cost of services rendered by employees and net interest for the fiscal year is recognized in profit from recurring operations for the fiscal year;
- the portion related to changes in actuarial assumptions and to differences between projected and actual data (experience adjustments) is recognized in gains and losses taken to equity.

If this commitment is partially or wholly funded by payments made by the Group to external financial organizations, these dedicated funds are deducted from the actuarial commitment recorded in the balance sheet.

The actuarial commitment is calculated based on assessments that are specifically designed for the country and the Group company concerned. In particular, these assessments include assumptions regarding discount rates, salary increases, inflation, life expectancy and staff turnover.

1.24. Current and deferred tax

The tax expense comprises current tax payable by consolidated companies and deferred tax resulting from temporary differences.

Deferred tax is recognized in respect of temporary differences arising between the value of assets and liabilities for purposes of consolidation and the value resulting from the application of tax regulations.

Deferred tax is measured on the basis of the income tax rates enacted at the balance sheet date; the effect of changes in rates is recognized during the periods in which changes are enacted.

Future tax savings from tax losses carried forward are recorded as deferred tax assets on the balance sheet and impaired if they are deemed not recoverable; only amounts for which future use is deemed probable are recognized.

Deferred tax assets and liabilities are not discounted.

Taxes payable in respect of the distribution of retained earnings of subsidiaries give rise to provisions if distribution is deemed probable.

1.25. Revenue recognition

Definition of revenue

Revenue mainly comprises retail sales within the Group's store network (including e-commerce websites) and sales through agents and distributors. Sales made in stores owned by third parties are treated as retail transactions if the risks and rewards of ownership of the inventories are retained by the Group.

Retail sales involve the Group's Fashion and Leather Goods and Selective Retailing businesses, as well as certain Watches and Jewelry and Perfumes and Cosmetics brands. These sales are recognized at the time of purchase by retail customers.

Wholesale sales mainly concern the Wines and Spirits businesses, as well as certain Perfumes and Cosmetics and Watches and Jewelry brands. The Group recognizes revenue when title transfers to third-party customers.

Revenue includes shipment and transportation costs re-billed to customers only when these costs are included in products' selling prices as a lump sum.

Revenue is presented net of all forms of discount. In particular, payments made in order to have products referenced or, in accordance with agreements, to participate in advertising campaigns with the distributors, are deducted from related revenue.

Provisions for product returns

Perfumes and Cosmetics and, to a lesser extent, Fashion and Leather Goods and Watches and Jewelry companies may accept the return of unsold or outdated products from their customers and distributors.

Where this practice is applied, revenue and the corresponding trade receivables are reduced by the estimated amount of such returns, and a corresponding entry is made to inventories. The estimated rate of returns is based on statistics of historical returns.

Businesses undertaken in partnership with Diageo

A significant proportion of revenue for the Group's Wines and Spirits businesses is generated within the framework of distribution agreements with Diageo generally taking the form of shared entities that sell and deliver both groups' products to customers. The income statement and balance sheet of these entities is apportioned between the Group and Diageo based on distribution agreements. Under these agreements, the assets, liabilities, income and expenses of the entities concerned are consolidated only in proportion to the Group's share of operations.

1.26. Advertising and promotion expenses

Advertising and promotion expenses include the costs of producing advertising media, purchasing media space, manufacturing samples and publishing catalogs, and in general, the cost of all activities designed to promote the Group's brands and products.

Advertising and promotion expenses are recorded within marketing and selling expenses upon receipt or production of goods or upon completion of services rendered.

1.27. Stock option and similar plans

Share purchase and subscription option plans give rise to the recognition of an expense based on the amortization of the expected gain for the recipients calculated according to the Black & Scholes method on the basis of the closing share price on the day before the Board meeting at which the plan is instituted.

For bonus and performance share plans, the expected gain is calculated on the basis of the closing share price on the day before the Board meeting at which the plan is instituted, less the amount of dividends expected to accrue during the vesting period.

In the case of bonus shares, a discount may be applied to the value for the shares thus calculated to account for a period of non-transferability, where applicable.

For all plans, the amortization expense is apportioned on a straight-line basis in the income statement over the vesting period, with a corresponding impact on reserves in the balance sheet. In the event of cash-settled compensation plans index-linked to the change in the LVMH share price, the gain over the vesting period is estimated at each balance sheet date based on the LVMH share price at that date, and is charged to the income statement on a pro rata basis over the vesting period, with a corresponding balance sheet impact on provisions.

Between that date and the settlement date, the change in the expected gain resulting from the change in the LVMH share price is recorded in the income statement.

1.28. Earnings per share

Earnings per share are calculated based on the weighted average number of shares outstanding during the period, excluding treasury shares.

Diluted earnings per share are calculated based on the weighted average number of shares before dilution. Dilutive instruments issued by subsidiaries are also taken into consideration for the purposes of determining the Group's share of net profit after dilution.

NOTE 2 – CHANGES IN OWNERSHIP INTERESTS IN CONSOLIDATED ENTITIES

2.1. Fiscal year 2017

2.1.1. *Fashion and Leather Goods*

Rimowa

On January 23, 2017, pursuant to the transaction agreement announced on October 4, 2016, LVMH acquired an 80% stake in Rimowa, the luggage and leather goods maker founded in Cologne in 1898 and known for its innovative, high-quality luggage, with effect from January 2, 2017 and for consideration of 640 million euros. The 20% of the share capital that has not been acquired is covered by a put option granted by LVMH, exercisable from 2020. The difference in value of 71 million euros between the purchase commitment (recorded in "Other non-current liabilities"; see Note 20) and the minority interests was deducted from consolidated reserves. Rimowa has been fully consolidated by LVMH within the Fashion and Leather Goods business group since January 2017.

The following table lays out the definitive allocation of the price paid by LVMH:

(EUR millions)	**Definitive purchase price allocation**
Brand	475
Intangible and tangible fixed assets	145
Other non-current assets	5
Non-current provisions	(31)
Current assets	119
Current liabilities	(62)
Net financial debt	(57)
Deferred tax	(150)
Net assets acquired	**444**
Minority interests (20%)	(89)
Net assets, Group share at LVMH (80%)	**355**
Goodwill	285
Carrying amount of shares held as of January 2, 2017	**640**

In 2017, Rimowa had consolidated revenue of 417 million euros and its profit from recurring operations totaled 9 million euros.

The Rimowa brand, amounting to 475 million euros, was valued using the relief from royalty method. Goodwill, recognized in the amount of 285 million euros, is representative of Rimowa's expertise and capacity to innovate, for which it is internationally renowned in the sector of high-quality luggage.

The acquisition costs for Rimowa were recognized in "Other operating income and expenses"; these totaled 1 million euros in 2017, in addition to acquisition costs totaling 3 million euros recognized in 2016 (see Note 25).

In 2017, the Rimowa acquisition generated an outflow of 615 million euros, net of cash acquired in the amount of 25 million euros.

Loro Piana

In February 2017, following the partial exercise of the put option held by the Loro Piana family for Loro Piana shares, LVMH acquired an additional 5% stake in the company, bringing its ownership interest to 85%. The difference between the acquisition price and minority interests was deducted from equity.

Christian Dior Couture

On July 3, 2017, as part of the project aimed at simplifying the structures of the Christian Dior – LVMH group and in accordance with the terms of the memorandum of understanding signed with LVMH on April 24, 2017, Christian Dior SE sold 100% of the Christian Dior Couture segment to LVMH SE for 6 billion euros. Christian Dior directly and indirectly holds 41% of the share capital and 57% of the voting rights of LVMH.

The scope of the sale includes Grandville and its subsidiary, Christian Dior Couture. As a result of this sale, the Financière Agache group's ownership interest in Christian Dior Couture fell from 72% in the first half of 2017 to 41% in the second half of 2017.

Since LVMH is fully consolidated within Financière Agache's consolidated financial statements, this sale had no impact on net profit before minority interests.

The Financière Agache group's consolidated reserves were reduced by 464 million euros, an amount made up of:

- the portion of net assets transferred to minority interests in LVMH SE (324 million euros);

- the Group's share of transaction costs (4 million euros), which had a negative impact on equity of 5 million euros; and
- the Group's share of the tax on the capital gain after taking into account tax loss carryforwards (136 million euros), which had a negative impact on equity of 143 million euros.

Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group (see Note 23) for fiscal year 2017 as well as prior periods.

2.1.2. Other activities

Simplified public offer by Semyrhamis for Christian Dior shares

Also in connection with the project aimed at simplifying the structures of the Christian Dior – LVMH group, Semyrhamis, a wholly owned subsidiary of Financière Agache, filed a draft offer document with the Autorité des Marchés Financiers (AMF, the French financial markets regulator) on May 22, 2017 relating to its simplified public offer for the entirety of the Christian Dior shares not owned by the Arnault Family Group. This filing followed the signing of a syndicated loan agreement to finance the offer. The AMF issued its clearance notice (*avis de conformité*) for the offer on June 6, 2017, stating that the public offer would remain open from June 8 to 28, 2017.

The main terms of this public offer were as follows:

- primary mixed public offer: 172 euros and 0.192 Hermès shares for each Christian Dior share;
- secondary cash offer (with reduction and transfer mechanism): 260 euros for each Christian Dior share; and
- secondary exchange offer (with reduction and transfer mechanism): 0.566 Hermès International shares for each Christian Dior share.

At the close of the simplified public offer, whose results were announced on July 4, 2017 by the AMF, a total of 36,363,863 Christian Dior shares had been acquired by Semyrhamis.

The settlement and delivery of the Christian Dior shares in exchange for Hermès International shares and the cash payment occurred on July 12. The settlement and delivery was comprised of (i) the amount of 6,254 million euros paid in cash and (ii) 6,980,933 Hermès shares tendered to the exchange offer and valued at 3,065 million euros, on the basis of the opening share price on July 12 (439 euros).

The impact of the public offer for Christian Dior shares on the consolidated financial statements as of December 31, 2017 was as follows:

	Impact of the public offer		
(EUR millions)	**Equity, Group share – consolidated reserves**	**Other reserves, Minority interests**	**Total equity**
Amount of the public offer	(9,318)		(9,318)
Offer costs	(18)		(18)
Portion of net assets acquired under the public offer	2,515	(2,515)	-
TOTAL	**(6,821)**	**(2,515)**	**(9,336)**

With respect to the Group's share of equity, the difference between the purchase price of the shares (9,318 million euros) and the portion of net assets acquired from minority interests (2,515 million euros) was deducted from the Group's share of consolidated reserves. The offer costs were also deducted from the Group's share of consolidated reserves.

At the close of the public offer period, the remaining stake held by the Group in Hermès International corresponded to the shares not exchanged. This ownership interest was reclassified under "Current available for sale financial assets" (see Note 8 regarding "Non-current available for sale financial assets" and Note 13 regarding "Current available for sale financial assets").

In the consolidated financial statements for the fiscal year ended December 31, 2017, the revaluation adjustment relating to the Hermès International shares exchanged was recycled to the income statement (see Note 26), without any impact on total equity.

Between the closing of the public offer and December 31, 2017, Semyrhamis acquired 4,097,750 Christian Dior shares, representing 2.27% of Christian Dior SE's share capital.

After the completion of the simplified public offer and the additional purchases of Christian Dior shares in the second half of 2017, Financière Agache's ownership interest in the LVMH group increased from 32% in the first half of 2017 to 41% at the fiscal year-end.

Other

See also Note 31.

2.2. Fiscal year 2016

2.2.1. *Fashion and Leather Goods*

On December 1, 2016, pursuant to the agreement signed on July 22, 2016, LVMH sold Donna Karan International to G-III Apparel Group. The sale was made based on an enterprise value of 650 million US dollars, translating to a provisional sale price of 542 million US dollars after adjustments and deducting Donna Karan's borrowings with LVMH. LVMH granted G-III Apparel Group a vendor loan for 125 million US dollars (recorded under "Other non-current assets"; see Note 9) and received the equivalent of 75 million US dollars in G-III shares (recorded under "Non-current available for sale financial assets"; see Note 8). In addition, the 129 million US dollars in financing granted to Donna Karan by LVMH was repaid by G-III Apparel Group. The impact of the sale of Donna Karan International on the Group's net profit is a gain of 44 million euros.

In December 2016, following the exercise of the put option held by its partner, LVMH Métiers d'Arts acquired an additional 35% stake in the Heng Long tannery (Singapore), bringing its ownership interest to 100%. The difference between the acquisition price and minority interests was deducted from equity.

2.2.2. *Selective Retailing*

In November 2016, following the exercise of the put option held by its partner, Sephora acquired an additional 35% stake in Ile de Beauté (Russia), bringing its ownership interest to 100%. The difference between the acquisition price and minority interests was deducted from equity.

2.3. Fiscal year 2015

2.3.1. *Selective Retailing*

In July 2015, Sephora acquired a 95% equity interest in the e-commerce site Luxola, which is present in nine countries of Southeast Asia.

2.3.2. *Other activities*

In October 2015, LVMH acquired a 100% equity interest in the daily newspaper Le Parisien-Aujourd'hui en France. The acquisition comprises the publishing, printing and sales activities of this daily newspaper and the weekly Le Parisien Magazine.

See also Note 7 regarding the ownership interests in joint ventures and associates.

2.4. Impact on cash and cash equivalents of changes in ownership interests in consolidated entities

(EUR millions)	2017	2016	2015
Purchase price of consolidated investments and of minority interests' shares	(8,634)	(1,165)	(534)
Positive cash balance/(net overdraft) of companies acquired	32	5	33
Proceeds from sale of consolidated investments	290	673	52
(Positive cash balance)/net overdraft of companies sold	181	110	-
IMPACT OF CHANGES IN OWNERSHIP INTERESTS IN CONSOLIDATED ENTITIES ON NET CASH AND CASH EQUIVALENTS	**(8,131)**	**(377)**	**(449)**
Of which: *Purchase and proceeds from sale of consolidated investments*	*(524)*	*310*	*(272)*
Purchase and proceeds from sale of minority interests	*(7,607)*	*(687)*	*(177)*

In 2017, the impact on net cash and cash equivalents of changes in ownership interests in consolidated entities was mainly due to the cash impact (6,254 million euros, see Note 2) of the public offer by Semyrhamis for Christian Dior shares, subsequent purchases of said shares, as well as capital increases by LVMH SE reserved for recipients of share subscription options and the impact of the LVMH liquidity contract. Purchases of consolidated investments mainly arose from the acquisition of Rimowa for 615 million euros.

As of December 31, 2016, the impact on cash and cash equivalents of changes in ownership interests in consolidated entities mainly arose from the sale of Donna Karan International for 435 million euros, and from the share repurchase program for shares pending retirement totaling 300 million euros that was set up by LVMH in the fourth quarter of 2016. It also relates to purchases of Christian Dior shares and payments made under performance clauses agreed in connection with past acquisitions.

In 2015, the cash impact of changes in ownership interests in consolidated entities mainly related to the acquisition of the daily newspaper Le Parisien-Aujourd'hui en France, the 95% stake acquired by Sephora in the e-commerce site Luxola, the investments in Repossi and L Catterton Management, purchases of Christian Dior shares, and payments under performance clauses agreed in connection with past acquisitions. See also Note 7.

NOTE 3 – BRANDS, TRADE NAMES AND OTHER INTANGIBLE ASSETS

(EUR millions)	2017 Gross	2017 Amortization and impairment	2017 Net	2016 Net	2015 Net
Brands	13,011	(522)	12,489	12,247	12,679
Trade names	3,692	(1,516)	2,176	2,440	2,370
License rights	24	(24)	-	-	-
Leasehold rights	856	(464)	392	416	416
Software, websites	1,661	(1,202)	459	375	331
Other	899	(502)	397	421	349
TOTAL	**20,141**	**(4,228)**	**15,913**	**15,899**	**16,145**
Of which: *Assets held under finance leases*	*14*	*(14)*	*-*	*-*	*-*

3.1. Movements in the fiscal year

Movements during the fiscal year ended December 31, 2017 in the net amounts of brands, trade names and other intangible assets were as follows:

Gross value *(EUR millions)*	Brands	Trade names	Software, websites	Leasehold rights	Other intangible assets	Total
As of December 31, 2016	**12,714**	**4,157**	**1,467**	**839**	**924**	**20,101**
Acquisitions	-	-	180	31	248	459
Disposals and retirements	-	-	(37)	(10)	(112)	(159)
Changes in the scope of consolidation	481	-	4	8	5	498
Translation adjustment	(184)	(465)	(60)	(14)	(40)	(763)
Reclassifications	-	-	107	2	(102)	7
As of December 31, 2017	**13,011**	**3,692**	**1,661**	**856**	**923**	**20,141**

Amortization and impairment *(EUR millions)*	Brands	Trade names	Software, websites	Leasehold rights	Other intangible assets	Total
As of December 31, 2016	**(467)**	**(1,717)**	**(1,092)**	**(423)**	**(503)**	**(4,202)**
Amortization expense	(26)	(1)	(179)	(51)	(150)	(407)
Impairment expense	(50)	-	(2)	-	(1)	(53)
Disposals and retirements	-	-	36	7	112	155
Changes in the scope of consolidation	-	-	(3)	(3)	(4)	(10)
Translation adjustment	21	202	37	6	22	288
Reclassifications	-	-	1	-	(2)	(1)
As of December 31, 2017	**(522)**	**(1,516)**	**(1,202)**	**(464)**	**(526)**	**(4,228)**
Carrying amount as of December 31, 2017	**12,489**	**2,176**	**459**	**392**	**397**	**15,913**

Changes in the scope of consolidation were mainly attributable to the acquisition of Rimowa (see Note 2).

Translation adjustments arose mainly on intangible assets recognized in US dollars, and to a lesser extent on brands recognized in Swiss francs, due to fluctuations of these currencies against the euro between the beginning and end of the fiscal year.

3.2. Movements in prior fiscal years

Carrying amount *(EUR millions)*	**Brands**	**Trade names**	**Software, websites**	**Leasehold rights**	**Other intangible assets**	**Total**
As of December 31, 2014	**12,431**	**2,155**	**285**	**397**	**285**	**15,553**
Acquisitions	-	-	121	61	192	374
Disposals and retirements	-	-	-	(2)	-	(2)
Changes in the scope of consolidation	26	-	3	4	5	38
Amortization expense	(19)	(1)	(137)	(50)	(111)	(318)
Impairment expense	-	-	(1)	(3)	-	(4)
Translation adjustment	240	216	10	7	12	485
Reclassifications	1	-	50	2	(34)	19
As of December 31, 2015	**12,679**	**2,370**	**331**	**416**	**349**	**16,145**
Acquisitions	-	-	136	51	264	451
Disposals and retirements	-	-	(1)	(2)	-	(3)
Changes in the scope of consolidation	(364)	-	(2)	(5)	14	(357)
Amortization expense	(24)	(1)	(159)	(48)	(135)	(367)
Impairment expense	(34)	-	-	(2)	-	(36)
Translation adjustment	(10)	71	5	(3)	7	70
Reclassifications	-	-	65	9	(78)	(4)
As of December 31, 2016	**12,247**	**2,440**	**375**	**416**	**421**	**15,899**

3.3. Brands and trade names

The breakdown of brands and trade names by business group is as follows:

	2017			**2016**	**2015**
(EUR millions)	**Gross**	**Amortization and impairment**	**Net**	**Net**	**Net**
Wines and Spirits	2,810	(136)	2,674	2,713	2,763
Fashion and Leather Goods [(a)]	5,002	(215)	4,788	4,317	4,746
Perfumes and Cosmetics	1,344	(33)	1,311	1,324	1,307
Watches and Jewelry	3,578	(71)	3,507	3,682	3,687
Selective Retailing	3,645	(1,469)	2,176	2,440	2,370
Other activities	324	(112)	210	211	176
BRANDS AND TRADE NAMES	**16,703**	**(2,036)**	**14,665**	**14,687**	**15,049**

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for 2017 as well as prior periods.

The brands and trade names recognized are those that the Group has acquired. As of December 31, 2017, the principal acquired brands and trade names were:

- Wines and Spirits: Hennessy, Moët & Chandon, Veuve Clicquot, Krug, Château d'Yquem, Belvedere, Glenmorangie, Newton Vineyards and Numanthia Termes;
- Fashion and Leather Goods: Louis Vuitton, Christian Dior Couture, Fendi, Céline, Loewe, Givenchy, Kenzo, Thomas Pink, Berluti, Pucci, Loro Piana and Rimowa;
- Perfumes and Cosmetics: Parfums Christian Dior, Guerlain, Parfums Givenchy, Make Up For Ever, Benefit Cosmetics, Fresh, Acqua di Parma, KVD Beauty, Ole Henriksen and Fenty Beauty;
- Watches and Jewelry: Bvlgari, TAG Heuer, Zenith, Hublot, Chaumet and Fred;
- Selective Retailing: DFS Galleria, Sephora, Le Bon Marché and Ile de Beauté;
- Other activities: the publications of the media group Les Echos-Investir, the daily newspaper Le Parisien-Aujourd'hui en France, the Royal Van Lent-Feadship brand, La Samaritaine, and the Cova pastry shop brand.

These brands and trade names are recognized in the balance sheet at their value determined as of the date of their acquisition by the Group, which may be much less than their value in use or their market value as of the closing date for the Group's consolidated financial statements. This is notably the case for the brands Louis Vuitton, Christian Dior Couture, Veuve Clicquot and Parfums Christian Dior, and for the trade name Sephora, with the understanding that this list must not be considered exhaustive.

At the initial consolidation of LVMH in 1988, all brands then owned by LVMH were revalued in the consolidated financial statements of the Financière Agache group. In the Financière Agache consolidated financial statements, LVMH's accounts are restated to account for valuation differences in brands recorded prior to 1988 as well as intragroup transactions in the consolidated accounts of each of these companies. See Note 1.3.

Please refer also to Note 5 for the impairment testing of brands, trade names and other intangible assets with indefinite useful lives.

NOTE 4 – GOODWILL

	2017			2016	2015
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
Goodwill arising on consolidated investments	8,877	(1,516)	7,361	7,116	7,226
Goodwill arising on purchase commitments for minority interests' shares	5,299	-	5,299	4,286	3,899
TOTAL	**14,176**	**(1,516)**	**12,660**	**11,402**	**11,125**

Changes in net goodwill during the fiscal years presented break down as follows:

	2017			2016	2015
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
As of January 1	**12,991**	**(1,589)**	**11,402**	**11,125**	**9,809**
Changes in the scope of consolidation. See Note 2.	419	7	426	(44)	115
Changes in purchase commitments for minority interests' shares	1,008	-	1,008	348	1,195
Changes in impairment	-	(52)	(52)	(97)	(116)
Translation adjustment	(243)	118	(125)	72	122
Reclassifications	1	-	1	(2)	-
AS OF DECEMBER 31	**14,176**	**(1,516)**	**12,660**	**11,402**	**11,125**

Changes in the scope of consolidation for the fiscal year ended December 31, 2017 were mainly attributable to the acquisition of Rimowa.

Changes in the scope of consolidation during the fiscal year ended December 31, 2016 mainly arose from the sale of Donna Karan International.

Changes in the scope of consolidation in fiscal year 2015 mainly related to the acquisition of the daily newspaper Le Parisien-Aujourd'hui en France and the 95% stake in Luxola.

See Note 2 for further details on changes in the scope of consolidation.

Please refer also to Note 20 for goodwill arising on purchase commitments for minority interests' shares.

NOTE 5 – IMPAIRMENT TESTING OF INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Brands, trade names, and other intangible assets with indefinite useful lives as well as the goodwill arising on acquisition are tested for impairment at least once a year. No significant impairment expense was recognized in respect of these items during the course of fiscal year 2017. As described in Note 1.14, these assets are generally valued on the basis of the present value of forecast cash flows determined in the context of multi-year business plans drawn up each year.

The main assumptions used to determine these forecast cash flows are as follows:

	2017			2016			2015		
Business group *(as %)*	**Post-tax discount rate**	**Compound annual growth rate for revenue during the plan period**	**Growth rate for the period after the plan**	**Post-tax discount rate**	**Compound annual growth rate for for revenue during the plan period**	**Growth rate for the period after the plan**	**Post-tax discount rate**	**Compound annual growth rate for for revenue during the plan period**	**Growth rate for the period after the plan**
Wines and Spirits	6.5 to 11.0	5.9	2.0	6.5 to 11.0	6.0	2.0	6.2 to 9.9	6.3	2.0
Fashion and Leather Goods [a]	8.0 to 10.5	6.6	2.0	9.3 to 10.5	6.8	2.0	8.0 to 12.0	8.9	2.0
Perfumes and Cosmetics	7.4 to 10.1	9.3	2.0	7.4 to 10.1	9.6	2.0	7.4	8.9	2.0
Watches and Jewelry	9.0 to 10.4	6.9	2.0	9.0 to 10.4	9.9	2.0	8.1 to 8.5	7.1	2.0
Selective Retailing	7.3 to 8.3	8.2	2.0	7.3 to 9.4	7.7	2.0	7.3 to 8.5	8.3	2.0
Other	6.5 to 7.3	8.4	2.0	6.5 to 7.5	4.4	2.0	5.5 to 7.1	5.8	2.0

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for 2017 as well as prior periods.

Plans generally cover a five-year period, but may be prolonged up to ten years in the case of brands for which the production cycle exceeds five years or brands undergoing strategic repositioning. The compound annual growth rate for revenue and the improvement in profit margins over plan periods are comparable to the growth achieved over the past four years, except for brands undergoing strategic repositioning, for which the improvements projected were greater than historical performance due to the expected effects of the repositioning measures implemented.

Annual growth rates applied for the period not covered by the plans are based on market estimates for the business groups concerned.

As of December 31, 2017, the intangible assets with indefinite useful lives that are the most significant in terms of their carrying amounts and the criteria used for their impairment testing are as follows:

(EUR millions)	**Brands and trade names**	**Goodwill**	**Total**	**Post-tax discount rate** *(as %)*	**Growth rate for the period after the plan** *(as %)*	**Period covered by the forecast cash flows**
Louis Vuitton	2,058	395	2,453	8.0	2.0	5 years
Loro Piana [a]	1,300	1,047	2,347	N/A	N/A	N/A
Fendi	713	404	1,117	9.3	2.0	5 years
Bvlgari	2,100	1,547	3,647	9.0	2.0	5 years
TAG Heuer	1,060	201	1,261	9.0	2.0	5 years
DFS Galleria	1,908	14	1,922	9.4	2.0	5 years
Hennessy	1,067	47	1,114	6.5	2.0	5 years

(a) For impairment testing purposes, the fair value of Loro Piana was determined by applying the share price multiples of comparable companies to Loro Piana's consolidated operating results. The change in multiples resulting from a 10% decrease in the market capitalization of comparable companies would not generate an impairment risk for Loro Piana's intangible assets.
N/A: Not applicable.

As of December 31, 2017, for the business segments listed above, with the exception of Loro Piana, a change of 0.5 points in the post-tax discount rate or in the growth rate for the period after the plan, compared to rates used as of December 31, 2017, or a reduction of 2 points in the annual growth rate for revenue over the period covered by the plans would result in the recognition of an impairment loss for these intangible assets of approximately 50 million euros. The Group considers that changes in excess of the limits mentioned above would entail assumptions at a level not deemed relevant in view of the current economic environment and medium- to long-term growth prospects for the business segments concerned. With respect to the other business segments, four have disclosed intangible assets with a carrying amount close to their recoverable amount. Impairment tests relating to intangible assets with indefinite useful lives in these business segments have been carried out based on value in use.

The amount of these intangible assets as of December 31, 2017 and the impairment loss that would result from a change of 0.5 points in the post-tax discount rate or in the growth rate for the period not covered by the plans, or from a reduction of 2 points in the compound annual growth rate for revenue compared to rates used as of December 31, 2017, break down as follows:

		Amount of impairment if:		
(EUR millions)	**Amount of intangible assets concerned as of December 31, 2017**	**Post-tax discount rate increases by 0.5 points**	**Compound annual growth rate for revenue decreases by 2 points**	**Growth rate for the period after the plan decreases by 0.5 points**
Watches and Jewelry	14	(4)	(2)	(2)
Other business groups	578	(50)	(35)	(38)
TOTAL	**592**	**(54)**	**(37)**	**(40)**

As of December 31, 2017, the gross and net values of brands, trade names and goodwill giving rise to amortization and/or impairment charges in 2017 were 546 million euros and 222 million euros, respectively (888 million euros and 394 million euros as of December 31, 2016). See Note 25 regarding the amortization and impairment expense recorded during the fiscal year.

NOTE 6 – PROPERTY, PLANT AND EQUIPMENT

	2017			2016	2015
(EUR millions)	**Gross**	**Depreciation and impairment**	**Net**	**Net**	**Net**
Land	1,782	(78)	1,704	1,514	1,443
Vineyard land and producing vineyards [(a)]	2,538	(106)	2,432	2,474	2,441
Buildings	3,716	(1,664)	2,052	1,844	1,756
Investment property	834	(57)	777	869	575
Leasehold improvements, machinery and equipment	11,747	(7,776)	3,971	3,799	3,518
Assets in progress	787	(2)	785	1,007	867
Other tangible fixed assets	1,956	(447)	1,509	1,467	1,369
TOTAL	**23,360**	**(10,130)**	**13,230**	**12,974**	**11,969**
Of which: *Assets held under finance leases*	*463*	*(196)*	*267*	*309*	*94*
Historical cost of vineyard land and producing vineyards	*753*	*(105)*	*648*	*646*	*642*

(a) Almost all of the carrying amount of “Vineyard land and producing vineyards” corresponds to vineyard land.

6.1. Movements in the fiscal year

Movements in property, plant and equipment during the fiscal year break down as follows:

Gross value (EUR millions)	Vineyard land and producing vineyards	Land and buildings	Investment property	Leasehold improvements, machinery and equipment: Stores	Production, logistics	Other	Assets in progress	Other property, plan and equipment	Total
As of December 31, 2016	**2,580**	**5,067**	**923**	**7,715**	**2,253**	**1,274**	**1,015**	**1,951**	**22,778**
Acquisitions	9	331	0	572	158	85	842	132	2,129
Change in the market value of vineyard land	(35)	-	-	-	-	-	-	-	(35)
Disposals and retirements	(3)	(79)	-	(385)	(77)	(105)	(13)	(19)	(681)
Changes in the scope of consolidation	-	73	-	19	75	7	23	15	212
Translation adjustment	(19)	(229)	(59)	(565)	(46)	(69)	(35)	(48)	(1,070)
Other movements, including transfers	6	335	(30)	533	209	94	(1 046)	(75)	27
AS OF DECEMBER 31, 2017	**2,538**	**5,498**	**834**	**7,889**	**2,572**	**1,286**	**787**	**1,956**	**23,360**

Depreciation and impairment (EUR millions)	Vineyard land and producing vineyards	Land and buildings	Investment property	Leasehold improvements, machinery and equipment: Stores	Production, logistics	Other	Assets in progress	Other property, plan and equipment	Total
As of December 31, 2016	**(106)**	**(1,709)**	**(54)**	**(4,978)**	**(1,566)**	**(899)**	**(8)**	**(484)**	**(9,804)**
Depreciation expense	(7)	(174)	(5)	(920)	(180)	(136)	-	(66)	(1,488)
Impairment expense	1	(1)	-	(4)	-	-	(1)	-	(5)
Disposals and retirements	3	76	-	382	74	103	2	19	659
Changes in the scope of consolidation	-	(16)	-	(2)	(26)	(4)	(1)	(5)	(54)
Translation adjustment	3	83	2	373	29	51	-	26	567
Other movements, including transfers	-	(1)	-	(58)	(20)	5	6	63	(5)
AS OF DECEMBER 31, 2017	**(106)**	**(1,742)**	**(57)**	**(5,207)**	**(1,689)**	**(880)**	**(2)**	**(447)**	**(10,130)**
CARRYING AMOUNT AS OF DECEMBER 31, 2017	**2,432**	**3,756**	**777**	**2,682**	**883**	**406**	**785**	**1,509**	**13,230**

"Other tangible fixed assets" include in particular the works of art owned by the Group.

Purchases of property, plant and equipment mainly include investments by the Group's brands, notably Sephora, Louis Vuitton, Christian Dior Couture, Bvlgari, Parfums Christian Dior, Fendi and DFS, in their retail networks. They also included investments related to the La Samaritaine project, in addition to investments by Hennessy, the champagne houses and Parfums Christian Dior in their production equipment.

Translation adjustments arose mainly on property, plant and equipment recognized in US dollars, due to fluctuations against the euro between the beginning and end of the fiscal year.

Changes in the scope of consolidation were mainly attributable to the acquisition of Rimowa. See Note 2.

The impact of marking vineyard land to market was 1,785 million euros as of December 31, 2017 (1,829 million euros as of December 31, 2016 and 1,799 million euros as of December 31, 2015). See Notes 1.9 and 1.13 on the measurement method for vineyard land.

The market value of investment property, according to appraisals by independent third parties, was approximately 0.9 billion euros at the level of LVMH as of December 31, 2017. The valuation methods used are based on market data.

6.2. Movements in prior fiscal years

Carrying amount *(EUR millions)*	Vineyard land and producing vineyards	Land and buildings	Investment property	Leasehold improvements, machinery and equipment: Stores	Leasehold improvements, machinery and equipment: Production, logistics	Leasehold improvements, machinery and equipment: Other	Assets in progress	Other property, plan and equipment	Total
As of December 31, 2014	**2,364**	**2,810**	**634**	**2,194**	**648**	**433**	**739**	**1,216**	**11,038**
Acquisitions	5	241	15	576	104	101	682	227	1,951
Disposals and retirements	(2)	(1)	-	(4)	(1)	(2)	(1)	-	(11)
Depreciation expense	(6)	(162)	(3)	(877)	(131)	(120)	-	(71)	(1,370)
Impairment expense	-	(14)	-	(1)	-	-	(1)	-	(16)
Change in the market value of vineyard land	64	-	-	-	-	-	-	-	64
Changes in the scope of consolidation	-	-	-	1	2	2	(1)	-	4
Translation adjustment	-	105	27	119	7	17	41	6	322
Other, including transfers	16	220	(98)	464	45	(59)	(592)	(9)	(13)
As of December 31, 2015	**2,441**	**3,199**	**575**	**2,472**	**674**	**372**	**867**	**1,369**	**11,969**
Acquisitions	3	228	286	627	94	57	848	160	2,303
Disposals and retirements	-	(1)	-	-	(4)	(1)	(2)	2	(6)
Depreciation expense	(6)	(158)	(6)	(881)	(137)	(127)	-	(82)	(1,397)
Impairment expense	(1)	(2)	-	9	(1)	-	(4)	(2)	(1)
Change in the market value of vineyard land	30	-	-	-	-	-	-	-	30
Changes in the scope of consolidation	-	31	-	(14)	(4)	(2)	-	-	11
Translation adjustment	-	(29)	1	36	(3)	2	-	5	12
Other, including transfers	7	90	13	488	68	74	(702)	15	53
AS OF DECEMBER 31, 2016	**2,474**	**3,358**	**869**	**2,737**	**687**	**375**	**1,007**	**1,467**	**12,974**

Purchases of property, plant and equipment in the fiscal years ended December 31, 2016 and December 31, 2015 included investments by Louis Vuitton, Christian Dior Couture, Sephora, DFS, Bvlgari and Berluti in their retail networks; investments by the champagne houses in their production equipment; investments by Parfums Christian Dior in new counters; and investments in real estate for administrative use, sales operations or rental purposes.

NOTE 7 – INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

	2017				2016		2015	
(EUR millions)	Gross	Impairment	Net	*Of which joint arrangements*	Net	*Of which joint arrangements*	Net	*Of which joint arrangements*
Share of net assets of joint ventures and associates as of January 1	**1,450**	**-**	**1,450**	***195***	**1,244**	***189***	**864**	***183***
Share of net profit/(loss) for the period	26	(8)	18	*3*	69	*8*	85	*(1)*
Dividends paid	(22)	-	(22)	*(8)*	(21)	*(8)*	(14)	*(6)*
Changes in the scope of consolidation	(78)	-	(78)	*(78)*	27	*-*	212	*-*
Capital increases subscribed	5	-	5	*3*	4	*3*	3	*3*
Translation adjustment	(34)	-	(34)	*(7)*	7	*(1)*	5	*5*
Revaluation adjustments	315	-	315	*-*	104	*-*	74	*-*
Other, including transfers	3	-	3	*4*	16	*4*	15	*5*
SHARE OF NET ASSETS OF JOINT VENTURES AND ASSOCIATES AS OF DECEMBER 31	**1,657**	**-**	**1,657**	***112***	**1,450**	***195***	**1,244**	***189***

Changes in the scope of consolidation were mainly related to the disposal of the stake in De Beers Diamond Jewellers. As of December 31, 2017, investments in joint ventures and associates consisted primarily of:

- for joint arrangements:
  - a 50% stake in the Château Cheval Blanc wine estate (Gironde, France), which produces the eponymous Saint-Émilion Premier Grand Cru classé A;
- for other companies:
  - a 40% stake in Mongoual SA, the real estate company that owns the office building in Paris (France), serving as the headquarters for LVMH Moët Hennessy - Louis Vuitton,
  - a 45% stake in PT. Sona Topas Tourism Industry Tbk (STTI), an Indonesian retail company, which notably holds duty-free sales licenses in airports,
  - a 46% stake in JW Anderson, a London-based ready-to-wear brand,
  - a 42% stake in Repossi, an Italian jewelry brand, acquired in November 2015,
  - a 40% stake in Le Peigné SA, headquartered in Brussels (Belgium),
  - a 40% stake in L Catterton Management, an investment fund management company created in December 2015 in partnership with Catterton.

NOTE 8 – NON-CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

	2017			2016	2015
(EUR millions)	Gross	Impairment	Net	Net	Net
TOTAL	**1,342**	**(304)**	**1,038**	**4,623**	**3,717**

Non-current available for sale financial assets changed as follows during the fiscal years presented:

(EUR millions)	2017	2016	2015
As of January 1	**4,623**	**3,717**	**3,575**
Acquisitions	127	160	143
Disposals at net realized value	(3,206)	(163)	(148)
Changes in market value	446	845	181
Changes in impairment	(15)	(25)	(32)
Changes in the scope of consolidation	5	67	-
Translation adjustment	(44)	22	34
Reclassifications [(a)]	(898)	-	(36)
AS OF DECEMBER 31	**1,038**	**4,623**	**3,717**

(a) Reclassifications mainly include the reclassification of the remaining stake in Hermès International corresponding to the shares not tendered in exchange for Christian Dior shares under the public offer initiated by Semyrhamis. See Notes 2 and 13.

In fiscal year 2017, disposals mainly related to the Hermès International shares exchanged as consideration for Christian Dior shares under the public offer (see Note 2). The fiscal year's acquisitions included, for 66 million euros, the impact of subscription in investment funds.

As of December 31, 2016, non-current available for sale assets mainly included an investment in Hermès International SCA ("Hermès") with a gross and net amount of 3,469 million euros (2,773 million euros as of December 31, 2015). The Group's stake in Hermès was 8.3%.

Acquisitions in fiscal year 2016 included the 120 million euro impact of non-current available for sale financial assets used to hedge cash-settled convertible bonds issued by LVMH during the period (see Note 18.1). The impact of changes in the scope of consolidation corresponded to the stake in G-III Apparel Group received as partial payment of the selling price of Donna Karan International (see Note 2).

The market value of non-current available for sale financial assets is determined using the methods described in Note 1.9. See also Note 22.2 for the breakdown of these assets according to the measurement methods used. Impairment of non-current available for sale financial assets is determined in accordance with the accounting policies described in Note 1.15.

NOTE 9 – OTHER NON-CURRENT ASSETS

(EUR millions)	2017	2016	2015
Warranty deposits	320	342	315
Derivatives (see Note 22)	246	168	65
Loans and receivables	770	725	191
Other	37	26	32
TOTAL	**1,373**	**1,261**	**603**

In 2016, the increase in loans and receivables included the vendor loan granted to G-III Apparel Group as part of the sale of Donna Karan International (see Note 2).

NOTE 10 – INVENTORIES AND WORK IN PROGRESS

	2017			2016	2015
(EUR millions)	Gross	Impairment	Net	Net	Net
Wines and eaux-de-vie in the process of aging	4,529	(12)	4,517	4,281	4,213
Other raw materials and work in progress	1,765	(395)	1,370	1,270	1,174
	6,294	**(407)**	**5,887**	**5,551**	**5,387**
Goods purchased for resale	2,145	(220)	1,925	2,003	1,731
Finished products	4,111	(857)	3,254	3,525	3,459
	6,256	**(1,077)**	**5,179**	**5,528**	**5,190**
TOTAL	**12,550**	**(1,484)**	**11,066**	**11,079**	**10,577**

The change in net inventories for the fiscal years presented breaks down as follows:

	2017			2016	2015
(EUR millions)	Gross	Impairment	Net	Net	Net
As of January 1	**12,572**	**(1,493)**	**11,079**	**10,577**	**9,910**
Change in gross inventories	1,045	-	1,045	889	605
Impact of provision for returns [(a)]	11	-	11	(4)	(2)
Impact of marking harvests to market	(21)	-	(21)	(19)	(16)
Changes in provision for impairment	-	(345)	(345)	(397)	(321)
Changes in the scope of consolidation	(108)	(27)	(135)	(62)	6
Translation adjustment	(663)	98	(565)	95	395
Other, including reclassifications	(286)	283	(3)	-	-
AS OF DECEMBER 31	**12,550**	**(1,484)**	**11,066**	**11,079**	**10,577**

(a) See Note 1.25.

Changes in the scope of consolidation mainly related to the acquisition of Rimowa (see Note 2) as well as the disposal of a Royal Van Lent subsidiary (see Note 32.1).

Translation adjustments arose mainly on inventories recognized in US dollars, based on fluctuations in the dollar-euro exchange rate between the beginning and the end of the fiscal year.

The impact of marking harvests to market on Wines and Spirits' cost of sales and value of inventory is as follows:

(EUR millions)	2017	2016	2015
Impact of marking the fiscal year's harvest to market	5	13	18
Impact of inventory sold during the fiscal year	(26)	(32)	(34)
NET IMPACT ON COST OF SALES OF THE FISCAL YEAR	**(21)**	**(19)**	**(16)**
NET IMPACT ON THE VALUE OF INVENTORY AT END OF FISCAL YEAR	**110**	**131**	**150**

See Notes 1.9 and 1.16 on the method of marking harvests to market.

NOTE 11 – TRADE ACCOUNTS RECEIVABLE

(EUR millions)	**2017**	**2016**	**2015**
Trade accounts receivable, nominal amount	3,080	3,085	2,917
Provision for impairment	(78)	(71)	(69)
Provision for product returns [(a)]	(265)	(229)	(238)
NET AMOUNT	**2,737**	**2,785**	**2,610**

(a) See Note 1.25.

The change in trade accounts receivable for the fiscal years presented breaks down as follows:

	2017			**2016**	**2015**
(EUR millions)	**Gross**	**Impairment**	**Net**	**Net**	**Net**
As of January 1	**2,856**	**(71)**	**2,785**	**2,610**	**2,356**
Changes in gross receivables	137	-	137	129	45
Changes in provision for impairment	-	(11)	(11)	-	1
Changes in provision for product returns [(a)]	(43)	-	(43)	6	(21)
Changes in the scope of consolidation	41	-	41	(16)	142
Translation adjustment	(160)	2	(158)	46	95
Reclassifications	(16)	2	(14)	10	(8)
AS OF DECEMBER 31	**2,815**	**(78)**	**2,737**	**2,785**	**2,610**

(a) See Note 1.25.

The trade accounts receivable balance is comprised essentially of receivables from wholesalers or agents, who are limited in number and with whom the Group maintains ongoing relationships for the most part. As of December 31, 2017, coverage of customer credit risk had been requested from insurers for the majority of trade receivables, approximately 91% of the amount of which was granted.

As of December 31, 2017, the breakdown of the nominal amount of trade receivables and of provisions for impairment by age was as follows:

(EUR millions)	**Nominal amount of receivables**	**Impairment**	**Net amount of receivables**
Not due:			
less than 3 months	2,531	(15)	2,516
more than 3 months	85	(5)	80
	2,616	**(20)**	**2,596**
Overdue:			
less than 3 months	312	(6)	306
more than 3 months	152	(52)	100
	464	**(58)**	**406**
TOTAL	**3,080**	**(78)**	**3,002**

For each of the fiscal years presented, no single customer accounted for more than 10% of the Group's consolidated revenue.

The present value of trade accounts receivable is identical to their carrying amount.

NOTE 12 – OTHER CURRENT ASSETS

(EUR millions)	2017	2016	2015
Current available for sale financial assets (see Note 13)	3,752	657	614
Derivatives (see Note 22)	498	303	332
Tax accounts receivable, excluding income taxes	747	661	646
Advances and payments on account to vendors	204	203	168
Prepaid expenses	396	400	377
Other receivables	566	548	1,082
TOTAL	**6,163**	**2,772**	**3,219**

The present value of other current assets is identical to their carrying amount.

NOTE 13 – CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

(EUR millions)	2017	2016	2015
Unlisted securities, shares in non-money-market SICAVs and funds	-		-
Listed securities and term deposits	3,752	657	614
TOTAL	**3,752**	**657**	**614**
Of which: historical cost of current available for sale financial assets	*3,061*	*606*	*616*

The net value of current available for sale financial assets changed as follows during the fiscal years presented:

(EUR millions)	2017	2016	2015
As of January 1	**657**	**614**	**326**
Acquisitions and new term deposits	2,391	252	600
Disposals at net realized value and repayment of term deposits	(516)	(263)	(333)
Changes in market value	327	53	(23)
Changes in impairment	-	-	7
Changes in the scope of consolidation	-	-	-
Translation adjustment	(5)	1	1
Reclassifications [(a)]	898	-	36
AS OF DECEMBER 31	**3,752**	**657**	**614**

(a) See Notes 2 and 8.

In fiscal year 2017, acquisitions and new term deposits mainly included term deposits with terms longer than three months.

The market value of current available for sale financial assets is determined using the methods described in Note 1.9. See also Note 1.15 for the method used to determine impairment losses on current available for sale financial assets and Note 22.2 for the breakdown of those assets according to the measurement methods used.

NOTE 14 – CASH AND CHANGE IN CASH

14.1. Cash and cash equivalents

(EUR millions)	2017	2016	2015
Term deposits (less than 3 months)	709	530	841
SICAV and FCP money-market funds	2,684	668	577
Ordinary bank accounts	4,558	2,608	2,472
CASH AND CASH EQUIVALENTS PER BALANCE SHEET	**7,951**	**3,806**	**3,890**

The reconciliation between cash and cash equivalents as shown in the balance sheet and net cash and cash equivalents appearing in the cash flow statement is as follows:

(EUR millions)	2017	2016	2015
Cash and cash equivalents	7,951	3,806	3,890
Bank overdrafts	(120)	(217)	(327)
NET CASH AND CASH EQUIVALENTS PER CASH FLOW STATEMENT	**7,831**	**3,589**	**3,563**

14.2. Net cash from/(used in) financing activities

For 2017, the reconciliation of the change in net financial debt presented in Note 18.1 and net cash from/(used in) financing activities is as follows:

(EUR millions)	*Notes*	Dec. 31, 2017
Impact on cash of the change in net financial debt	*18.1*	**4,982**
Elimination of the change in positive bank balances and bank overdrafts [(a)]		4,391
Change in cash related to derivatives and other assets not included in net financial debt		(100)
Net cash from/(used in) financing activities		**9,273**

(a) The change in positive bank balances and bank overdrafts is not disclosed within net cash from/(used in) financing activities.

14.3. Change in working capital

The change in working capital breaks down as follows for the fiscal years presented:

(EUR millions)	*Notes*	2017	2016	2015
Change in inventories and work in progress	*10*	(1,045)	(889)	(605)
Change in trade accounts receivable [(a)]	*11*	(133)	(119)	(48)
Change in trade accounts payable	*21*	311	242	106
Change in other receivables and payables		346	182	101
Change in working capital [(b)]		**(521)**	**(584)**	**(446)**

(a) Including a positive impact of 4 million euros related to amounts owed to customers (versus a positive impact of 10 million euros as of December 31, 2016 and a negative impact of 3 million euros as of December 31, 2015).
(b) Increase/(Decrease) in cash and cash equivalents.

14.4. Operating investments

Operating investments comprise the following elements for the fiscal years presented:

(EUR millions)	*Notes*	2017	2016	2015
Purchase of intangible fixed assets	*3*	(459)	(451)	(374)
Purchase of property, plant and equipment [(a)]	*6*	(2,129)	(2,303)	(1,951)
Deduction of finance lease acquisitions		6	204	-
Changes in accounts payable related to fixed asset purchases		44	122	105
Net cash used in purchases of fixed assets		**(2,538)**	**(2,428)**	**(2,220)**
Net cash from fixed asset disposals		27	7	29
Guarantee deposits paid and other cash flows related to operating investments		(5)	(17)	(22)
OPERATING INVESTMENTS [(b)]		**(2,516)**	**(2,438)**	**(2,213)**

(a) Including finance lease acquisitions.
(b) Increase/(Decrease) in cash and cash equivalents.

NOTE 15 – EQUITY

15.1. Share capital

As of December 31, 2017, the share capital of the parent company Financière Agache SA consisted of 3,173,352 fully paid-up shares (3,173,352 as of both December 31, 2016 and December 31, 2015), with a par value of 16 euros per share, including 3,169,463 shares with double voting rights (3,169,514 as of December 31, 2016 and 3,169,183 as of December 31, 2015). Double voting rights are attached to registered shares held for more than two years.

15.2. Treasury shares

The impact on the Group's net equity of Financière Agache treasury shares held breaks down as follows for the fiscal years presented:

(EUR millions)	2017	2016	2015
FINANCIÈRE AGACHE SHARES	**(6)**	**(6)**	**(6)**

15.3. Dividends paid by the parent company Financière Agache SA

(EUR millions, except for data per share in EUR)	2017	2016	2015
Interim dividend(s) for the current fiscal year (2017: 100 euros; 2016: 26 euros; 2015: 173.50 euros)	317	82	551
Impact of treasury shares	-	-	(1)
	317	**82**	**550**
Final dividend for the previous fiscal year	-	-	-
Impact of treasury shares	-	-	-
	-	**-**	**-**
TOTAL GROSS AMOUNT DISBURSED DURING THE FISCAL YEAR [(a)]	**317**	**82**	**550**

(a) Excludes the impact of tax regulations applicable to the recipient.

15.4. Cumulative translation adjustment

The change in the amount of "Cumulative translation adjustment" recognized under "Equity, Group share", net of hedging effects of net assets denominated in foreign currency, breaks down as follows by currency:

(EUR millions)	2017	Change	2016	2015
US dollar	44	(101)	145	136
Swiss franc	218	(27)	245	233
Japanese yen	29	(3)	32	26
Hong Kong dollar	129	(46)	175	157
Pound sterling	(44)	(16)	(28)	17
Other currencies	(67)	(57)	(10)	(25)
Foreign currency net investment hedges [(a)]	(172)	(7)	(165)	(164)
TOTAL, GROUP SHARE	**137**	**(257)**	**394**	**380**

(a) Including a negative change of 53 million euros with respect to the US dollar (negative changes of 53 million euros as of December 31, 2016 and 58 million euros as of December 31, 2015), and a negative change of 48 million euros with respect to the Hong Kong dollar (negative changes of 43 million euros as of December 31, 2016 and 41 million euros as of December 31, 2015), and a negative change of 73 million euros with respect to the Swiss franc (negative changes of 68 million euros as of December 31, 2016 and 65 million euros as of December 31, 2015). These amounts include the tax impact.

15.5. Strategy relating to the Group's financial structure

The Group believes that the management of its financial structure contributes, together with the development of the companies it owns and the management of its brand portfolio, to its objective of driving value creation for its shareholders. maintaining a suitable-quality credit rating is a core objective for the Group and ensures good access to markets under favorable conditions, allowing it both to seize opportunities and procure the resources it needs to develop its business.

To this end, the Group monitors a certain number of financial ratios and aggregate measures of financial risk, including:

- net financial debt (see Note 18) to equity;
- cash from operations before changes in working capital to net financial debt;
- net cash from operations before changes in working capital;
- net cash from operating activities and operating investments (free cash flow);
- long-term resources to fixed assets;
- proportion of long-term debt in net financial debt.

Long-term resources are understood to correspond to the sum of equity and non-current liabilities.

Where applicable, these indicators are adjusted to reflect the Group's off-balance sheet financial commitments.

The Group also promotes financial flexibility by maintaining numerous and varied banking relationships, through frequent recourse to several negotiable debt markets (both short- and long-term), by holding a large amount of cash and cash equivalents, and through the existence of sizable amounts of undrawn confirmed credit lines, intended to largely exceed the amounts outstanding under its short-term negotiable debt instrument programs, while continuing to represent a reasonable cost for the Group.

NOTE 16 – STOCK OPTION EXPENSE

There were no stock option or similar plans set up by Financière Agache SA as of December 31, 2017 nor in any of the other fiscal years presented.

Expense for the fiscal year

(EUR millions)	2017	2016	2015
Expense for the fiscal year relating to Christian Dior share purchase option and bonus and performance share plans	11	10	9
Expense for the fiscal year relating to LVMH share subscription option and bonus and performance share plans	62	41	37
EXPENSE FOR THE FISCAL YEAR	**73**	**51**	**46**

See Note 1.27 regarding the method used to determine the accounting expense.

For LVMH

The LVMH closing share price the day before the grant date of the plans was 208.85 euros for the plan dated April 13, 2017, 218.85 euros for the plan dated July 26, 2017, and 240.80 euros for the plan dated October 25, 2017.

The average unit value of non-vested bonus shares under these plans was 218.64 euros.

For Christian Dior

No new stock option or similar plans were put in place during the fiscal year by Christian Dior SE.

NOTE 17 – MINORITY INTERESTS

(EUR millions)	2017	2016	2015
As of January 1	21,257	19,720	17,776
Minority interests' share of net profit	3,761	3,260	2,934
Dividends paid to minority interests	(1,556)	(1,498)	(1,348)
Impact of changes in control of consolidated entities: [(a)]	101	19	(5)
Of which: Rimowa	*89*	-	-
Of which: Other	*12*	*19*	*(5)*
Impact of acquisition and disposal of minority interests' shares: [(a)]	(2,396)	(376)	(135)
Of which: Movements in LVMH SE and Christian Dior SE share capital and treasury shares	*33*	*(186)*	*46*
Of which: Sale of the Christian Dior Couture segment to LVMH	*316*	-	-
Of which: Purchases of minority interests in Christian Dior [(b)]	*(2,806)*	-	-
Of which: Loro Piana [(c)]	*(115)*	-	-
Of which: Other	*(5)*	*(190)*	*(181)*
Capital increases subscribed by minority interests	31	41	18
Minority interests' share in gains and losses recognized in equity	(422)	162	520
Minority interests' share in stock option plan expenses	44	32	29
Impact of changes in minority interests with purchase commitments	(380)	(103)	(69)
AS OF DECEMBER 31	**20,259**	**21,257**	**19,720**

(a) The total impact of changes in ownership interests in consolidated entities thus amounted to negative 2,295 million euros as of December 31, 2017, negative 357 million euros as of December 31, 2016, and negative 140 million euros as of December 31, 2015.
(b) Corresponds to the portion of the Christian Dior group's net assets acquired by Semyrhamis under the public offer and subsequent purchases of Christian Dior shares, excluding gains and losses recognized in equity. See Note 2.
(c) Including negative impacts of 58 million euros for minority interests in Loro Piana and 47 million euros for LVMH SE shareholders excluding Financière Agache's controlling interest. See Note 2.

The change in minority interests' share in gains and losses recognized in equity, including the tax impact, breaks down as follows:

(EUR millions)	Cumulative translation adjustment	Available for sale financial assets	Hedges of future foreign currency cash flows	Vineyard land	Revaluation adjustments for employee benefit commitments	Total share of minority interests
As of December 31, 2014	**406**	**157**	**10**	**857**	**(117)**	**1,313**
Changes for the fiscal year	573	(85)	(19)	33	18	520
Changes due to purchase and proceeds from sale of minority interests	(8)	(1)	(1)	(5)	-	(15)
As of December 31, 2015	**971**	**71**	**(10)**	**885**	**(99)**	**1,818**
Changes for the fiscal year	58	40	15	102	(53)	162
Changes due to purchase and proceeds from sale of minority interests	(4)	-	-	(4)	1	(7)
As of December 31, 2016	**1,025**	**111**	**5**	**983**	**(151)**	**1,973**
Changes for the fiscal year	(692)	84	130	32	24	(422)
Changes due to purchase and proceeds from sale of minority interests	(64)	(20)	(10)	(99)	12	(181)
AS OF DECEMBER 31, 2017	**269**	**175**	**125**	**916**	**(115)**	**1,370**

Minority interests mainly comprise:

- shareholders of LVMH SE (57%) other than Group companies that are controlling shareholders;
- shareholders of Christian Dior SE (6%) other than Financière Agache and Semyrhamis, the controlling shareholders;
- Diageo's 34% stake in Moët Hennessy and the 39% stake held by Robert Miller in DFS.

Since the 34% stake held by Diageo in Moët Hennessy is subject to a purchase commitment, it is reclassified at year-end under "Other non-current liabilities" and is therefore excluded from the total amount of minority interests at the balance sheet date. See Notes 1.12 and 20.

Dividends paid to Diageo during fiscal year 2017 in respect of fiscal year 2016 amounted to 150 million euros. Net profit attributable to Diageo for fiscal year 2017 was 340 million euros, and its share in minority interests (before recognition of the purchase commitment granted to Diageo) came to 3,072 million euros as of December 31, 2017. As of that date, the condensed balance sheet of Moët Hennessy was as follows:

(EUR billions)	Dec. 31, 2017
Tangible and intangible fixed assets	3.7
Other non-current assets	0.3
Non-current assets	**4.0**
Inventories	5.1
Other current assets	1.5
Cash and cash equivalents	2.2
Current assets	**8.8**
Assets	**12.8**

(EUR billions)	Dec. 31, 2017
Equity	9.0
Non-current liabilities	0.9
Equity and non-current liabilities	**9.9**
Short-term borrowings	1.1
Other	1.8
Current liabilities	**2.9**
Liabilities and equity	**12.8**

Please refer also to Note 23 regarding the revenue, operating profit and main assets of the Wines and Spirits business group, which relate primarily to Moët Hennessy's business activities.

NOTE 18 – BORROWINGS

18.1. Net financial debt

(EUR millions)	2017	2016	2015
Long-term borrowings	12,295	5,914	6,197
Short-term borrowings	9,555	5,142	6,170
Gross borrowings	**21,850**	**11,056**	**12,367**
Interest rate risk derivatives	(29)	(61)	(71)
Gross borrowings after derivatives	**21,821**	**10,995**	**12,296**
Current available for sale financial assets [(a)]	(3,752)	(657)	(614)
Non-current available for sale financial assets used to hedge financial debt [(b)]	(117)	(131)	-
Cash and cash equivalents [(c)]	(7,951)	(3,806)	(3,890)
NET FINANCIAL DEBT	**10,001**	**6,401**	**7,792**

(a) See Note 13.
(b) See Note 8.
(b) See Note 14.1.

The change in net financial debt during the fiscal year is as follows:

(EUR millions)	Dec. 31, 2016	Change in cash [(a)]	Translation adjustment	Impact of market value changes	Changes in the scope of consolidation	Reclassi-fication and other	Dec. 31, 2017
Long-term borrowings	5,914	12,616	(249)	(18)	16	(5,985)	12,295
Short-term borrowings	5,142	(1,453)	(163)	(47)	72	6,003	9,555
Gross borrowings	**11,056**	**11,164**	**(411)**	**(65)**	**89**	**18**	**21,850**
Interest rate risk derivatives	(61)	14	-	16	-	2	(29)
Gross borrowings after derivatives	**10,995**	**11,178**	**(411)**	**(49)**	**89**	**20**	**21,821**
Current available for sale financial assets	(657)	(1,875)	5	(327)	-	(898)	(3,752)
Non-current available for sale financial assets used to hedge financial debt	(131)	-	17	(3)	-	-	(117)
Cash and cash equivalents	(3,806)	(4,321)	203	-	(27)	-	(7,951)
NET FINANCIAL DEBT	**6,401**	**4,982**	**(186)**	**(379)**	**61**	**(878)**	**10,001**

(a) See Note 14.2.

In connection with the public offer for the Christian Dior shares not owned by the Arnault Family Group (see Note 2), the Financière Agache subsidiary Semyrhamis entered into agreements for syndicated loans in the total amount of 9 billion euros, with maturities ranging from 18 months to five years.

Financière Agache issued a 50 million euro bond in August 2017 maturing in August 2022, which was followed by a 70 million euro tap issue in December 2017. These bonds pay a coupon of 1.20% and are redeemable at par.

During the fiscal year, Financière Agache redeemed the 275 million euro bond issued in 2012.

In May 2017, LVMH carried out a bond issue divided into four tranches totaling 4.5 billion euros, comprised of 3.25 billion euros in fixed-rate bonds and 1.25 billion euros in floating-rate bonds. In addition, in June 2017, LVMH issued 400 million pounds sterling in fixed-rate bonds maturing in June 2022. At the time these bonds were issued, swaps were entered into that converted them into euro-denominated borrowings.

During the fiscal year, LVMH repaid the 850 million US dollar bond issued in 2012, the 150 million euro bond issued in 2009, and the 350 million pounds sterling bond issued in 2014. During the fiscal year ended December 31, 2016, LVMH repaid the 650 million euro bond issued in 2013 and 2014.

In the first half of 2016, Financière Agache entered into a syndicated loan facility with a borrowing limit of 500 million euros and a maturity of five years, thus replacing the syndicated loan facility in the same amount due to mature in the second half of 2016.

In February 2016, LVMH issued exclusively cash-settled five-year convertible bonds with a total face value of 600 million US dollars, supplemented by a 150 million US dollar tap issue carried out in April 2016. These bonds, which were issued at 103.00% and 104.27% of their face value respectively, are redeemable at par (if they are not converted) and do not bear interest.

In addition to these issues, LVMH subscribed to financial instruments with the same maturity, enabling it to fully hedge its exposure to any positive or negative changes in the share price. This set of transactions, involving euro-denominated swaps, provides the Group with the equivalent of traditional euro-denominated bond financing at an advantageous cost. As provided by applicable accounting policies, the optional components of convertible bonds and financial instruments subscribed for hedging purposes are recorded under "Derivatives" (see Note 22), with hedging instruments other than these optional components recorded under "Non-current available for sale financial assets" (see Note 8). Given their connection to the bonds issued, hedging instruments (except option components) are presented as deducted from gross financial debt in calculating net financial debt, and their impact on cash and cash equivalents is presented under "Financing activities" in the cash flow statement.

18.2. Analysis of gross borrowings

(EUR millions)	2017	2016	2015
Bonds and Euro Medium-Term Notes (EMTNs)	7,525	4,322	4,974
Finance and other long-term leases	296	342	131
Bank borrowings	3,800	888	1,092
Other borrowings and credit facilities	674	362	-
LONG-TERM BORROWINGS	**12,295**	**5,914**	**6,197**
Bonds and Euro Medium-Term Notes (EMTNs)	1,753	1,652	1,010
Finance and other long-term leases	21	10	6
Bank borrowings	4,469	692	740
Short-term negotiable debt securities [(a)]	2,709	1,948	2,982
Other borrowings and credit facilities	425	588	1,062
Bank overdrafts	120	217	327
Accrued interest	58	35	43
SHORT-TERM BORROWINGS	**9,555**	**5,142**	**6,170**
TOTAL GROSS BORROWINGS	**21,850**	**11,056**	**12,367**

(a) Euro-denominated commercial paper (including Negotiable EUropean Commercial Paper) and US dollar-denominated commercial paper.

The market value of gross borrowings was 21,823 million euros as of December 31, 2017 (11,097 million euros as of December 31, 2016 and 12,511 million euros as of December 31, 2015), including 9,558 million euros in short-term borrowings (5,148 million euros as of December 31, 2016 and 6,310 million euros as of December 31, 2015) and 12,265 million euros in long-term borrowings (5,949 million euros as of December 31, 2016 and 6,201 million euros as of December 31, 2015).

As of December 31, 2017, December 31, 2016 and December 31, 2015, no financial debt was recognized using the fair value option. See Note 1.20.

18.3. Bonds and EMTNs

Nominal amount *(in currency)*	Year issued	Maturity	Initial effective interest rate [a] *(as %)*	2017 *(EUR millions)*	2016 *(EUR millions)*	2015 *(EUR millions)*
EUR 1,200,000,000	2017	2024	0.82	1,192	-	-
EUR 120,000,000 [b]	2017	2022	1.16	121	-	-
EUR 800,000,000	2017	2022	0.46	796	-	-
GBP 400,000,000	2017	2022	1.09	445	-	-
EUR 1,250,000,000	2017	2020	0.13	1,246	-	-
EUR 1,250,000,000	2017	2018	Floating	1,253	-	-
USD 750,000,000 [c]	2016	2021	1.92	603	682	-
EUR 350,000,000	2016	2021	0.86	348	348	-
AUD 150,000,000	2014	2019	3.68	100	103	102
EUR 300,000,000	2014	2019	Floating	300	300	300
EUR 650,000,000	2014	2021	1.12	663	670	659
GBP 350,000,000	2014	2017	1.83	-	413	481
EUR 500,000,000	2014	2019	1.56	499	498	497
EUR 600,000,000	2013	2020	1.89	606	608	603
EUR 650,000,000 [d]	2013	2016	Floating	-	-	650
EUR 600,000,000 [e]	2013	2019	1.25	605	608	608
EUR 275,000,000	2012	2017	3.27	-	275	275
USD 850,000,000	2012	2017	1.75	-	811	784
EUR 500,000,000	2011	2018	4.08	501	505	508
EUR 300,000,000	2011	2016	4.22	-	-	300
EUR 150,000,000	2009	2017	4.81	-	153	157
Private placements in foreign currencies				-	-	60
TOTAL BONDS AND EMTNS				**9,278**	**5,974**	**5,984**

(a) Before the impact of interest-rate hedges implemented when or after the bonds were issued.
(b) Cumulative amounts and weighted average initial effective interest rate based on a 50 million euro bond issued in 2017 at an initial effective interest rate of 1.32% and a 70 million euro tap issue carried out in 2017 at an initial effective interest rate of 1.05%.
(c) Cumulative amounts and weighted average initial effective interest rate based on a 600 million US dollar bond issued in February 2016 at an initial effective interest rate of 1.96% and a 150 million US dollar tap issue carried out in April 2016 at an effective interest rate of 1.74%. These yields were determined excluding the option component.
(d) Cumulative amounts based on a 500 million euro floating-rate bond issued in 2013 and a 150 million euro floating-rate tap issue carried out in 2014.
(e) Cumulative amounts and weighted average initial effective interest rate based on a 500 million euro bond issued in 2013 at an initial effective interest rate of 1.38% and a 100 million euro tap issue carried out in 2014 at an effective interest rate of 0.62%.

18.4. Analysis of gross borrowings by payment date and by type of interest rate

(EUR millions)	Gross borrowings Fixed rate	Gross borrowings Floating rate	Gross borrowings Total	Impact of derivatives Fixed rate	Impact of derivatives Floating rate	Impact of derivatives Total	Gross borrowings after derivatives Fixed rate	Gross borrowings after derivatives Floating rate	Gross borrowings after derivatives Total
Maturity:									
December 31, 2018	3,021	6,534	9,555	(136)	132	(4)	2,885	6,666	9,551
December 31, 2019	1,245	989	2,234	(348)	340	(8)	897	1,329	2,226
December 31, 2020	1,895	112	2,007	1,348	(1,355)	(7)	3,243	(1,243)	2,000
December 31, 2021	1,638	4	1,642	(650)	634	(16)	988	638	1,626
December 31, 2022	1,382	3,503	4,885	(313)	317	4	1,069	3,820	4,889
December 31, 2023	17	3	20	-	-	-	17	3	20
Thereafter	1,463	44	1,507	(300)	302	2	1,163	346	1,509
TOTAL	**10,661**	**11,189**	**21,850**	**(399)**	**370**	**(29)**	**10,262**	**11,559**	**21,821**

See Note 22.4 regarding the market value of interest rate risk derivatives.

The breakdown by quarter of gross borrowings falling due in 2018 is as follows:

(EUR millions)	Falling due in 2018
First quarter	3,384
Second quarter	661
Third quarter	56
Fourth quarter	5,454
TOTAL	**9,555**

18.5. Analysis of gross borrowings by currency after derivatives

(EUR millions)	2017	2016	2015
Euro	19,172	8,642	9,674
US dollar	1,246	918	691
Swiss franc	627	681	946
Japanese yen	395	290	354
Other currencies	381	464	631
TOTAL	**21,821**	**10,995**	**12,296**

In general, the purpose of foreign currency borrowings is to hedge the net foreign currency-denominated assets of consolidated companies located outside the eurozone.

18.6. Sensitivity

On the basis of debt as of December 31, 2017:

- an instantaneous increase of 1 point in the yield curves of the Group's debt currencies would raise the cost of net financial debt by 113 million euros after hedging, and would lower the market value of gross fixed-rate borrowings by 206 million euros after hedging;
- an instantaneous decrease of 1 point in these same yield curves would lower the cost of net financial debt by 113 million euros after hedging, and would raise the market value of gross fixed-rate borrowings by 206 million euros after hedging.

18.7. Covenants

As is normal practice for syndicated loans, the Financière Agache group has signed commitments to maintain an ownership interest and voting rights in certain subsidiaries.

18.8. Undrawn confirmed credit lines

As of December 31, 2017, undrawn confirmed credit lines totaled 8.3 billion euros.

18.9. Guarantees and collateral

As of December 31, 2017, borrowings secured by collateral were less than 8.0 billion euros.

NOTE 19 – PROVISIONS

(EUR millions)	**2017**	**2016**	**2015**
Provisions for pensions, medical costs and similar commitments	625	715	647
Provisions for contingencies and losses	1,938	1,657	1,318
Provisions for reorganization	9	18	21
Non-current provisions	**2,572**	**2,390**	**1,986**
Provisions for pensions, medical costs and similar commitments	4	5	4
Provisions for contingencies and losses	368	322	356
Provisions for reorganization	34	29	64
Current provisions	**406**	**356**	**424**
TOTAL	**2,978**	**2,746**	**2,410**

The changes in provisions during the fiscal year were as follows:

(EUR millions)	**Dec. 31, 2016**	**Increases**	**Amounts used**	**Amounts released**	**Changes in scope**	**Other** [(a)]	**Dec. 31, 2017**
Provisions for pensions, medical costs and similar commitments	719	111	(131)	(3)	-	(67)	629
Provisions for contingencies and losses	1,980	978	(179)	(490)	35	(18)	2,306
Provisions for reorganization	47	34	(32)	(1)	-	(5)	43
TOTAL	**2,746**	**1,119**	**(342)**	**(494)**	**35**	**(86)**	**2,978**
Of which:							
Profit from recurring operations		494	(323)	(101)			
Net financial income/(expense)		1	-	-			
Other		628	(19)	(393)			

(a) Including the impact of translation adjustments and changes in revaluation reserves.

Provisions for contingencies and losses correspond to the estimate of the impact on assets and liabilities of risks, disputes (see Note 31), or actual or probable litigation arising from the Group's activities; such activities are carried out worldwide, within what is often an imprecise regulatory framework that is different for each country, changes over time and applies to areas ranging from product composition and packaging to the tax computation and relations with the Group's partners (distributors, suppliers, shareholders in subsidiaries, etc.).

In particular, the Group's entities in France and abroad may be subject to tax inspections and, in certain cases, to rectification claims from local administrations. These rectification claims, together with any uncertain tax positions that have been identified but not yet officially verified, give rise to appropriate provisions, the amount of which is regularly reviewed in accordance with the criteria of IAS 37 Provisions and IAS 12 Income Taxes.

Provisions for retirement benefit obligations, contribution to medical costs and other employee benefit commitments are analyzed in Note 29.

NOTE 20 – OTHER NON-CURRENT LIABILITIES

(EUR millions)	**2017**	**2016**	**2015**
Purchase commitments for minority interests' shares	9,177	7,877	7,421
Derivatives (see Note 22)	216	134	2
Employee profit sharing	94	91	93
Other liabilities	371	407	451
TOTAL	**9,858**	**8,509**	**7,967**

As of December 31, 2017, 2016 and 2015, purchase commitments for minority interests mainly include the put option granted by LVMH to Diageo plc for its 34% share in Moët Hennessy, with six months' advance notice and for 80% of the fair value of Moët Hennessy at the exercise date of the commitment. With regard to this commitment's valuation, the fair value was determined by applying the share price multiples of comparable firms to Moët Hennessy's consolidated operating results.

Moët Hennessy SAS and Moët Hennessy International SAS ("Moët Hennessy") hold the LVMH group's investments in the Wines and Spirits businesses, with the exception of the equity investments in Château d'Yquem, Château Cheval Blanc and Clos des Lambrays, and excluding certain Champagne vineyards.

Purchase commitments for minority interests' shares also include commitments relating to minority shareholders in Loro Piana (15%), Rimowa (20%), Fresh (20%) and distribution subsidiaries in various countries, mainly in the Middle East.

In 2017, the put option granted to the Loro Piana family in the eponymous company was partially exercised. Put options granted to minority interests in Ile de Beauté (35%) and Heng Long (35%) were exercised in 2016. See Note 2.

NOTE 21 – TRADE ACCOUNTS PAYABLE AND OTHER CURRENT LIABILITIES

21.1. Trade accounts payable

The change in trade accounts payable for the periods presented breaks down as follows:

(EUR millions)	2017	2016	2015
As of January 1	**4,384**	**4,157**	**3,780**
Changes in trade accounts payable	311	242	110
Changes in amounts owed to customers	4	10	(3)
Changes in the scope of consolidation	52	(36)	130
Translation adjustment	(203)	45	138
Reclassifications	(7)	(34)	2
AS OF DECEMBER 31	**4,541**	**4,384**	**4,157**

21.2. Other current liabilities

(EUR millions)	2017	2016	2015
Derivatives (see Note 22)	58	244	219
Employees and social institutions	1,530	1,406	1,328
Employee profit sharing	101	103	98
Taxes other than income taxes	636	594	570
Advances and payments on account from customers	354	259	228
Deferred payment for non-current assets	548	644	565
Deferred income	256	251	208
Other liabilities	1,288	1,175	946
TOTAL	**4,771**	**4,676**	**4,162**

The present value of "Other current liabilities" is identical to their carrying amount.

NOTE 22 – FINANCIAL INSTRUMENTS AND MARKET RISK MANAGEMENT

22.1. Organization of foreign exchange, interest rate and equity market risk management

Financial instruments are mainly used by the Group to hedge risks arising from Group activity and protect its assets. The management of foreign exchange and interest rate risk, in addition to transactions involving shares and financial instruments, is centralized at each sub-consolidation level.

The Group has implemented a stringent policy and rigorous management guidelines to manage, measure, and monitor these market risks.

These activities are organized based on a segregation of duties between risk measurement, hedging (front office), administration (back office) and financial control.

The backbone of this organization is information systems that allow hedging transactions to be monitored quickly.

Hedging decisions are made according to a clearly established process that includes regular presentations to the management bodies concerned and detailed documentation.

Counterparties are selected based on their rating and in accordance with the Group's risk diversification strategy.

22.2. Financial assets and liabilities at fair value by measurement method

	2017			2016			2015		
(EUR millions)	Available for sale financial assets	Derivatives	Cash and cash equivalents (SICAV and FCP money-market funds)	Available for sale financial assets	Derivatives	Cash and cash equivalents (SICAV and FCP money-market funds)	Available for sale financial assets	Derivatives	Cash and cash equivalents (SICAV and FCP money-market funds)
Valuation based on: [(a)]									
Published price quotations	4,019		7,951	4,486		3,806	3,498		3,890
Formula based on market data	453	744		444	471		356	397	
Private quotations	318			350			477		
ASSETS	**4,790**	**744**	**7,951**	**5,280**	**471**	**3,806**	**4,331**	**397**	**3,890**
Valuation based on: [(a)]									
Published price quotations									
Formula based on market data		274			378			221	
Private quotations									
LIABILITIES		**274**			**378**			**221**	

(a) See Note 1.9 for information on the valuation approaches used.

Derivatives used by the Group are measured at fair value according to generally accepted models and on the basis of observable market data. The counterparty risk associated with these derivatives (i.e. the credit valuation adjustment) is assessed on the basis of credit spreads from observable market data, as well as on the basis of the derivatives' market value adjusted by flat-rate add-ons depending on the type of underlying and the maturity of the derivative. This risk was not significant as of December 31, 2017, December 31, 2016 or December 31, 2015.

The amount of financial assets valued on the basis of private quotations changed as follows in the fiscal year ended December 31, 2017:

(EUR millions)	**2017**
As of January 1	**350**
Acquisitions	76
Disposals (at net realized value)	(37)
Gains and losses recognized in income statement	(8)
Gains and losses recognized in equity	3
Reclassifications	(66)
AS OF DECEMBER 31	**318**

22.3. Summary of derivatives

Derivatives are recorded in the balance sheet for the amounts and in the captions detailed as follows:

(EUR millions)		*Notes*	2017	2016	2015
Interest rate risk					
Assets:	non-current		33	53	62
	current		10	20	17
Liabilities:	non-current		(8)	-	-
	current		(6)	(12)	(8)
		22.4	**29**	**61**	**71**
Foreign exchange risk					
Assets:	non-current		34	46	3
	current		485	254	284
Liabilities:	non-current		(29)	(65)	(2)
	current		(52)	(200)	(179)
		22.5	**438**	**35**	**106**
Other risks					
Assets:	non-current		179	69	-
	current		3	29	31
Liabilities:	non-current		(179)	(69)	-
	current		-	(32)	(32)
		22.6	**3**	**(3)**	**(1)**
Total					
Assets:	non-current	*9*	246	168	65
	current	*12*	498	303	332
Liabilities:	non-current	*20*	(216)	(134)	(2)
	current	*21*	(58)	(244)	(219)
			470	**93**	**176**

22.4. Derivatives used to manage interest rate risk

The aim of the Group's debt management policy is to adapt the debt maturity profile to the characteristics of the assets held, to contain borrowing costs, and to protect net profit from the impact of significant changes in interest rates.

For these purposes, the Group uses interest rate swaps and options.

Derivatives used to manage interest rate risk outstanding as of December 31, 2017 break down as follows:

	Nominal amounts by maturity				Market value (a) (b)		
(EUR millions)	Less than 1 year	1 to 5 years	More than 5 years	Total	Fair value hedges	Not allocated	Total
Interest rate swaps in euros, floating-rate payer	-	4,098	-	4,098	29	-	29
Interest rate swaps in euros, fixed-rate payer	-	343	-	343	1	-	1
Foreign currency swaps	195	1,100	-	1,295	(1)	-	(1)
Other interest rate risk derivatives	-	167	-	167	-	-	-
TOTAL					**29**	**-**	**29**

(a) Gain/(Loss).
(b) See Note 1.9 regarding the methodology used for market value measurement.

22.5. Derivatives used to manage foreign exchange risk

A significant part of Group companies' sales to customers and to their own retail subsidiaries as well as certain purchases are denominated in currencies other than their functional currency; the majority of these foreign currency-denominated cash flows are intercompany cash flows. Hedging instruments are used to reduce the risks arising from the fluctuations of currencies against the exporting and importing companies' functional currencies and are allocated to either accounts receivable or accounts payable (fair value hedges) for the fiscal year, or under certain conditions to transactions anticipated for future periods (cash flow hedges).

Future foreign currency-denominated cash flows are broken down as part of the budget preparation process and are hedged progressively over a period not exceeding one year unless a longer period is justified by probable commitments. As such, and according to market trends, identified foreign exchange risks are hedged using forward contracts or options.

The Group may also use appropriate financial instruments to hedge the net worth of subsidiaries outside the eurozone, in order to limit the impact of foreign currency fluctuations against the euro on consolidated equity.

Derivatives used to manage foreign exchange risk outstanding as of December 31, 2017 break down as follows:

	Nominal amounts by fiscal year of allocation [a]				Market value [b] [c]				
(EUR millions)	2017	2018	Thereafter	Total	Fair value hedges	Future cash flow hedges	Foreign currency net investment hedges	Not allocated	Total
Options purchased									
Put USD	257	39	-	296	1	1	-	1	3
Put JPY	21	21	-	42	1	1	-	-	2
Put GBP	-	21	-	21	-	-	-	-	-
	278	**81**	**-**	**359**	**2**	**2**	**-**	**1**	**5**
Collars									
Written USD	288	4,360	56	4,704	18	319	-	-	337
Written JPY	10	875	28	913	2	75	-	-	77
Written GBP	11	220	-	231	-	4	-	-	4
	309	**5,455**	**84**	**5,848**	**20**	**398**	**-**	**-**	**418**
Forward exchange contracts									
USD	4	(102)	-	(98)	-	(5)	-	-	(5)
JPY	26	-	-	26	-	-	-	-	-
CHF	(33)	(294)	-	(327)	-	(7)	-	-	(7)
GBP	24	82	-	106	-	(4)	-	-	(4)
RUB	33	-	-	33	-	-	-	-	-
Other	118	46	-	164	1	(1)	-	-	-
	172	**(268)**	**-**	**(96)**	**1**	**(17)**	**-**	**-**	**(16)**
Foreign exchange swaps									
USD	1,486	4	-	1,490	12	-	8	-	20
CHF	145	-	-	145	3	-	2	-	5
GBP	738	-	-	738	(5)	-	-	-	(5)
JPY	335	2	-	337	6	-	1	-	7
Other	423	5	-	428	-	-	4	-	4
	3,127	**11**	**-**	**3,138**	**16**	**-**	**15**	**-**	**31**
TOTAL					**39**	**383**	**15**	**1**	**438**

(a) Sale/(Purchase).
(b) See Note 1.9 regarding the methodology used for market value measurement.
(c) Gain/(Loss).

The impact on the income statement of gains and losses on hedges of future cash flows, as well as the future cash flows hedged using these instruments, will mainly be recognized in 2018; the amount will depend on exchange rates at that date.

The impact on the net profit for fiscal year 2017 of a 10% change in the value of the US dollar, the Japanese yen, the Swiss franc and the Hong Kong dollar against the euro, including the impact of foreign exchange derivatives outstanding during the period, compared with the rates applying to transactions in 2017, would have been as follows:

	US dollar		Japanese yen		Swiss franc		Hong Kong dollar	
(EUR millions)	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
Impact of:								
- change in exchange rates of cash receipts in respect of foreign currency-denominated sales	192	(39)	39	(10)	-	-	-	-
- conversion of net profit of consolidated entities outside the eurozone	35	(35)	16	(16)	10	(10)	31	(31)
Impact on net profit	**227**	**(74)**	**55**	**(26)**	**10**	**(10)**	**31**	**(31)**

The data presented in the table above should be assessed on the basis of the characteristics of the hedging instruments outstanding in fiscal year 2017, mainly comprising options and collars.

As of December 31, 2017, forecast cash collections for 2018 in US dollars and Japanese yen are 76% hedged. The Group's net equity (excluding net profit) exposure to foreign currency fluctuations as of December 31, 2017 may be assessed by measuring the impact of a 10% change in the value of the US dollar, the Japanese yen, the Swiss franc and the Hong Kong dollar against the euro compared to the rates applying as of the same date:

	US dollar		Japanese yen		Swiss franc		Hong Kong dollar	
(EUR millions)	+10%	-10%	+10%	-10%	+10%	-10%	+10%	-10%
Conversion of foreign currency-denominated net assets	308	(308)	41	(41)	279	(279)	116	(116)
Change in market value of net investment hedges, after tax	(215)	279	(44)	56	(43)	35	(16)	13
Net impact on equity, excluding net profit	**93**	**(29)**	**(3)**	**15**	**236**	**(244)**	**100**	**(103)**

22.6. Financial instruments used to manage other risks

The Group's investment policy is designed to take advantage of a long-term investment horizon. Occasionally, the Group may invest in equity-based financial instruments with the aim of enhancing the dynamic management of its investment portfolio.

The Group is exposed to risks of share price changes either directly (as a result of its holding of subsidiaries, equity investments and current available for sale financial assets) or indirectly (as a result of its holding of funds, which are themselves partially invested in shares).

The Group may also use equity-based derivatives to synthetically create an economic exposure to certain assets, to hedge cash-settled compensation plans index-linked to the LVMH share price, or to hedge certain risks related to changes in the LVMH share price. If applicable, the carrying amount of these unlisted financial instruments corresponds to the estimate of the amount, provided by the counterparty, of the valuation at the balance sheet date. The valuation of financial instruments thus takes into consideration market parameters such as interest rates and share prices.

The Group – mainly through its Watches and Jewelry business group – may be exposed to changes in the prices of certain precious metals, such as gold. In certain cases, in order to ensure visibility with regard to production costs, hedges may be implemented. This is achieved either by negotiating the forecast price of future deliveries of alloys with precious metal refiners, or the price of semi-finished products with producers, or directly by purchasing hedges from top-ranking banks. In the latter case, gold may be purchased from banks, or future and/or options contracts may be taken out with a physical delivery of the gold. Derivatives outstanding relating to the hedging of precious metal prices as of December 31, 2017 have a positive market value of 2 million euros. Considering nominal values of 170 million euros for those derivatives, a uniform 1% change in their underlying assets' prices as of December 31, 2017 would have a net impact on the Group's consolidated reserves in an amount of less than 1 million euros. These instruments mature in 2018.

22.7. Liquidity risk

Aside from the Group's local liquidity risks, which are generally not significant, its overall exposure to liquidity risk can be assessed (a) with regard to the amounts outstanding under its short-term negotiable debt instrument programs (2.7 billion euros) and (b) by comparing the amount of the short-term portion of its net financial debt before hedging (9.6 billion euros) to the amount of cash and cash equivalents (8.0 billion euros), thus an amount of 1.6 billion euros as of December 31, 2017. Should any of these borrowing facilities not be renewed, the Group has access to undrawn confirmed credit lines totaling 8.3 billion euros.

The Group's liquidity is based on the amount of its investments, its capacity to raise long-term borrowings, the diversity of its investor base (short-term debt securities and bonds), and the quality of its banking relationships, whether evidenced or not by confirmed lines of credit.

The following table presents the contractual schedule of disbursements for financial liabilities (excluding derivatives) recognized as of December 31, 2017, at nominal value and with interest, excluding discounting effects:

(EUR millions)	2018	2019	2020	2021	2022	Over 5 years	Total
Bonds and EMTNs	1,825	1,553	1,888	1,652	1,388	1,218	9,524
Bank borrowings	4,533	63	161	30	3,529	128	8,444
Other borrowings and credit facilities	474	685	-	-	-	-	1,159
Finance and other long-term leases	28	28	28	28	29	669	810
Short-term negotiable debt securities [(a)]	2,709	-	-	-	-	-	2,709
Bank overdrafts	120	-	-	-	-	-	120
Gross borrowings	**9,689**	**2,329**	**2,077**	**1,710**	**4,946**	**2,015**	**22,766**
Other liabilities, current and non-current [(b)]	4,457	79	19	20	18	98	4,691
Trade accounts payable	4,541	-	-	-	-	-	4,541
Other financial liabilities	**8,998**	**79**	**19**	**20**	**18**	**97**	**9,231**
TOTAL FINANCIAL LIABILITIES	**18,687**	**2,408**	**2,096**	**1,730**	**4,964**	**2,112**	**31,997**

(a) Euro-denominated commercial paper (including Negotiable EUropean Commercial Paper) and US dollar-denominated commercial paper.
(b) Corresponds to "Other current liabilities" (excluding derivatives and deferred income) for 4,457 million euros and to "Other non-current liabilities" (excluding derivatives, purchase commitments for minority interests and deferred income of 231 million euros as of December 31, 2017) for 233 million euros.

See Note 30.3 regarding contractual maturity dates of collateral and other guarantee commitments. See Notes 18.5 and 22.5 regarding foreign exchange derivatives and Note 22.4 regarding interest rate risk derivatives.

NOTE 23 – SEGMENT INFORMATION

The Group's brands and trade names are organized into six business groups. Four business groups – Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, and Watches and Jewelry – comprise brands dealing with the same category of products that use similar production and distribution processes. Information on Louis Vuitton and Bvlgari is presented according to the brand's main business, namely the Fashion and Leather Goods business group for Louis Vuitton and the Watches and Jewelry business group for Bvlgari. The Selective Retailing business group comprises the Group's own-label retailing activities. Other activities and holding companies comprise brands and businesses that are not associated with any of the above-mentioned business groups, particularly the media division, the Dutch luxury yacht maker Royal Van Lent, hotel operations and holding or real estate companies.

Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for fiscal year 2017 as well as prior periods, but this has not had any impact on the presentation of Parfums Christian Dior, which continues to be consolidated as part of the Perfumes and Cosmetics business group.

Rimowa has been consolidated as part of the Fashion and Leather Goods business group since January 2017.

23.1. Information by business group

Fiscal year 2017

(EUR millions)	Wines and Spirits	Fashion and Leather Goods [a]	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies	Elimi-nations and not allocated [b]	Total
Sales outside the Group	5,051	16,467	4,532	3,721	13,266	630	-	43,667
Intra-Group sales	33	52	1,028	84	45	35	(1,277)	-
TOTAL REVENUE	**5,084**	**16,519**	**5,560**	**3,805**	**13,311**	**665**	**(1,277)**	**43,667**
Profit from recurring operations	1,558	5,022	600	512	1,075	(348)	(48)	8,371
Other operating income and expenses	(18)	(31)	(8)	(78)	(42)	8	-	(169)
Depreciation and amortization expense	(159)	(742)	(254)	(223)	(452)	(65)	-	(1,895)
Impairment expense	1	-	-	(50)	(58)	(2)	-	(109)
Intangible assets and goodwill [c]	8,313	7,477	1,997	5,684	3,348	1,754	-	28,573
Property, plant and equipment	2,740	3,058	607	537	1,701	4,593	(6)	13,230
Inventories	5,115	1,905	634	1,420	2,111	174	(293)	11,066
Other operating assets	1,449	1,235	1,108	598	845	1,281	16,935 [d]	23,451
TOTAL ASSETS	**17,617**	**13,679**	**4,346**	**8,235**	**8,005**	**7,802**	**16,636**	**76,320**
Equity							26,924	26,924
Liabilities and equity	1,544	3,529	1,706	895	2,839	1,253	37,630 [e]	49,396
TOTAL LIABILITIES AND EQUITY	**1,544**	**3,529**	**1,706**	**895**	**2,839**	**1,253**	**64,554**	**76,320**
Operating investments [f]	(292)	(804)	(286)	(269)	(570)	(296)	1	(2,516)

Fiscal year 2016

(EUR millions)	Wines and Spirits	Fashion and Leather Goods [a]	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies	Elimi-nations and not allocated [b]	Total
Sales outside the Group	4,805	14,648	4,079	3,407	11,935	629	-	39,503
Intra-Group sales	30	63	874	61	38	35	(1,101)	-
TOTAL REVENUE	**4,835**	**14,711**	**4,953**	**3,468**	**11,973**	**664**	**(1,101)**	**39,503**
Profit from recurring operations	1,504	4,125	551	458	919	(282)	(35)	7,250
Other operating income and expenses	(60)	7	(9)	(30)	(64)	31	-	(125)
Depreciation and amortization expense	(148)	(744)	(212)	(208)	(399)	(53)	-	(1,764)
Impairment expense	(4)	(34)	(1)	(32)	(62)	(2)	-	(135)
Intangible assets and goodwill [c]	7,220	6,715	2,022	5,871	3,692	1,781	-	27,301
Property, plant and equipment	2,613	2,954	585	529	1,777	4,538	(22)	12,974
Inventories	4,920	1,895	581	1,403	2,172	392	(284)	11,079
Other operating assets	1,419	1,241	948	720	908	984	12,961 [d]	19,181
TOTAL ASSETS	**16,172**	**12,805**	**4,136**	**8,523**	**8,549**	**7,695**	**12,655**	**70,535**
Equity							33,830	33,830
Liabilities and equity	1,524	3,115	1,593	918	2,924	1,206	25,425 [e]	36,705
TOTAL LIABILITIES AND EQUITY	**1,524**	**3,115**	**1,593**	**918**	**2,924**	**1,206**	**59,255**	**70,535**
Operating investments [f]	(276)	(680)	(268)	(229)	(558)	(434)	7	(2,438)

Fiscal year 2015

(EUR millions)	**Wines and Spirits**	**Fashion and Leather Goods** [(a)]	**Perfumes and Cosmetics**	**Watches and Jewelry**	**Selective Retailing**	**Other and holding companies**	**Eliminations and not allocated** [(b)]	**Total**
Sales outside the Group	4,574	14,197	3,904	3,250	11,157	440	-	37,522
Intra-Group sales	29	44	767	58	36	45	(979)	-
TOTAL REVENUE	**4,603**	**14,241**	**4,671**	**3,308**	**11,193**	**485**	**(979)**	**37,522**
Profit from recurring operations	1,363	3,745	524	432	940	(173)	(5)	6,826
Other operating income and expenses	(15)	(154)	(3)	(31)	(8)	(7)	-	(218)
Depreciation and amortization expense	(132)	(766)	(183)	(199)	(366)	(42)	-	(1,688)
Impairment expense	(15)	(96)	(1)	-	(5)	(19)	-	(136)
Intangible assets and goodwill [(c)]	6,932	7,333	1,948	5,857	3,560	1,640	-	27,270
Property, plant and equipment	2,484	2,897	525	501	1,550	4,012	-	11,969
Inventories	4,795	1,908	447	1,361	1,909	388	(231)	10,577
Other operating assets	1,392	1,100	778	729	759	918	12,088 [(d)]	17,764
TOTAL ASSETS	**15,603**	**13,238**	**3,698**	**8,448**	**7,778**	**6,958**	**11,857**	**67,580**
Equity							30,296	30,296
Liabilities and equity	1,426	2,896	1,380	920	2,425	1,136	27,088 [(e)]	37,284
TOTAL LIABILITIES AND EQUITY	**1,426**	**2,896**	**1,380**	**920**	**2,425**	**1,149**	**57,384**	**67,580**
Operating investments [(f)]	(233)	(800)	(229)	(204)	(399)	(348)	-	(2,213)

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for fiscal year 2017 as well as prior fiscal years.
(b) Eliminations correspond to sales between business groups; these generally consist of sales to Selective Retailing from other business groups. Selling prices between the different business groups correspond to the prices applied in the normal course of business for sales transactions to wholesalers or distributors outside the Group.
(c) Intangible assets and goodwill correspond to the carrying amounts shown under Notes 3 and 4.
(d) Assets not allocated include available for sale financial assets, other financial assets, and both current and deferred tax assets.
(e) Liabilities not allocated include financial debt and both current and deferred tax liabilities.
(f) Increase/(Decrease) in cash and cash equivalents.

23.2. Information by geographic region

Revenue by geographic region of delivery breaks down as follows:

(EUR millions)	**2017**	**2016**	**2015**
France	4,293	3,977	3,813
Europe (excluding France)	8,215	7,243	6,821
United States	10,793	10,214	9,541
Japan	3,008	2,793	2,585
Asia (excluding Japan)	12,259	10,596	10,283
Other countries	5,099	4,680	4,479
REVENUE	**43,667**	**39,503**	**37,522**

Operating investments by geographic region are as follows:

(EUR millions)	2017	2016	2015
France	934	842	708
Europe (excluding France)	459	421	442
United States	399	518	360
Japan	252	76	68
Asia (excluding Japan)	318	359	488
Other countries	154	222	147
OPERATING INVESTMENTS	**2,516**	**2,438**	**2,213**

No geographic breakdown of segment assets is provided since a significant portion of these assets consists of brands and goodwill, which must be analyzed on the basis of the revenue generated by these assets in each region, and not in relation to the region of their legal ownership.

23.3. Quarterly information

Quarterly revenue by business group break down as follows:

(EUR millions)	Wines and Spirits	Fashion and Leather Goods [a]	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing	Other and holding companies	Elimi-nations	Total
First quarter	1,196	3,911	1,395	879	3,154	170	(324)	10,381
Second quarter	1,098	4,035 [b]	1,275	959	3,126	168	(297)	10,364
Third quarter	1,220	3,939	1,395	951	3,055	147	(326)	10,381
Fourth quarter	1,570	4,634	1,495	1,016	3,976	180	(330)	12,541
2017 TOTAL	**5,084**	**16,519**	**5,560**	**3,805**	**13,311**	**665**	**(1,277)**	**43,667**
First quarter	1,033	3,394	1,213	774	2,747	157	(277)	9,041
Second quarter	1,023	3,384	1,124	835	2,733	172	(246)	9,025
Third quarter	1,225	3,608	1,241	877	2,803	150	(272)	9,632
Fourth quarter	1,554	4,325	1,375	982	3,690	185	(306)	11,805
2016 TOTAL	**4,835**	**14,711**	**4,953**	**3,468**	**11,973**	**664**	**(1,101)**	**39,503**
First quarter	992	3,408	1,129	723	2,648	96	(245)	8,751
Second quarter	938	3,436	1,099	829	2,627	165	(234)	8,860
Third quarter	1,199	3,410	1,143	852	2,603	94	(250)	9,051
Fourth quarter	1,474	3,987	1,300	904	3,315	130	(250)	10,860
2015 TOTAL	**4,603**	**14,241**	**4,671**	**3,308**	**11,193**	**485**	**(979)**	**37,522**

(a) Following the sale within the consolidated group of the Christian Dior Couture segment by Christian Dior SE to LVMH SE on July 3, 2017, information for Christian Dior Couture is included in figures for the Fashion and Leather Goods business group for fiscal year 2017 as well as prior periods.
(b) Including the entire revenue of Rimowa for the first half of 2017.

NOTE 24 – REVENUE AND EXPENSES BY NATURE

24.1. Analysis of revenue

(EUR millions)	2017	2016	2015
Revenue generated by brands and trade names	43,250	39,077	36,977
Royalties and license revenue	108	131	171
Income from investment property	18	11	13
Other revenue	291	284	361
TOTAL	**43,667**	**39,503**	**37,522**

The portion of total revenue generated by the Group at its own stores, including sales through e-commerce websites, was approximately 70% of revenue for the 2017 fiscal year (66% of revenue for both the 2016 and 2015 fiscal years), i.e. 30,512 million euros as of December 31, 2017 (26,113 million euros as of December 31, 2016 and 24,791 million euros as of December 31, 2015).

24.2. Expenses by nature

Profit from recurring operations includes the following expenses:

(EUR millions)	2017	2016	2015
Advertising and promotion expenses	4,961	4,439	4,241
Lease expenses	3,920	3,683	3,633
Personnel costs	7,925	7,139	6,774
Research and development expenses	130	113	99

Advertising and promotion expenses mainly consist of the cost of media campaigns and point-of-sale advertising, and also include personnel costs dedicated to this function.

As of December 31, 2017, a total of 4,374 stores were operated by the Group worldwide (4,148 as of December 31, 2016; 4,055 as of December 31, 2015), particularly by Fashion and Leather Goods and Selective Retailing.

In certain countries, leases for stores entail the payment of both minimum amounts and variable amounts, especially for stores with lease payments indexed to revenue. The total lease expense for the Group's stores breaks down as follows:

(EUR millions)	2017	2016	2015
Fixed or minimum lease payments	1,926	1,828	1,761
Variable portion of indexed leases	846	717	702
Airport concession fees – fixed portion or minimum amount	550	580	594
Airport concession fees – variable portion	598	558	576
COMMERCIAL LEASE EXPENSES	**3,920**	**3,683**	**3,633**

Personnel costs consist of the following elements:

(EUR millions)	2017	2016	2015
Salaries and social charges	7,739	6,973	6,630
Pensions, contribution to medical costs and expenses in respect of defined-benefit plans [(a)]	113	115	98
Stock option plan and related expenses [(b)]	73	51	46
PERSONNEL COSTS	**7,925**	**7,139**	**6,774**

(a) See Note 29.
(b) See Note 16.4.

In 2017, the average full-time equivalent workforce broke down as follows by professional category:

(in number and as %)	2017	%	2016	%	2015	%
Executives and managers	25,898	20%	24,748	20%	22,544	20%
Technicians and supervisors	13,455	10%	13,237	11%	12,299	11%
Administrative and sales employees	72,981	57%	70,539	56%	65,402	57%
Production workers	16,303	13%	15,900	13%	14,788	12%
TOTAL	**128,637**	**100%**	**124,424**	**100%**	**115,033**	**100%**

24.3. Statutory Auditors' fees

			2017
(EUR millions, excluding VAT)	ERNST & YOUNG et Autres	MAZARS	Total
Certification of the consolidated and parent company financial statements	10	6	16
Other services related to the certification assignment	NS	NS	NS
Total audit-related fees	**10**	**6**	**16**
Tax services	3	NS	3
Other	1	NS	1
Total non-audit-related fees	**4**	**NS**	**4**
TOTAL	**14**	**6**	**20**

NS: non-significant.

Services other than certifying the financial statements provided by Financière Agache SA's Statutory Auditors were not significant during the fiscal year and corresponded to (i) services other than certifying the financial statements required by applicable laws and regulations for ERNST & YOUNG et Autres, and (ii) services other than certifying the financial statements required by applicable laws and regulations, attestations, and agreed-upon procedures for MAZARS.

In addition to tax services, which are mainly performed outside France to ensure that the Group's subsidiaries and expatriates meet their local tax filing obligations, non-audit-related services include various types of certifications, mainly those required by landlords concerning the revenue of certain stores, and specific checks run at the Group's request.

NOTE 25 – OTHER OPERATING INCOME AND EXPENSES

(EUR millions)	2017	2016	2015
Net gains/(losses) on disposals	(14)	40	1
Restructuring costs	(19)	-	(96)
Transaction costs relating to the acquisition of consolidated companies	(13)	(3)	(2)
Impairment or amortization of brands, trade names, goodwill and other property	(129)	(155)	(136)
Other items, net	6	(7)	15
OTHER OPERATING INCOME AND EXPENSES	**(169)**	**(125)**	**(218)**

Impairment and amortization expenses recorded are mostly for brands and goodwill.

As of December 31, 2016, “Net gains/(losses) on disposals” included the gain related to the sale of Donna Karan International to G-III Apparel Group (see Note 2).

NOTE 26 – NET FINANCIAL INCOME/(EXPENSE)

(EUR millions)	2017	2016	2015
Borrowing costs	(174)	(160)	(197)
Income from cash and cash equivalents, current available for sale financial assets, and receivables	48	44	55
Fair value adjustment of borrowings and interest rate hedges	15	(17)	-
Cost of net financial debt	**(111)**	**(133)**	**(142)**
Income/(loss) from non-operating joint ventures and associates	18	63	95
Dividends received from non-current available for sale financial assets	47	36	80
Ineffective portion of foreign exchange derivatives	(125)	(337)	(452)
Net gain/(loss) related to available for sale financial assets and other financial instruments	2,334	82	188
Other items, net	(66)	(37)	(34)
Other financial income and expenses	**2,190**	**(256)**	**(218)**
NET FINANCIAL INCOME/(EXPENSE)	**2,097**	**(326)**	**(265)**

In 2017, the net gain/(loss) related to available for sale financial assets and other financial instruments was mainly due to the capital gain recognized in connection with the public offer for Christian Dior shares initiated by Semyrhamis (see Note 2).

In 2016 and 2015, the net gain/(loss) related to available for sale financial assets and other financial instruments was mainly due to capital gains or losses arising on the sale of available for sale financial assets.

Income from cash, cash equivalents and current available for sale financial assets comprised the following items:

(EUR millions)	2017	2016	2015
Income from cash and cash equivalents	20	15	20
Income from loans and receivables and current available for sale financial assets	28	29	35
INCOME FROM CASH, CASH EQUIVALENTS AND CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS	**48**	**44**	**55**

The fair value adjustment of borrowings and interest rate hedges was attributable to the following items:

(EUR millions)	2017	2016	2015
Hedged financial debt	28	(10)	6
Hedging instruments	(30)	9	(4)
Unallocated derivatives	17	(16)	(2)
FAIR VALUE ADJUSTMENT OF BORROWINGS AND INTEREST RATE HEDGES	**15**	**(17)**	**-**

The ineffective portion of foreign exchange derivatives for the periods presented broke down as follows:

(EUR millions)	2017	2016	2015
Ineffective portion of commercial foreign exchange derivatives	(45)	(263)	(384)
Ineffective portion of foreign exchange derivatives related to net investments denominated in foreign currency	(11)	(6)	(2)
Ineffective portion of other foreign exchange derivatives	(69)	(68)	(66)
INEFFECTIVE PORTION OF FOREIGN EXCHANGE DERIVATIVES	**(125)**	**(337)**	**(452)**

NOTE 27 – INCOME TAXES

27.1. Analysis of the income tax expense

(EUR millions)	2017	2016	2015
Current income taxes for the fiscal year	(2,927)	(2,775)	(2,382)
Current income taxes relating to previous fiscal years	599	(16)	32
Current income taxes	**(2,328)**	**(2,791)**	**(2,350)**
Change in deferred income taxes	(13)	281	149
Impact of changes in tax rates on deferred income taxes	50	417	107
Deferred income taxes	**37**	**698**	**256**
TOTAL TAX EXPENSE PER INCOME STATEMENT	**(2,291)**	**(2,093)**	**(2,094)**
TAX ON ITEMS RECOGNIZED IN EQUITY	**(234)**	**87**	**116**

In October 2017, the French Constitutional Court declared invalid the French system for taxing dividends, introduced in 2012, which required French companies to pay a tax in an amount equivalent to 3% of dividends paid. In order to finance the corresponding reimbursement, an exceptional surtax was introduced, which raised the income tax payable by French companies in respect of fiscal year 2017 by 15% or 30%, depending on the revenue threshold reached. The reimbursement received, including interest on arrears and net of the exceptional surtax, represents income in the amount of 345 million euros.

In 2017, changes in tax rates had two opposing impacts on deferred income taxes. First, the 2018 Budget Act in France continued the gradual reduction of the corporate tax rate initiated by the 2017 Budget Act, lowering the tax rate to 25.83% from 2022; long-term deferred taxes of the Group's French entities, mainly relating to acquired brands, were thus revalued based on the rate applicable from 2022. Moreover, the tax reform signed into law in the United States lowered the overall corporate income tax rate from 40% to 27% beginning in fiscal year 2018; deferred taxes of entities that are taxable in the United States were thus revalued.

During the fiscal year ended December 31, 2016, the impact of changes in tax rates on deferred taxes mainly resulted from the provisions of the 2017 Budget Act in France, which lowers the tax rate to 28.92% starting in 2020. As a result, long-term deferred taxes – essentially related to acquired brands – were revalued based on the rate applicable as of 2020.

In 2015, this impact resulted from the reduction in the tax rate in Italy starting in 2017, which was applied to deferred taxes, mainly deferred taxes related to acquired brands. See Note 27.4.

27.2. Analysis of net deferred tax on the balance sheet

Net deferred taxes on the balance sheet include the following assets and liabilities:

(EUR millions)	**2017**	**2016**	**2015**
Deferred tax assets	1,743	2,182	2,077
Deferred tax liabilities	(4,545)	(4,877)	(5,543)
NET DEFERRED TAX ASSET/(LIABILITY)	**(2,802)**	**(2,695)**	**(3,466)**

27.3. Analysis of the difference between the theoretical and effective income tax rates

The effective tax rate is as follows:

(EUR millions)	**2017**	**2016**	**2015**
Profit before tax	10,299	6,800	6,343
Of which: companies accounted for under the equity method subject to corporate income tax	18	69	95
Taxable profit before tax	**10,281**	**6,731**	**6,248**
Total income tax expense	(2,291)	(2,093)	(2,094)
EFFECTIVE TAX RATE	**22.3%**	**31.1%**	**33.5%**

(as % of income before tax)	**2017**	**2016**	**2015**
French statutory tax rate	**34.4**	**34.4**	**34.4**
Changes in tax rates [(a)]	(0.5)	(6.2)	(1.7)
Differences in tax rates for foreign companies	(5.1)	(5.7)	(4.4)
Tax losses and tax loss carryforwards, and other changes in deferred tax	0.6	0.7	1.4
Difference between consolidated income and taxable income, and income taxable at reduced rates [(b)]	(5.0)	4.8	1.2
Tax on dividend payments applicable to French companies, net of the exceptional surtax on corporate income tax	(3.3)	1.2	1.2
Tax on distribution [(c)]	1.2	1.9	1.4
EFFECTIVE TAX RATE OF THE GROUP	**22.3**	**31.1**	**33.5**

(a) See Note 27.1.
(b) Results mainly from the impact of the tax relief (*sursis d'imposition*) on the Hermès shares tendered in exchange for Christian Dior shares.
(c) Tax on distribution is mainly related to intercompany dividends.

27.4. Sources of deferred taxes

In the income statement [(a)]

(EUR millions)	2017	2016	2015
Valuation of brands	216	540	147
Other revaluation adjustments	46	52	15
Gains and losses on available for sale financial assets	(36)	-	(2)
Gains and losses on hedges of future foreign currency cash flows	(31)	43	(6)
Provisions for contingencies and losses	(74)	45	100
Intercompany margin included in inventories	(44)	12	(8)
Other consolidation adjustments	(16)	(21)	8
Losses carried forward	(24)	27	2
TOTAL	**37**	**698**	**256**

(a) Income/(Expenses).

In terms of change in equity [(a)]

(EUR millions)	2017	2016	2015
Fair value adjustment of vineyard land	81	108	(21)
Gains and losses on available for sale financial assets	(26)	(31)	17
Gains and losses on hedges of future foreign currency cash flows	(76)	(1)	1
Gains and losses on employee benefit commitments	(22)	17	(16)
TOTAL	**(43)**	**93**	**(19)**

(a) Gains/(Losses).

In the balance sheet [(a)]

(EUR millions)	2017	2016	2015
Valuation of brands	(3,599)	(3,813)	(4,355)
Fair value adjustment of vineyard land	(565)	(650)	(758)
Other revaluation adjustments	(282)	(316)	(352)
Gains and losses on available for sale financial assets	(61)	2	33
Gains and losses on hedges of future foreign currency cash flows	(53)	54	31
Provisions for contingencies and losses	596	734	605
Intercompany margin included in inventories	707	774	758
Other consolidation adjustments	430	460	542
Losses carried forward	25	60	30
TOTAL	**(2,802)**	**(2,695)**	**(3,466)**

(a) Asset/(Liability).

27.5. Tax consolidation

Tax consolidation agreements in France allow virtually all of the Group's French companies to combine their taxable profits to calculate the overall tax expense for which only the parent company is liable.

In 2017 and 2016, LVMH and Christian Dior each had a tax consolidation group that included most of their French subsidiaries in which they had an ownership interest of more than 95%.

Financière Agache and its French subsidiaries in which it has an ownership interest of more than 95% have elected to form a consolidated tax group, with Groupe Arnault SEDCS as the head company.

The estimated reduction in the Group's current tax expense by virtue of these tax consolidation agreements was 5 million euros in 2017 (54 million euros in 2016 and 139 million euros in 2015).

The application of other tax consolidation agreements, notably in the United States for LVMH, generated current tax savings of 85 million euros in 2017 (99 million euros in 2016 and 77 million euros in 2015).

27.6. Losses carried forward

As of December 31, 2017, unused tax loss carryforwards and tax credits for which no assets were recognized (deferred tax assets or receivables), represented potential tax savings of 637 million euros (710 million euros as of December 31, 2016 and 685 million euros as of December 31, 2015).

NOTE 28 – EARNINGS PER SHARE

	2017	2016	2015
Net profit, Group share *(EUR millions)*	**4,247**	**1,446**	**1,315**
Impact of diluting instruments on the subsidiaries (*EUR millions*)	(12)	(9)	(11)
NET PROFIT, DILUTED GROUP SHARE *(EUR millions)*	**4,235**	**1,437**	**1,304**
Average number of shares in circulation during the fiscal year	3,173,352	3,173,352	3,173,352
Average number of Financière Agache treasury shares owned during the fiscal year	(3,619)	(3,619)	(3,619)
Average number of shares on which the calculation before dilution is based	**3,169,733**	**3,169,733**	**3,169,733**
BASIC GROUP SHARE OF NET EARNINGS PER SHARE *(EUR)*	**1,339.86**	**456.19**	**414.86**
Average number of shares in circulation on which the above calculation is based	3,169,733	3,169,733	3,169,733
Dilution effect of stock option and bonus share plans	-	-	-
Average number of shares on which the calculation after dilution is based	**3,169,733**	**3,169,733**	**3,169,733**
DILUTED GROUP SHARE OF NET EARNINGS PER SHARE *(EUR)*	**1,336.07**	**453.35**	**411.39**

As of December 31, 2017, all of the instruments in circulation with the potential to dilute earnings per share were taken into consideration when determining the impact of dilution.

No events occurred between December 31, 2017 and April 27, 2018, the date on which the financial statements were approved for publication, that would have significantly affected the number of shares outstanding or the potential number of shares.

NOTE 29 – PROVISIONS FOR PENSIONS, CONTRIBUTION TO MEDICAL COSTS, AND OTHER EMPLOYEE BENEFIT COMMITMENTS

29.1. Expense for the fiscal year

The expense recognized in the fiscal years presented for provisions for pensions, contribution to medical costs and other employee benefit commitments is as follows:

(EUR millions)	2017	2016	2015
Service cost	110	101	100
Net interest cost	13	13	15
Actuarial gains and losses	-	1	3
Changes in plans	(10)	-	(20)
TOTAL EXPENSE FOR THE FISCAL YEAR FOR DEFINED-BENEFIT PLANS	**113**	**115**	**98**

29.2. Net recognized commitment

(EUR millions)	*Notes*	2017	2016	2015
Benefits covered by plan assets		1,490	1,524	1,363
Benefits not covered by plan assets		179	209	197
Defined-benefit obligation		**1,669**	**1,733**	**1,560**
Market value of plan assets		**(1,077)**	**(1,039)**	**(941)**
NET RECOGNIZED COMMITMENT		**592**	**694**	**619**
Of which:				
Non-current provisions	*19*	625	715	647
Current provisions	*19*	4	5	4
Other assets		(37)	(26)	(32)
TOTAL		**592**	**694**	**619**

29.3. Analysis of the change in net recognized commitment

(EUR millions)	Defined-benefit obligation	Market value of plan assets	Net recognized commitment
As of December 31, 2016	**1,733**	**(1,039)**	**694**
Service cost	110	-	110
Net interest cost	30	(17)	13
Payments to recipients	(111)	86	(25)
Contributions to plan assets	-	(110)	(110)
Contributions of employees	8	(8)	-
Changes in scope and reclassifications	6	(6)	-
Changes in plans	(10)	-	(10)
Actuarial gains and losses	(9)	(49)	(58)
Of which: experience adjustments [(a)]	4	(49)	(45)
changes in demographic assumptions [(a)]	(6)	-	(6)
changes in financial assumptions [(a)]	(7)	-	(7)
Translation adjustment	(88)	66	(22)
AS OF DECEMBER 31, 2017	**1,669**	**(1,077)**	**592**

(a) (Gains)/Losses.

Actuarial gains and losses resulting from experience adjustments related to fiscal years 2013 to 2016 were as follows:

(EUR millions)	2013	2014	2015	2016
Experience adjustments on the defined-benefit obligation	1	3	(11)	(1)
Experience adjustments on the market value of plan assets	(35)	(28)	(12)	(25)
ACTUARIAL GAINS AND LOSSES RESULTING FROM EXPERIENCE ADJUSTMENTS [(a)]	**(34)**	**(25)**	**(23)**	**(26)**

(a) (Gains)/Losses.

The actuarial assumptions applied to estimate commitments as of December 31, 2017 in the main countries concerned were as follows:

	2017					2016					2015				
(as %)	France	United States	United Kingdom	Japan	Switzer-land	France	United States	United Kingdom	Japan	Switzer-land	France	United States	United Kingdom	Japan	Switzer-land
Discount rate [(a)]	1.50	3.70	2.60	0.50	0.65	1.30	3.92	2.80	0.50	0.11	2.00	4.01	3.74	1.00	0.75
Future rate of increase of salaries	2.68	1.70	3.53	2.00	1.69	2.75	4.88	4.00	2.00	1.77	2.75	4.90	3.92	2.00	1.90

(a) Discount rates were determined with reference to market yields of AA-rated corporate bonds at the year-end in the countries concerned. Bonds with maturities comparable to those of the commitments were used.

The assumed rate of increase of medical expenses in the United States is 6.60% for 2018, after which it is assumed to decline progressively to reach 4.50% in 2037.

A rise of 0.5 points in the discount rate would result in a reduction of 102 million euros in the amount of the defined-benefit obligation as of December 31, 2017; a decrease of 0.5 points in the discount rate would result in a rise of 105 million euros.

29.4. Analysis of benefits

The breakdown of the defined-benefit obligation by type of benefit plan is as follows:

(EUR millions)	2017	2016	2015
Supplementary pensions	1,279	1,352	1,218
Retirement and other indemnities	311	299	265
Medical costs of retirees	45	53	50
Jubilee awards	25	24	23
Other	9	5	4
DEFINED-BENEFIT OBLIGATION	**1,669**	**1,733**	**1,560**

The geographic breakdown of the defined-benefit obligation is as follows:

(EUR millions)	2017	2016	2015
France	579	576	493
Europe (excluding France)	569	623	588
United States	344	347	315
Japan	125	130	108
Asia (excluding Japan)	44	50	50
Other countries	8	7	6
DEFINED-BENEFIT OBLIGATION	**1,669**	**1,733**	**1,560**

The main components of the commitment as of December 31, 2017 are as follows:

- in France: the commitment to members of the Group's management bodies who are covered by a supplementary pension plan after a certain number of years of service, the amount of which is determined on the basis of the average of their three highest amounts of annual compensation; they also include retirement indemnities and jubilee awards, the payment of which is determined by French law and collective bargaining agreements, upon retirement or after a certain number of years of service, respectively;
- in Europe (excluding France): pension plans set up in the United Kingdom by certain Group companies; in Switzerland, participation by Group companies in the mandatory Swiss occupational pension plan instituted by the LPP (*loi pour la prévoyance professionnelle*); and the TFR (*trattamento di fine rapporto*) in Italy, a legally required end-of-service allowance, paid regardless of the reason for the employee's departure from the company;
- in the United States, the commitment relates to defined-benefit pension plans or systems for the reimbursement of medical expenses of retirees set up by certain Group companies.

29.5. Analysis of related plan assets

(as % of market value of related plan assets)	2017	2016	2015
Shares	25	28	26
Bonds:			
- private issues	36	34	38
- public issues	6	8	10
Cash, investment funds, real estate and other assets	33	30	26
TOTAL	**100**	**100**	**100**

These assets do not include any debt securities issued by Group companies, nor any LVMH or Christian Dior shares for significant amounts. The Group plans to increase the related plan assets in 2018 by paying in approximately 118 million euros.

NOTE 30 – OFF-BALANCE SHEET COMMITMENTS

30.1. Purchase commitments

(EUR millions)	2017	2016	2015
Grapes, wines and eaux-de-vie	1,925	1,962	2,043
Other purchase commitments for raw materials	123	87	94
Industrial and commercial fixed assets	525	785	808
Investments in joint venture shares and non-current available for sale financial assets	208	979	176

As of December 31, 2017, the maturity schedule of these commitments is as follows:

(EUR millions)	Less than 1 year	1 to 5 years	More than 5 years	Total
Grapes, wines and eaux-de-vie	660	1,226	39	1,925
Other purchase commitments for raw materials	94	28	1	123
Industrial and commercial fixed assets	441	84	-	525
Investments in joint venture shares and non-current available for sale financial assets	47	161	-	208

Some Wines and Spirits companies have contractual purchase arrangements with various local producers for the future supply of grapes, still wines and eaux-de-vie. These commitments are valued, depending on the nature of the purchases, on the basis of the contractual terms or known prices at the balance sheet date and estimated production yields. As of December 31, 2016, purchase commitments for shares and non-current available for sale financial assets included the amount related to the acquisition of Rimowa. See Note 2.

30.2. Lease and similar commitments

In connection with its business activities, the Group enters into agreements for the rental of premises or airport concession contracts. The Group also finances a portion of its equipment through long-term operating leases.

The fixed or minimum portions of commitments in respect of the irrevocable period of operating lease or concession contracts were as follows as of December 31, 2017:

(EUR millions)	2017	2016	2015
Less than 1 year	2,172	2,261	2,103
1 to 5 years	5,595	5,476	5,141
More than 5 years	3,677	3,412	3,330
COMMITMENTS GIVEN FOR OPERATING LEASES AND CONCESSIONS	**11,444**	**11,149**	**10,574**
Less than 1 year	15	14	18
1 to 5 years	35	17	14
More than 5 years	13	6	2
COMMITMENTS RECEIVED FOR SUB-LEASES	**63**	**37**	**34**

In addition, the Group may enter into operating leases or concession contracts that have variable guaranteed amounts. For example, the concession agreement obtained by DFS at Hong Kong International Airport in June 2012 provides for the payment of a variable concession fee, which depends in particular on the number of passengers using the airport. In fiscal year 2017, this fee was approximately 430 million euros.

30.3. Collateral and other guarantees

As of December 31, 2017, these commitments break down as follows:

(EUR millions)	2017	2016	2015
Securities and deposits	379	400	455
Other guarantees	726	582	591
GUARANTEES GIVEN	**1,105**	**982**	**1,046**
GUARANTEES RECEIVED	**40**	**34**	**28**

The maturity dates of these commitments are as follows:

(EUR millions)	Less than 1 year	1 to 5 years	More than 5 years	Total
Securities and deposits	247	120	12	379
Other guarantees	504	85	137	726
GUARANTEES GIVEN	**751**	**205**	**149**	**1,105**
GUARANTEES RECEIVED	**13**	**18**	**9**	**40**

Since fiscal year 2011, in connection with the Group's overall financing and cash management, two affiliated companies have authorized Financière Agache to acquire a total of 6,300,000 LVMH shares and 2,500,000 Christian Dior shares, at a unit price that will correspond, upon the exercise of this right, to the market price of the shares in question upon their acquisition by Financière Agache.

30.4. Other commitments

The Group is not aware of any significant off-balance sheet commitments other than those described above.

NOTE 31 – EXCEPTIONAL EVENTS AND LITIGATION

As part of its day-to-day management, the Group may be party to various legal proceedings concerning trademark rights, the protection of intellectual property rights, the protection of selective retailing networks, licensing agreements, employee relations, tax audits, and any other matters inherent to its business. The Group believes that the provisions recorded in the balance sheet in respect of these risks, litigation proceedings and disputes that are in progress and any others of which it is aware at the year-end, are sufficient to avoid its consolidated financial position being materially impacted in the event of an unfavorable outcome.

In September 2017, hurricanes Harvey, Irma and Maria battered the Caribbean and the southern United States, causing major damage to two of the Group's hotels in St. Barthélemy and affecting, to a lesser extent, the stores in the affected areas. As the losses incurred, in terms of both physical damage and the interruption of business, were covered in large part by the Group's insurance policies, the impact of these events on the consolidated financial statements for the fiscal year ended December 31, 2017 was not material.

At the end of October 2017, following the discovery of production batches not meeting its quality standards, Benefit had to order a worldwide recall of one of its lines and launched a communications campaign. As a significant portion of the costs related to this event were covered by the Group's civil liability insurance policy, the remaining financial impact on the financial statements for the fiscal year ended December 31, 2017 was not material. An investigation is underway at the company's subcontractors to identify responsibility.

To the best of the Company's knowledge, there are no pending or impending administrative, judicial or arbitration procedures that are likely to have, or have had over the 12-month period under review, any significant impact on the financial position or profitability of the Group.

NOTE 32 – RELATED-PARTY TRANSACTIONS

32.1. Relations of the Financière Agache group with the Arnault group

The Financière Agache group is consolidated in the accounts of Groupe Arnault SEDCS. Groupe Arnault SEDCS provides assistance to the Financière Agache group in the areas of development, engineering and corporate and real estate law.

In addition, Groupe Arnault leases office space to the Financière Agache group. Groupe Arnault leases office space from the Financière Agache group and the latter also provides Groupe Arnault with various forms of administrative assistance.

Routine transactions between the Financière Agache group and the Arnault group may be summarized as follows:

(EUR millions)	2017	2016	2015
• Amounts billed for services by the Arnault group to the Financière Agache group [(a)]	(12)	(11)	(11)
Amount payable outstanding as of December 31 [(b)]	(2)	(2)	(2)
• Interest charges billed by the Arnault group to the Financière Agache group [(a)]	(6)	(9)	(11)
Balance of the Financière Agache group's current account liabilities [(b)]	(675)	(362)	(467)
• Tax consolidation expense [(a)]	(4)	(15)	(21)
Balance of tax consolidation accounts [(b)]	9	6	3
• Amounts billed by the Financière Agache group to the Arnault group [(a)]	1	1	1
Amount receivable outstanding as of December 31 [(b)]	-	-	-
• Interest charges billed by the Financière Agache group to the Arnault group [(a)]	13	13	20
Balance of the Financière Agache group's current account assets [(b)]	508	440	477
• Purchases of listed securities from the Arnault group [(b)]	-	-	151
• Acquisition of real estate assets from the Arnault group [(b)]	-	-	11

(a) Income/(Expense).
(b) Asset/(Liability).

In February 2017, the entire share capital of a Royal Van Lent subsidiary, the owner and operator of a vessel for business use, was sold to a subsidiary of Groupe Arnault for consideration of 54 million euros. As part of this transaction, all liabilities and commitments incurred and entered into prior to the sale were assumed.

32.2. Relations of the Financière Agache group with Diageo

Moët Hennessy SAS and Moët Hennessy International SAS (hereinafter referred to as "Moët Hennessy") are the holding companies for LVMH's Wines and Spirits businesses, with the exception of Château d'Yquem, Château Cheval Blanc, Domaine du Clos des Lambrays and certain Champagne vineyards. Diageo holds a 34% stake in Moët Hennessy. When that holding was acquired in 1994, an agreement was entered into between Diageo and LVMH for the apportionment of shared holding company expenses between Moët Hennessy and the other holding companies of the LVMH group.

Under this agreement, Moët Hennessy assumed 16% of shared expenses as of December 31, 2017 (17% in 2016 and 2015), thus in the amount of 19 million euros as of December 31, 2017 (21 million euros in 2016 and 16 million euros in 2015).

32.3. Relations with the Fondation Louis Vuitton

In October 2014, the Fondation Louis Vuitton opened a modern and contemporary art museum in Paris. The LVMH group provides financing to the Fondation Louis Vuitton as part of its corporate sponsorship activities. Its net contributions to this project are included in "Property, plant and equipment" and are depreciated from the time the museum opened (October 2014) over the remaining duration of the public property use agreement awarded by the City of Paris. The Fondation Louis Vuitton also obtains external financing guaranteed by LVMH. These guarantees are part of LVMH's off-balance sheet commitments (see Note 30.3).

32.4. Executive bodies

The total compensation paid to the members of the Board of Directors in respect of their functions within the Group breaks down as follows:

(EUR millions)	**2017**	**2016**	**2015**
Gross compensation, employers' charges and benefits in kind	7	7	7
Post-employment benefits	4	3	3
Other long-term benefits	-	-	-
End of contract indemnities	-	-	-
Stock option and similar plans	4	3	3
TOTAL	**15**	**13**	**13**

The commitment recognized as of December 31, 2017 for post-employment benefits net of related financial assets was 12 million euros (11 million euros as of December 31, 2016 and 10 million euros as of December 31, 2015).

NOTE 33 – SUBSEQUENT EVENTS

No other significant subsequent events occurred between December 31, 2017 and April 27, 2018, the date on which the financial statements were approved for publication by the Board of Directors.

List of consolidated companies

Company	Registered office	Ownership interest
Financière Agache SA	**Paris, France**	**Parent company**
Christian Dior SE and its subsidiaries	Paris, France	95%
LVMH SE and its subsidiaries	Paris, France	41%
Semyrhamis SA	Paris, France	100%
Coromandel SAS	Paris, France	100%
Montaigne Services SNC	Paris, France	100%
Agache Développement SA	Paris, France	100%
Transept SAS	Paris, France	100%
Markas Holding BV	Naarden, Netherlands	100%
Westley International SA and its subsidiaries	Luxembourg	100%
Le Peigné SA [(a)] and its subsidiaries [(a)]	Brussels, Belgium	40%

(a) Accounted for under the equity method.

List of companies not included in the scope of consolidation

Company	Registered office	Ownership interest
Sévrilux SNC	Paris, France	100%
JGPG SAS	Paris, France	100%
Sémyrh-Europe	Luxembourg	100%
CD Investissements	Paris, France	95%
FJG Patrimoine	Paris, France	95%
Société d’exploitation hôtelière de Saint-Tropez	Paris, France	41%
Société Nouvelle de Librairie et d’Édition	Paris, France	41%
Ictinos 1850	Paris, France	41%
BRN Invest NV	Baarn, Netherlands	41%
Toiltech	La Chapelle-devant-Bruyères, France	37%
Bvlgari Austria Ltd	Vienna, Austria	41%
Montaigne Comercio Varejista Limitada	Rio de Janeiro, Brazil	41%
Sephora Macau Limited	Macao, China	41%
JP SAS	Paris, France	29%
Les Beaux Monts	Couternon, France	37%
Sofpar 116	Paris, France	41%
Sofpar 124	Paris, France	41%
Sofpar 125	Paris, France	41%
Sofpar 126	Paris, France	41%
Sofpar 127	Paris, France	41%
Sofpar 128	Paris, France	41%
Moët Hennessy Management	Paris, France	41%
Prolepsis	Brussels, Belgium	41%
Prolepsis Investment Ltd	London, United Kingdom	41%
Hennessy Management	Paris, France	27%
MHCS Management	Paris, France	27%
Innovación en Marcas de Prestigio, S.A. de C.V.	Mexico City, Mexico	27%
Moët Hennessy Nigeria	Lagos, Nigeria	27%
MS 33 Expansion	Paris, France	41%
Shinsegae International Co. Ltd LLC	Seoul, South Korea	21%
Crystal Pumpkin	Luxembourg	41%
Rimowa Austria GmbH	Innsbruck, Austria	33%
Rimowa Schweiz AG	Zurich, Switzerland	33%
Loewe Nederland BV	Netherlands	41%
Groupement Forestier des Bois de la Celle	Cognac, France	27%

7. Statutory Auditors' report on the consolidated financial statements

To the Shareholders' Meeting of Financière Agache SA,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying consolidated financial statements of Financière Agache SA for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the Group's assets, liabilities and financial position as of December 31, 2017, and of the results of its operations for the fiscal year then ended, in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Performance Audit Committee.

Basis for our opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the section of our report entitled "Statutory Auditors' responsibilities for the audit of the consolidated financial statements".

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report. We did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement which, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the current period, as well as how we addressed those risks.

These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon. We do not provide a separate opinion on specific items of the consolidated financial statements.

Valuation of fixed assets, in particular intangible assets

Risk identified

As of December 31, 2017, the Group's fixed assets amounted to 42 billion euros, compared to total balance sheet assets of 76 billion euros. These fixed assets mainly comprise brands, trade names and goodwill recognized on external growth transactions, as well as, to a lesser extent, property, plant and equipment, mainly composed of land, vineyard land, buildings, and store fixtures and fittings.

We considered the valuation of these fixed assets to be a key audit matter, due to their significance in the Group's financial statements, and because the determination of their recoverable amount, which is usually based on discounted forecast cash flows, requires the use of hypotheses, estimates and other forms of judgment, as stated in Note 1.5 to the consolidated financial statements.

Our response

The Group tests these assets for impairment, as described in Notes 1.14 and 5 to the consolidated financial statements.

Within this context, we assessed the methods used to perform these impairment tests and focused our work primarily on Group companies for which the carrying amount of intangible assets represents a high multiple of profit from recurring operations. In particular, among the most significant intangible assets recognized by the Group disclosed in Note 5 to the consolidated financial statements, we paid special attention to recent acquisitions.

We assessed the reasonableness of the main estimates used, in particular forecast cash flows, long-term growth rates and the discount rates applied. We also analyzed the consistency of forecasts with past performance, the market outlook and the Group's historical performance, and we conducted impairment test sensitivity analyses. In addition, where the recoverable amount is estimated by comparison with recent similar transactions, we corroborated the analyses provided with available market data. All of these analyses were carried out with the support of our valuation experts.

Lastly, we assessed the appropriateness of the information disclosed in the notes to the consolidated financial statements.

Valuation of inventories and work in progress

Risk identified

The success of the Group's products, particularly in the Fashion and Leather Goods and Watches and Jewelry business groups, depends among other factors on its ability to identify new trends and changes in behaviors and tastes, in order to offer products that meet consumers' expectations. The Group determines the amounts of the provisions for inventory impairment on the basis of sales prospects in its various markets or due to product obsolescence, as specified in Note 1.16 to the consolidated financial statements.

We considered this to be a key audit matter, as the aforementioned projections and any resulting provisions are intrinsically dependent on hypotheses, estimates or other forms of judgment made by the Group. Furthermore, inventories are present in a large number of subsidiaries and determining these provisions depends primarily on estimated returns and the monitoring of internal margins, which are eliminated in the consolidated financial statements unless and until inventories are sold to non-Group clients.

Our response

As part of our procedures, we analyzed sales prospects as estimated by the Group in the light of past performances and the most recent budgets in order to corroborate the resulting amounts of impairment. Where applicable, we assessed the assumptions made by the Group for the recognition of specific provisions. We also evaluated the consistency of internal margins eliminated in the consolidated financial statements, by assessing in particular the margins generated with the various distribution subsidiaries and checking that the elimination percentage applied is consistent.

Provisions for contingencies and losses

Risk identified

The Group's activities are carried out worldwide, within what is often an imprecise regulatory framework that is different for each country, changes over time and applies to areas ranging from product composition and packaging to the tax computation and relations with the Group's partners (distributors, suppliers, shareholders in subsidiaries, etc.). Within this context, the Group's activities may lead to risks, disputes or litigation, and the Group's entities in France and abroad may be subject to tax inspections and, in certain cases, to rectification claims from local administrations.

In particular, as stated in Note 19 to the consolidated financial statements, these rectification claims, together with any uncertain tax positions that have been identified but not yet officially verified, give rise to appropriate provisions, the amount of which is established in accordance with the criteria of IAS 37 Provisions and IAS 12 Income Taxes.

Lastly, as stated in Note 27.1 to the consolidated financial statements, the recent changes to French tax rules and US tax reform have significant consequences on the current and deferred tax positions.

We considered this to be a key audit matter due to the significance of the amounts at stake and the level of judgment required to monitor the current regulatory changes, in particular with regard to French and US tax rules, and to evaluate these provisions within a constantly evolving international regulatory context.

Our response

Within the context of our audit of the consolidated financial statements, our work consisted in particular in:

- assessing the procedures implemented by the Group in order to identify and evaluate all risks;
- obtaining an understanding of the risk analysis performed by the Group and the corresponding documentation and, where applicable, reviewing written confirmations received from external advisors;
- assessing with the support of our experts, in particular tax specialists, the main risks identified and assessing the reasonableness of the assumptions made by management to estimate the amount of the provisions;
- assessing the relevance of the analyses relating to the use of the provisions for contingencies and losses prepared by the Group;
- assessing with the support of our tax experts the evaluations prepared by the Group's Tax Department relating to the consequences of the tax reforms in France and the United States;
- assessing the appropriateness of the information relating to these risks disclosed in the notes to the financial statements.

Verification of the information pertaining to the Group presented in the Management Report

As required by law we also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the Management Report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Financière Agache by the Shareholders' Meeting held on June 27, 1997 for MAZARS and by the Shareholders' Meeting held on June 24, 2009 for ERNST & YOUNG et Autres.

As of December 31, 2017, MAZARS was in its 21st year of total uninterrupted engagement and ERNST & YOUNG et Autres was in its 9th year. Previously, ERNST & YOUNG Audit had served as Statutory Auditor beginning in 1992.

Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern; for disclosing, as applicable, any matters related to going concern; and for using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Performance Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, internal audit, regarding accounting and financial reporting procedures.

The consolidated financial statements have been approved by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the consolidated financial statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance as to whether the consolidated financial statements taken as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability or the quality of management of your Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his or her opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- assesses the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his or her audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or are inadequate, to issue a qualified or adverse audit opinion;
- assesses the overall presentation of the consolidated financial statements and whether the consolidated financial statements fairly represent the underlying transactions and events;
- obtains sufficient and appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The Statutory Auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these financial statements.

Report to the Performance Audit Committee

We have submitted a report to the Performance Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Performance Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Performance Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss with the Performance Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, May 15, 2018

The Statutory Auditors

MAZARS	**ERNST & YOUNG et Autres**
Simon Beillevaire	Jeanne Boillet

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

Parent company financial statements

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1. Balance sheet

Assets

(EUR thousands)	*Notes*	12/31/2017 Gross	12/31/2017 Depreciation, amortization and provisions	12/31/2017 Net	12/31/2016 Net
Other intangible assets		-	-	-	-
Intangible assets	*2.1/2.2*				
Land		534	-	534	641
Buildings		510	392	118	177
Other tangible fixed assets		-	-	-	-
Property, plant and equipment	*2.1/2.2*	**1,044**	**392**	**652**	**818**
Equity investments	*2.2/2.5*	4,708,358	90,748	4,617,610	4,601,455
Receivables from equity investments	*2.3/2.5*	457,601		457,601	591,079
Long-term investments		8	-	8	8
Loans	*2.3*	1	-	1	4
Other non-current financial assets	*2.3*	448	-	448	448
Non-current financial assets	*2.1/2.2*	**5,166,416**	**90,748**	**5,075,668**	**5,192,994**
NON-CURRENT ASSETS	*2.1/2.2*	**5,167,460**	**91,140**	**5,076,320**	**5,193,812**
Trade accounts receivable	*2.3/2.5*	47	26	21	18
Financial accounts receivable	*2.3/2.5*	233	-	233	233
Other receivables	*2.3/2.5/2.7*	3,631	45	3,586	3,562
Short-term investments	*2.5/2.7*	29,902	942	28,960	29,051
Cash and cash equivalents		14,712	-	14,712	30,911
CURRENT ASSETS		**48,525**	**1,013**	**47,512**	**63,775**
Prepaid expenses	*2.3*	300	-	300	358
Bond redemption premiums		-	-	-	-
TOTAL ASSETS		**5,216,285**	**92,153**	**5,124,132**	**5,257,945**

Liabilities and equity

(EUR thousands)	*Notes*	12/31/2017	12/31/2016
Share capital	*2.4*	50,774	50,774
Share premium, merger and contribution accounts		441,946	441,946
Legal reserve		5,077	5,077
Regulated reserves		55,695	55,695
Other reserves		540,432	540,432
Retained earnings		2,951,944	2,920,892
Net profit		**181,540**	**113,465**
Regulated provisions		-	-
Interim dividends		(317,335)	(82,507)
EQUITY	*2.4*	**3,910,073**	**4,045,774**
PROVISIONS FOR CONTINGENCIES AND LOSSES	*2.5*	**28,609**	**58,050**
Bonds		120,605	276,629
Bank loans and borrowings		206,317	132,006
Miscellaneous loans and borrowings		854,017	743,756
Borrowings	*2.6*	**1,180,939**	**1,152,391**
Trade accounts payable		257	189
Tax and social security liabilities		1,761	45
Operating liabilities	*2.6*	**2,018**	**234**
Other liabilities	*2.6*	1,112	821
LIABILITIES	*2.6*	**1,184,069**	**1,153,446**
Deferred income	*2.7*	1,381	675
TOTAL LIABILITIES AND EQUITY		**5,124,132**	**5,257,945**

2. Income statement

(EUR thousands)	12/31/2017	12/31/2016
Other services	-	-
Net revenue	**-**	**-**
Reversals of provisions, depreciation and amortization	-	-
Expense transfers	-	-
Other income	136	170
Operating income	**136**	**170**
Other purchases and external expenses	873	830
Taxes, duties and similar levies	20	26
Wages and salaries	-	-
Social security expenses	16	17
Depreciation and amortization	19	22
Current asset provision allocations	-	-
Other expenses	82	84
Operating expenses	**1,010**	**979**
OPERATING PROFIT/(LOSS)	**(874)**	**(809)**

(EUR thousands)	*Notes*	12/31/2017	12/31/2016
Income from equity investments		81,625	85,417
Income from other securities and non-current investments		-	-
Other interest and similar income		28,521	27,087
Reversals of provisions and expenses transferred	*2.5*	117,687	114,009
Net foreign exchange gains		-	8,765
Net gains on sales of short-term investments		71	76
Financial income		**227,904**	**235,354**
Depreciation, amortization and provisions	*2.5*	2,114	95,435
Interest and similar expenses		16,885	20,283
Net foreign exchange losses		22,998	-
Net losses on sales of short-term investments		580	-
Financial expenses		**42,577**	**115,718**
NET FINANCIAL INCOME/(EXPENSE)	*2.8*	**185,327**	**119,636**
RECURRING PROFIT		**184,453**	**118,827**
Exceptional income from management transactions		-	-
Exceptional income from capital transactions		1,213	880
Reversals of provisions and expenses transferred	*2.5*	-	-
Exceptional income		**1,213**	**880**
Exceptional expenses on management transactions		-	-
Exceptional expenses on capital transactions		147	244
Provision allocations		-	-
Exceptional expenses		**147**	**244**
NET EXCEPTIONAL INCOME/(EXPENSE)	*2.9*	**1,066**	**636**
Income taxes	*2.10*	**3,979**	**5,998**
NET PROFIT		**181,540**	**113,465**

3. Notes to the parent company financial statements

Amounts are expressed in thousands of euros unless otherwise indicated.

In 2017, Financière Agache increased its direct and indirect ownership interests in Christian Dior and LVMH Moët Hennessy-Louis Vuitton.

The total amount of dividends received from equity investments was 81.6 million euros in 2017, compared with 85.4 million euros in 2016.

Net financial income totaled 185.3 million euros in 2017, compared with 119.6 million euros in 2016.

Net profit was 181.5 million euros, compared with 113.5 million euros in 2016.

1. ACCOUNTING POLICIES AND METHODS

The parent company financial statements have been prepared in accordance with Regulation 2014-03 of June 5, 2014 and Regulation 2015-05 of July 2, 2015, both issued by the Autorité des Normes Comptables (ANC, the French accounting standards setter).

The aim of Regulation 2015-05 is to specify how to account for forward financial instruments and hedging transactions. This regulation – the application of which is mandatory as of January 1, 2017 – does not have a significant impact on Financière Agache's parent company financial statements.

General accounting conventions have been applied observing the principle of prudence in conformity with the basic assumptions of going concern, consistency of accounting methods, and accrual basis, and in conformity with the general rules for the preparation and presentation of parent company financial statements.

The accounting items recorded have been evaluated using the historical cost method, with the exception of property, plant and equipment subject to revaluation in accordance with legal provisions.

1.1. Property, plant and equipment

Property, plant and equipment are depreciated on a straight-line basis over the following estimated useful lives:

- buildings: 20 to 50 years;
- general installations, fixtures and fittings: 4 to 10 years;
- transport equipment: 4 years;
- office furniture and equipment: 3 to 10 years.

1.2. Non-current financial assets

Equity investments and other long-term investments are recorded at the lower of their acquisition cost or their value in use. An impairment provision is recorded if their value in use is lower than their acquisition cost.

The value in use of directly and indirectly held equity investments in listed companies is based on an overall position of majority control, stock market valuation, and the restated portion of the equity of these companies within consolidated equity.

The value in use of other equity investments in unlisted companies is generally determined on the basis of the restated portion of the equity of these companies within consolidated equity.

Gains or losses on partial sales of equity investments are recognized in net financial income/expense and calculated according to the weighted average cost method.

Loans, deposits and other long-term receivables are measured at their face value. Where applicable, these items are reviewed for impairment and provisions are recognized to write them down to their net realizable value at the fiscal year-end.

1.3. Accounts receivable and liabilities

Accounts receivable and liabilities are recognized at their face value. An impairment provision is recorded if their net realizable value, based on the probability of their collection, is lower than their carrying amount.

1.4. Short-term investments

Short-term investments are valued at their acquisition cost. An impairment provision is recorded if their acquisition value exceeds their market value determined as follows:

- listed securities: average listed share price during the last month of the period;
- other securities: estimated realizable value or liquidation value.

Gains or losses on the disposal of short-term investments are determined using the FIFO method.

1.5. Provisions for contingencies and losses

The Company establishes a provision for definite and likely contingencies and losses at the end of each fiscal year, observing the principle of prudence.

1.6. Foreign currency transactions

During the period, foreign currency transactions are translated into euros using the exchange rates prevailing on the transaction dates.

Liabilities, accounts receivable, liquid funds and short-term investments in foreign currencies are revalued on the balance sheet at fiscal year-end exchange rates.

Gains or losses on transactions regarded as elements of the same overall foreign exchange position by currency (realized or resulting from the revaluation of positions at the fiscal year-end) are recorded in the income statement as a single net amount.

The difference resulting from the revaluation of liabilities and accounts receivable in foreign currencies at the fiscal year-end that cannot be regarded as elements of the same overall foreign exchange position is recorded under "Translation adjustment". Provisions are recorded for unrealized foreign exchange losses unless they are hedged.

1.7. Net financial income/(expense)

Due to its type of business, the Company applies the following policies:

- gains or losses on partial sales of equity investments are recognized in net financial income/(expense) and calculated according to the weighted average cost method;
- net gains and losses on sales of short-term investments comprise expenses and income associated with sales.

1.8. Gains and losses on options and futures contracts

a) On hedges
Gains and losses are recorded in the income statement and matched against the income and expenses arising from the hedged item.

b) On other transactions
A provision for contingencies is recorded if the market value of the instrument results in the calculation of an unrealized loss for the Company compared to the initial value of the instrument. Unrealized gains are not recognized.

1.9. Equity

In accordance with the recommendations of the *Compagnie nationale des Commissaires aux comptes* (CNCC, the representative body of the statutory audit profession in France), interim dividends are recorded as a deduction from equity.

2. ADDITIONAL INFORMATION RELATING TO THE BALANCE SHEET AND INCOME STATEMENT

2.1. Non-current assets

(EUR thousands)	Gross value as of 01/01/2017	Increases: Acquisitions, creations, transfers	Decreases: Disposals, transfers	Gross value as of 12/31/2017
Intangible assets	**-**	**-**	**-**	**-**
Land	641	-	107	534
Buildings, fixtures and fittings	669	-	159	510
General installations, fixtures and fittings	-	-	-	-
Transport equipment	-	-	-	-
Office furniture and equipment	-	-	-	-
Property, plant and equipment	**1,310**	**-**	**266**	**1,044**
Equity investments	4,690,117	18,269	28	4,708,358
Receivables from equity investments	678,507	758,899	979,805	457,601
Long-term investments	8	-	-	8
Loans	4	-	3	1
Other non-current financial assets	448	-	-	448
Non-current financial assets	**5,369,084**	**777,168**	**979,836**	**5,166,416**
TOTAL	**5,370,394**	**777,168**	**980,102**	**5,167,460**

The net increase of 18.2 million euros in “Equity investments” was the result of the purchase of additional shares in a subsidiary as well as capital increases in certain subsidiaries. The net increase of 220.9 million euros in “Receivables from equity investments” corresponds to the additional amounts extended under the medium-term credit lines set up by Financière Agache for affiliated companies.

2.2. Depreciation, amortization and impairment of fixed assets

(EUR thousands)	Position and changes in the fiscal year: Depreciation, amortization and provisions as of 01/01/2017	Increases, charges	Decreases, reversals	Depreciation, amortization and provisions as of 12/31/2017
Intangible assets	**-**	**-**	**-**	**-**
Buildings, fixtures and fittings	492	19	119	392
General installations, fixtures and fittings	-	-	-	-
Office furniture and equipment	-	-	-	-
Property, plant and equipment	**492**	**19**	**119**	**392**
Equity investments	88,662	2,114	28	90,748
Receivables from equity investments	87,428	-	87,428	
Long-term investments and loans	-	-	-	-
Non-current financial assets	**176,090**	**2,114**	**87,456**	**90,748**
TOTAL	**176,582**	**2,133**	**87,575**	**91,140**

Charges to and reversals of provisions for non-current financial assets reflect the change in the level of net assets of the subsidiaries concerned.

2.3. Loans and accounts receivable by maturity

(EUR thousands)	**Gross amount**	**Up to 1 year**	**More than 1 year**
Receivables from equity investments	457,601	1,109	456,492
Loans and other non-current financial assets	449	-	449
Trade accounts receivable	47	47	-
Financial accounts receivable	233	233	-
Other receivables	3,631	3,631	-
Prepaid expenses	300	300	-
TOTAL	**462,261**	**5,320**	**456,941**

Receivables from equity investments

Receivables from equity investments comprise credit lines made available to affiliated companies under bilateral agreements.

Accrued interest on receivables from equity investments amounted to 1.1 million euros.

Other receivables

Other receivables mainly include miscellaneous receivables, interest receivable on swaps related to borrowings, and a tax consolidation-related income tax receivable.

Prepaid expenses and deferred income

As of December 31, 2017, prepaid expenses mainly related to commissions for credit line commitments.

2.4. Equity

A. Share capital

The share capital comprises 3,173,352 shares, each with a par value of 16 euros, of which 3,169,463 shares carry double voting rights.

B. Change in equity

(EUR thousands)	
Equity as of 12/31/2016 (prior to appropriation of net profit)	**4,045,774**
Profit	181,540
Dividends paid	-
Interim dividends	(317,335)
Change in regulated reserves	-
Impact of treasury shares	94
Equity as of 12/31/2017	**3,910,073**

2.5. Impairment and provisions

(EUR thousands)	Amount as of 01/01/2017	Provisions	Reversals	Amount as of 12/31/2017
Impairment				
Equity investments	88,662	2,114	28	90,748
Receivables from equity investments	87,428	-	87,428	-
Trade accounts receivable	26	-	-	26
Financial and other receivables	45	-	-	45
Other short-term investments	1,726	-	784	942
Subtotal	**177,887**	**2,114**	**88,240**	**91,761**
Provisions for contingencies and losses				
Litigation and miscellaneous risks	58,050	-	29,441	28,609
Subtotal	**58,050**	**-**	**29,441**	**28,609**
TOTAL	**235,937**	**2,114**	**117,681**	**120,370**
Amortization of the bond redemption premium	-	-	-	-
Of which:				
Financial	-	2,114	117,681	-
Exceptional	-	-	-	-

Reversals of provisions for "Receivables from equity investments" (87.4 million euros) and "Litigation and miscellaneous risks" (29.4 million euros) mainly reflect the level of net assets of the subsidiaries concerned.

2.6. Liabilities by maturity

Liabilities *(EUR thousands)*	Gross amount	Up to 1 year	1 to 5 years	More than 5 years
Bonds	120,605	605	120,000	-
Bank loans and borrowings	206,317	39,636	166,681	-
Miscellaneous loans and borrowings	854,017	854,017	-	-
Trade accounts payable	257	257	-	-
Tax and social security liabilities	1,761	1,761	-	-
Other liabilities	1,112	1,112	-	-
Deferred income	-	-	-	-
TOTAL	**1,184,069**	**897,388**	**286,681**	**-**

The bond issued with a face value of 120 million euros falls due on August 1, 2022. Redeemable at par, it pays an annual coupon of 1.20%.

Bank loans and borrowings mainly comprise long-term borrowings in the amount of 166.7 million euros and short-term borrowings in the amount of 39.6 million euros.

Miscellaneous loans and borrowings include short-term negotiable debt securities outstanding in the amount of 854 million euros.

As is normal practice for credit facilities, Financière Agache has signed commitments to maintain a specific ownership interest and voting rights for some of its subsidiaries.

2.7. Accrued income and expenses by asset/liability line

(EUR thousands)	Accrued expenses and deferred income	Accrued income and prepaid expenses
Current assets		
Short-term investments	-	-
Other receivables	-	1,602
Prepaid expenses	-	300
Liabilities		
Borrowings	880	-
Trade accounts payable	256	-
Tax and social security liabilities	1,761	-
Other liabilities	381	-
Deferred income	1,381	-

2.8. Financial income and expenses

Net financial income was 185.3 million euros. This item mainly includes:

- dividend income of 86.1 million euros;
- net financial income of 5.6 million euros;
- net reversals of provisions for 107.5 million euros;
- an overall foreign exchange loss of 14.1 million euros.

2.9. Exceptional income and expenses

Exceptional income *(EUR thousands)*	12/31/2017	12/31/2016
Miscellaneous revenue from management transactions	-	-
Income from capital transactions	1,213	880
Reversals of provisions and expenses transferred	-	-
EXCEPTIONAL INCOME	**1,213**	**880**

Exceptional expenses *(EUR thousands)*	12/31/2017	12/31/2016
Exceptional expenses on management transactions	-	-
Expenses on capital transactions	147	244
Provision allocations	-	-
EXCEPTIONAL EXPENSES	**147**	**244**
NET EXCEPTIONAL INCOME/(EXPENSE)	**1,066**	**636**

2.10. Income taxes

	12/31/2017			12/31/2016		
(EUR thousands)	Before tax	Tax	After tax	Before tax	Tax	After tax
Recurring profit	184,453	-	184,453	118,827	-	118,827
Exceptional income/(expense)	1,066	(3,979)	(2,913)	636	(5,998)	(5,362)
TOTAL	**185,519**	**(3,979)**	**181,540**	**119,463**	**(5,998)**	**113,465**

2.11. Tax position

Since 2004, Financière Agache has been a member of the tax group of which Groupe Arnault is the parent company.

Financière Agache calculates and recognizes its tax expense as if it were individually subject to tax, and remits this amount to the parent company.

3. OTHER INFORMATION

3.1. Financial commitments

Commitments relating to forward financial instruments

Foreign exchange hedging

In connection with its financing and foreign exchange hedging policy, Financière Agache uses forward sales of foreign currencies against the euro. As of December 31, 2017, these financial instruments amounted to 163 million euros.

Commitments given

Financière Agache served as guarantor for financing granted to an affiliated company in the total amount of 455 million euros.

With respect to one of its affiliated companies, Financière Agache confirmed the Group's policy whose aim is to ensure that its controlled subsidiaries have access in all circumstances to the resources required to meet their financial obligations.

Commitments received

Since fiscal year 2011, in connection with the Group's overall financing and cash management, two affiliated companies have authorized Financière Agache to acquire a total of 6,300,000 LVMH shares and 2,500,000 Christian Dior shares, at a unit price that will correspond, upon the exercise of this right, to the market price of the shares in question upon their acquisition by Financière Agache.

3.2. Compensation of management bodies

The gross amount of compensation paid in 2018 to members of management bodies in respect of the 2017 fiscal year was 82.3 thousand euros.

3.3. Identity of the company consolidating the accounts of Financière Agache

Registered office

Groupe Arnault: 41 avenue Montaigne – 75008 Paris, France – RCS 314 685 454.

3.4. Additional information relating to equity investments and short-term investments

List of subsidiaries and investments

(EUR thousands)	Equity	Percentage of share capital held	Net profit/ (loss) for the year ended 12/31/2017
A. Shares whose gross value exceeds 1% of the share capital			
1. Subsidiaries (at least 50% of the share capital held by the Company)			
Agache Développement	101	100.00%	(679)
Coromandel	47,569	100.00%	(14)
Montaigne Services	23	99.90%	8
Semyrhamis	8,126,730	100.00%	1,549,568
Markas Holding	1,520	100.00%	(12,040)
Westley International	(28,410)	100.00%	20,769
2. Equity investments (between 10% and 50% of the share capital held by the Company)			
LC Investissements	171,557	49.00%	(52)
Le Peigné	745,251	40.36%	51,925
3. Other			
Christian Dior [(a)]	8,608,269	8.86%	6,163,690
LVMH Moët Hennessy - Louis Vuitton [(a)]	15,627,675	1.58%	2,853,127
B. Other (shares whose gross value does not exceed 1% of the share capital)			
French subsidiaries	2,388		(112)

(a) Excluding shares recognized as short-term investments.

Information concerning non-current investments of the "TIAP" portfolio

Not significant.

Information on short-term investments

(EUR thousands)	Carrying amount as of 12/31/2017
Shares	28,433
Hedge funds and private equity funds	527
SHORT-TERM INVESTMENTS	**28,960**

4. Company results over the last five fiscal years

(EUR thousands)	2013	2014	2015	2016	2017
1. Share capital					
Share capital	50,774	50,774	50,774	50,774	50,774
Number of ordinary shares outstanding	3,173,352	3,173,352	3,173,352	3,173,352	3,173,352
Maximum number of future shares to be created through exercise of share subscription options	-	-	-	-	-
2. Operations and profit for the fiscal year					
Revenue before taxes	-	-	-	-	-
Profit before taxes, depreciation, amortization and movements in provisions	324,291	568,739	280,944	100,911	69,965
Income taxes	3,328	22,475	9,024	5,998	3,979
Profit after taxes, depreciation, amortization and movements in provisions	312,675	496,084	248,934	113,465	181,540
Profit distributed as dividends [(a)]	90,441	-	550,577	82,507	317,335
3. Earnings per share *(EUR)*					
Profit before taxes, depreciation, amortization and movements in provisions	102.19	179.22	88.53	31.80	22.05
Profit after taxes, depreciation, amortization and movements in provisions	98.53	156.33	78.45	35.76	57.21
Gross dividend distributed per share [(b)]	**28.50**	**-**	**173.50**	**26.00**	**100.00**
4. Employees					
Average number of employees	1	-	-	-	-
Total payroll	43	9	-	-	-
Amounts paid in respect of employee benefits for the fiscal year	30	21	16	17	16

(a) Amount of the distribution resulting from the resolution of the Shareholders' Meeting, before the impact of Financière Agache treasury shares held as of the distribution date.
For the fiscal year ended December 31, 2017, amount proposed at the Shareholders' Meeting of May 30, 2018.
(b) Excluding the impact of tax regulations applicable to recipients.

5. Statutory Auditors' reports

STATUTORY AUDITORS' REPORT ON THE PARENT COMPANY FINANCIAL STATEMENTS

To the Shareholders' Meeting of Financière Agache SA,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meeting, we have audited the accompanying parent company financial statements of Financière Agache SA for the fiscal year ended December 31, 2017.

In our opinion, the parent company financial statements give a true and fair view of the assets and liabilities and of the financial position of the Company as of December 31, 2017 and of the results of its operations for the fiscal year then ended in accordance with French accounting principles.

The audit opinion expressed above is consistent with our report to the Performance Audit Committee.

Basis for our opinion

Audit framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the Statutory Auditors' responsibilities for the audit of the parent company financial statements section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report. We did not provide any prohibited non-audit services referred to in Article 5 (1) of Regulation (EU) No. 537/2014 or in the French Code of Ethics (*Code de déontologie*) for Statutory Auditors.

Observations

Without qualifying the opinion stated above, we draw attention to Note 1 to the parent company financial statements ("Accounting policies and methods"), which describes the application of Regulation 2015-05 of the Autorité des Normes Comptables (ANC, the French accounting standards setter) relating to the recognition of forward contracts and hedging transactions.

Justification of assessments – Key audit matters

In accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (*Code de commerce*) relating to the justification of our assessments, we are required to inform you of the key audit matters relating to risks of material misstatement which, in our professional judgment, were of most significance in our audit of the financial statements for the current period, as well as how we addressed those risks.

We determined that there were no key audit matters to disclose in our report.

Verification of the Management Report and other documents provided to shareholders

We also performed, in accordance with professional standards applicable in France, the specific verifications required by French law.

Information given in the Management Report and in the other documents provided to shareholders with respect to the financial position and the parent company financial statements

We have no matters to report as to the fair presentation and the consistency with the parent company financial statements of the information given in the Management Report of the Board of Directors and in the other documents provided to shareholders with respect to the financial position and the parent company financial statements.

Report on corporate governance

We attest that the Board of Directors' report on corporate governance sets out the information required by Article L. 225-37-4 of the French Commercial Code.

Report on other legal and regulatory requirements

Appointment of the Statutory Auditors

We were appointed as Statutory Auditors of Financière Agache SA by your Shareholders' Meetings held on June 27, 1997 for MAZARS and on June 24, 2009 for ERNST & YOUNG et Autres.

As of December 31, 2017, MAZARS was in its 21st year of total uninterrupted engagement and ERNST & YOUNG et Autres was in its 9th year. Previously, ERNST & YOUNG Audit had served as Statutory Auditor beginning in 1992.

Responsibilities of management and those charged with governance for the parent company financial statements

Management is responsible for the preparation and fair presentation of the parent company financial statements in accordance with French accounting principles and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the parent company financial statements, management is responsible for assessing the Company's ability to continue as a going concern, for disclosing, as applicable, matters related to going concern, and for using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The Performance Audit Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risk management systems and where applicable, internal audit, regarding accounting and financial reporting procedures.

The parent company financial statements have been approved by the Board of Directors.

Statutory Auditors' responsibilities for the audit of the parent company financial statements

Objectives and audit approach

Our role is to issue a report on the parent company financial statements. Our objective is to obtain reasonable assurance about whether the parent company financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these parent company financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code, our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the Statutory Auditor exercises professional judgment throughout the audit and furthermore:

- identifies and assesses the risks of material misstatement of the parent company financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of internal control;
- assesses the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the parent company financial statements;
- assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the Statutory Auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the parent company financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein;
- evaluates the overall presentation of the parent company financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.

Report to the Performance Audit Committee

We have submitted a report to the Performance Audit Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Performance Audit Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the parent company financial statements of the current period and which are therefore the key audit matters that we are required to describe in this report.

We also provide the Performance Audit Committee with the declaration provided for in Article 6 of Regulation (EU) No. 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L. 822-10 to L. 822-14 of the French Commercial Code and in the French Code of Ethics for Statutory Auditors. Where appropriate, we discuss with the Performance Audit Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

Courbevoie and Paris-La Défense, May 15, 2018

The Statutory Auditors

MAZARS	**ERNST & YOUNG et Autres**
Simon Beillevaire	Jeanne Boillet

STATUTORY AUDITORS' SPECIAL REPORT ON REGULATED AGREEMENTS

To the Shareholders' Meeting of Financière Agache SA,

In our capacity as Statutory Auditors of your Company, we hereby submit our report on regulated agreements.

Our responsibility is to inform you, on the basis of the information provided to us, of the main terms and conditions of the agreements that have been indicated to us or that we may have identified while performing our role, and of the reasons provided as to why those agreements are in the Company's interest. We are not required to comment as to whether they are beneficial or appropriate, or to ascertain the existence of any other agreements. It is your responsibility, in accordance with Article R. 225-31 of the French Commercial Code (*Code de commerce*), to assess the relevance of these agreements prior to their approval.

In accordance with Article R. 225-31 of the French Commercial Code, we are also required, if applicable, to inform you of the implementation during the fiscal year of agreements already approved by the Shareholders' Meeting.

We performed the procedures that we considered necessary in accordance with the professional guidelines of the French Institute of Statutory Auditors (*Compagnie nationale des Commissaires aux comptes*) relating to this type of engagement. These procedures consisted in verifying the consistency of the information provided to us with the relevant source documents.

Agreements submitted for approval at the Shareholders' Meeting

We hereby inform you that we were not informed of any agreements authorized and entered into during the fiscal year under review to be submitted for approval at the Shareholders' Meeting, pursuant to the provisions of Article L. 225-38 of the French Commercial Code.

Agreements already approved at a Shareholders' Meeting

In accordance with Article R. 225-30 of the French Commercial Code, we have been advised that the following agreement(s), already approved at a Shareholders' Meeting in a prior fiscal year, remained in effect during the fiscal year under review.

With Groupe Arnault SEDCS, a shareholder and Director of your Company

Persons concerned

Nicolas Bazire and Florian Ollivier, Directors.

Nature and purpose

Assistance agreement.

Your Company does not have any of its own employees. The assistance agreement entered into with Groupe Arnault SEDCS enables the sharing of skills as well as certain costs, thus reducing expenses.

Terms and conditions

In 2017, your Company paid Groupe Arnault SEDCS the sum of 210,227.80 euros including taxes (175,189.84 euros excluding taxes) under the assistance agreement of November 27, 1995, amended on October 23, 2009, relating to financial, tax and accounting services.

Courbevoie and Paris-La Défense, May 15, 2018

The Statutory Auditors

MAZARS	**ERNST & YOUNG et Autres**
Simon Beillevaire	Jeanne Boillet

Statement by the company officer responsible for the Annual Financial Report

We declare that, to the best of our knowledge, the financial statements have been prepared in accordance with applicable accounting standards and provide a true and fair view of the assets, liabilities, financial position and profit or loss of the parent company and of all consolidated companies, and that the Management Report presented on page 5 gives a true and fair picture of the business performance, profit or loss and financial position of the parent company and of all consolidated companies as well as a description of the main risks and uncertainties faced by all of these entities.

Paris, April 27, 2018

Florian OLLIVIER

Chairman and Chief Executive Officer

FINANCIERE AGACHE

Design and production: Agence Marc Praquin

FINANCIERE AGACHE

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