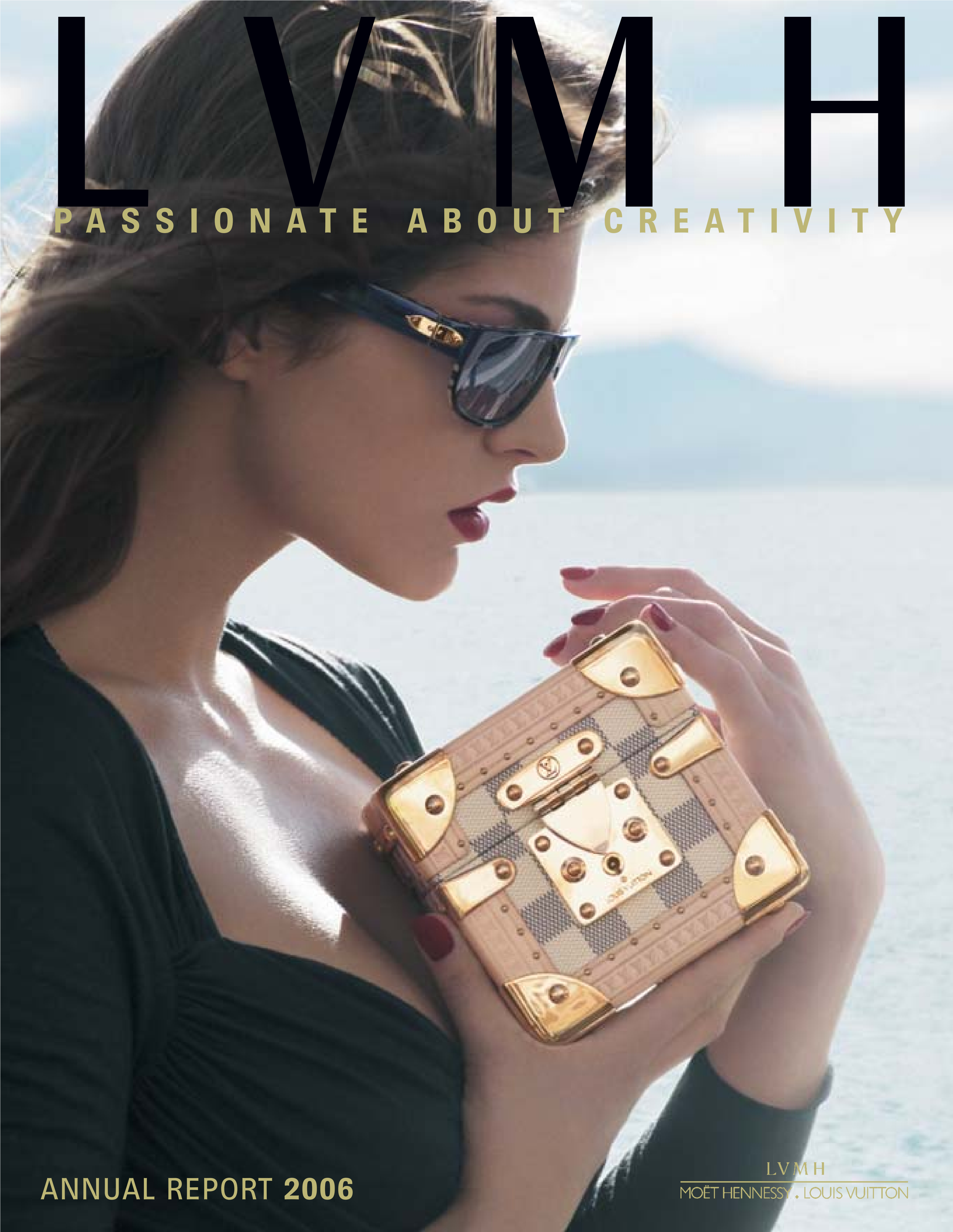
LVMH

PASSIONATE ABOUT CREATIVITY



ANNUAL REPORT **2006**

LVMH
MOËT HENNESSY . LOUIS VUITTON

Cover photo

Damier Azur from Louis Vuitton or the art of highlight the absolute modernity of eternal values. First created in 1888, the Damier fabric was reworked in 1996. Ten years later, it is adorned with a new color, a complement to the existing ebony. .

The Damier Azur line was photographed by Patrick Demarchelier.


PASSIONATE ABOUT CREATIVITY

BERNARD ARNAULT
STRENGTHEN, DEVELOP, ANTICIPATE

We sell products from the best traditional crafts with growing success on every continent. Our brands are the leading ambassadors of this excellence with customers from very diverse origins and cultures.

Strengthen, develop, anticipate

We approach the coming months with confidence and determination, buoyed by excellent results in 2006, the strengthening of our foundations and the opportunities offered by our numerous growth drivers.The future of LVMH is being built upon solid foundations and exceptional brands. Its long-term vision, its ability to anticipate and the talent of its teams will enable our Group to reinforce its position as the global leader in luxury goods.

2006 has been an excellent year for LVMH with record sales across all its business lines and geographic regions, strong growth in profits, and further debt reduction. Our Group has gained market share in all of its activities and has reinforced its position as the leader in its market. In an unfavourable currency environment whose impact was mostly felt in the second half of the year, we have gained one point of operational margin for the second year running and the Group share of net profit has increased by 30 per cent.

Once again, our teams have performed remarkably this year. Our Wines and Spirits houses have well managed the increased product quality and range and strong growth in volumes. Our Fashion and Leather Goods businesses have performed exceptionally in Europe, Asia and the United States. The Perfume and Cosmetics brands have once again gained market share from their competitors. The Watches and Jewelry business group has undeniably continued the successful recovery which has mobilized its teams in recent years. The Selective Retailing companies have become more competitive and this business group has further improved its profitability.

A growing success with customers reflecting the world's diversity

The international expansion of our activities is particularly notable. We sell products from the best traditional crafts with growing success on every continent. Our brands are the leading ambassadors of this excellence with customers from very diverse origins and cultures. In the United States, the leading luxury goods market where demand is very strong, LVMH has almost quintupled its sales over ten years. In Asia, our progress year on year demonstrates our success with the increasing numbers of consumers in the region who are accessing the luxury goods market and recognising quality. Today in China, for example, we lead in several areas thanks to the investments the Group had the foresight to make in a market with rapidly increasing influence. Our progress in Europe is also notable, proving the solidity of our heritage and the loyalty of our clients in the regions where our crafts and the culture of luxury first originated. LVMH's home continent has also, of course, its own new markets in the Central European countries, and in particular Russia, where there is strong potential. Europe also profits from an increasing influx of tourists, fuelled in particular by China and Russia.

Strengthened foundations

Another point I would like to draw attention to is LVMH's capacity to well manage the strengthening of its leadership both in its traditional trades - those of champagne, cognac, leather goods and perfumes - and the development, with a momentum of profitable growth, of some of its more recent activities, such as selective retailing, watch-making and jewelry. Another example is that of Moët Hennessy's success in developing a range of exceptional wines at Estates & Wines. Such successes enable us, year after year, to reinforce the Group's foundations.

A richer and more vibrant heritage than before, together with an enlightened ability to anticipate in order to build the future

We are approaching 2007 with confidence and with renewed energy despite a currency environment which remains difficult. Our business will be carried forward by strong innovation in all of our business groups, development of new product categories and continued investment in distribution in markets with strong potential. These developments expected in the following months enable us to fix a new Group objective of a significant increase in its 2007 results.

LVMH will be 20 years old in 2007. Throughout the last two decades, the Group has developed and deployed a consistently successful and unique long-term growth strategy. It has remained close to this strategy while at the same time continuing to respond to and anticipate an ever-evolving world. From its inherited values, the Group has created an even more vibrant cultural heritage on which to base its future. The strength of the LVMH's leading brands: Louis Vuitton, Christian Dior, Hennessy, TAG Heuer, Fendi, Moët & Chandon, Dom Pérignon and Sephora, give the Group a competitive advantage which it intends to strengthen as time goes on. In each of its activities, rising stars are confirming their potential as growth drivers for LVMH. The future of our Group is full of exciting challenges and new opportunities in a market that has strong potential and a positive outlook. The rigorous pursuit of LVMH's growth strategy, the creativity and quality of its products, the talent of its craftsmen and designers, the efficiency of its marketing teams will enable the Group to increase the lead over its competitors in the luxury marketplace.

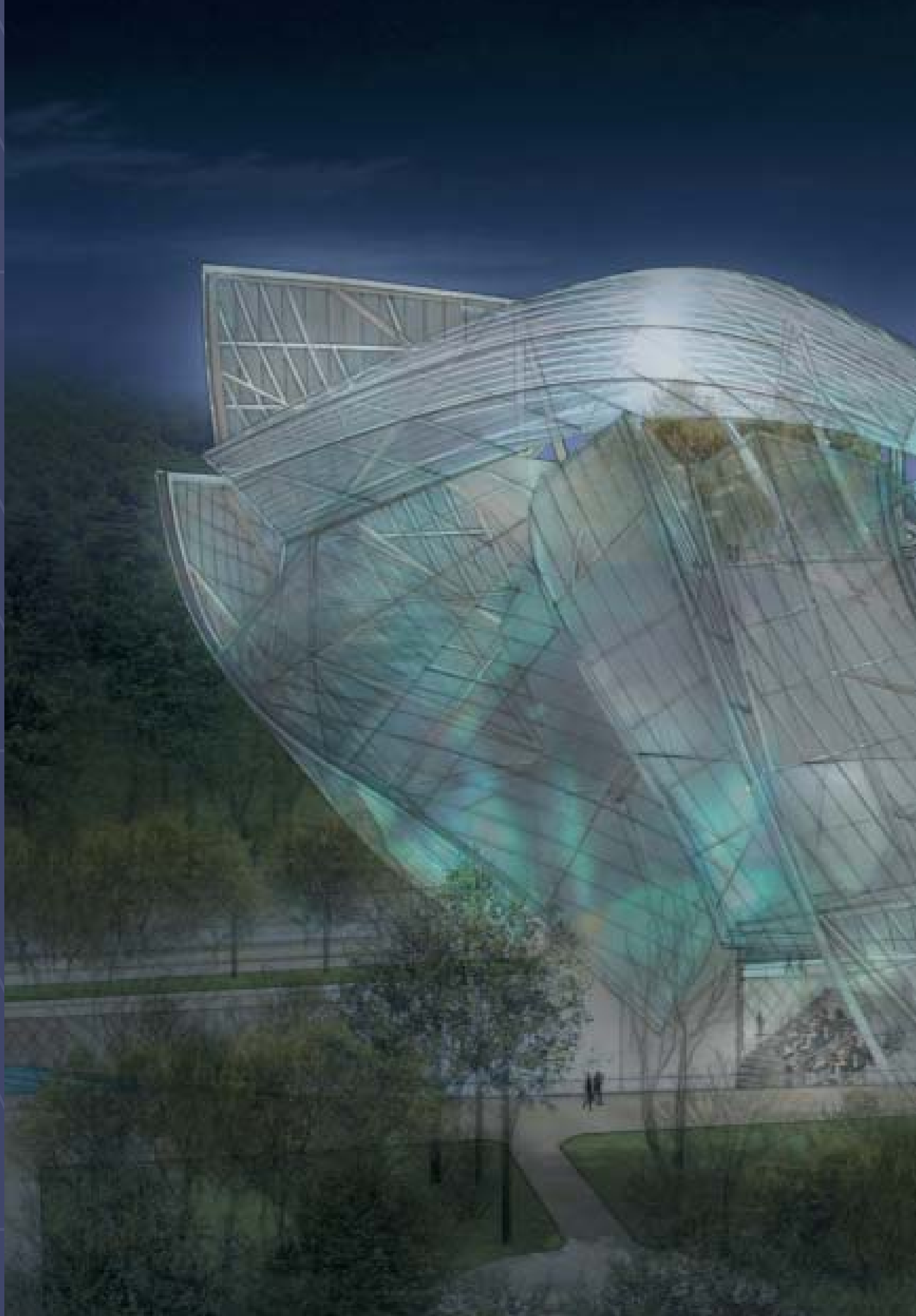
LVMH's sustainable development strategy is imbedded in the Group's long-term value and future. The Group adheres to the United Nations' Global Compact whose objectives form an integral part of its development strategy. LVMH is dedicated to being a business of the community, one that respects the well-being of its contemporaries and that of future generations. We will continue to take the social and environmental implications of our activities very seriously. Furthermore, over the last fifteen years, we have developed our patronage program to focus on creative projects that bring cultures and civilisations together. We wished to make this commitment more permanent and give it an appropriate framework. The birth of the Louis Vuitton Foundation for Creation, announced in October 2006, is a project of which we are as proud as we are of our results. I would like our shareholders, our business partners and our clients across the world to share this pride and I thank them for having made this project possible.

14 February 2007

Bernard Arnault
Chairman & Chief Executive Officer

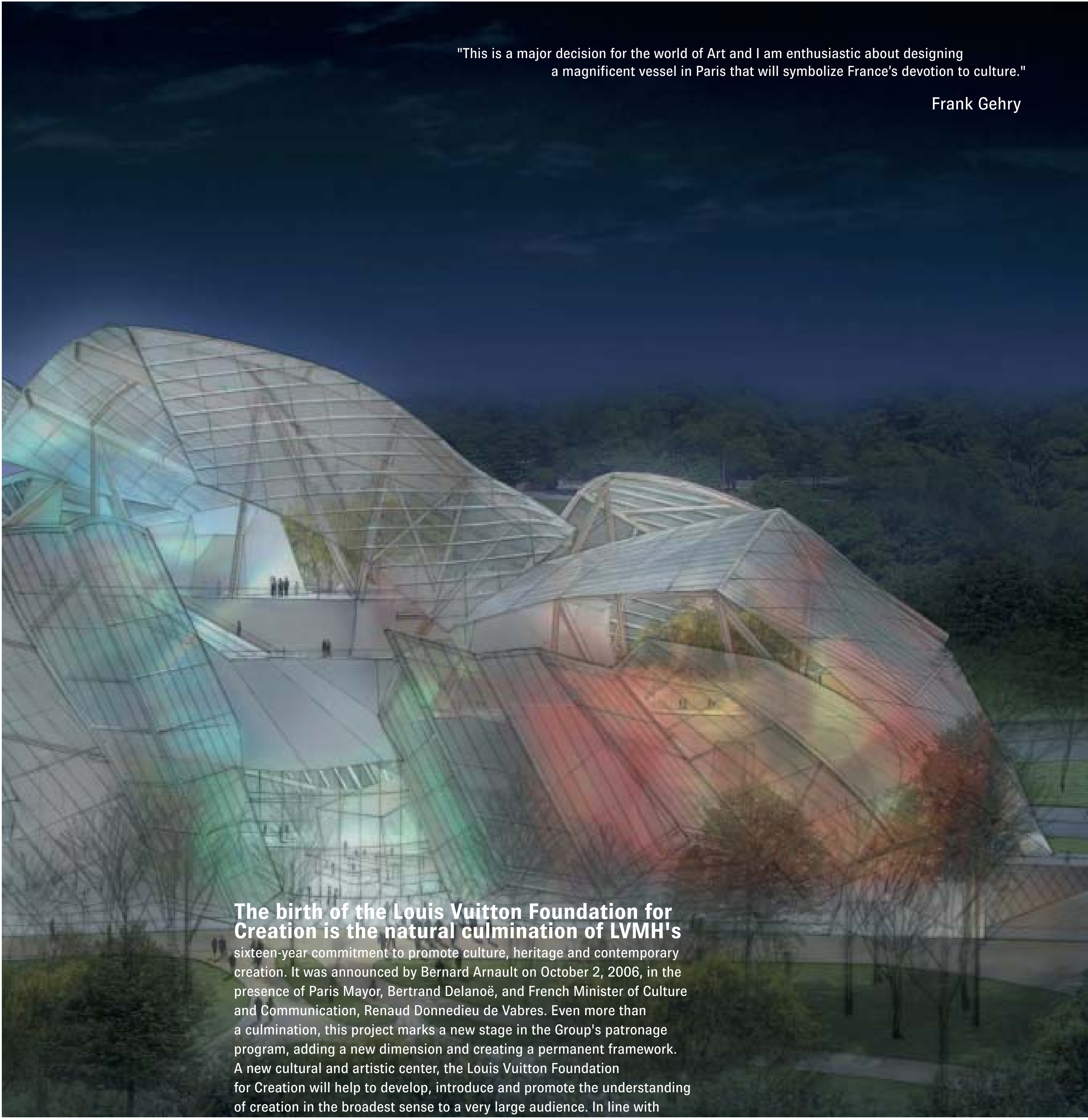
"Our vision of creation is rooted in heritage:
the presence of memory, without which the future cannot unfold."

Bernard Arnault



"This is a major decision for the world of Art and I am enthusiastic about designing a magnificent vessel in Paris that will symbolize France's devotion to culture."

Frank Gehry

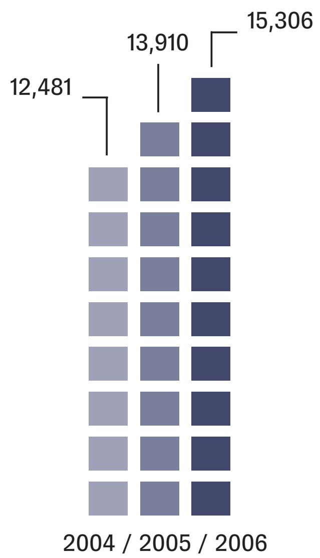


The birth of the Louis Vuitton Foundation for Creation is the natural culmination of LVMH's sixteen-year commitment to promote culture, heritage and contemporary creation. It was announced by Bernard Arnault on October 2, 2006, in the presence of Paris Mayor, Bertrand Delanoë, and French Minister of Culture and Communication, Renaud Donnedieu de Vabres. Even more than a culmination, this project marks a new stage in the Group's patronage program, adding a new dimension and creating a permanent framework. A new cultural and artistic center, the Louis Vuitton Foundation for Creation will help to develop, introduce and promote the understanding of creation in the broadest sense to a very large audience. In line with the LVMH patronage approach, the Foundation will conduct large-scale international projects that combine classicism and modernity, tradition and innovation in order—and this defines the originality of the project—to place contemporary creation in historical perspectives, particularly those of the 20th century.

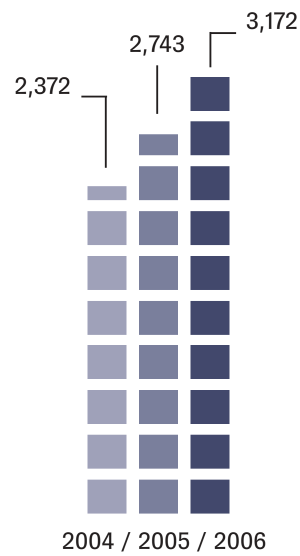
The Foundation will radiate from an exceptional location in Paris, in the heart of the Jardin d'Acclimatation, from a building that will be emblematic of 21st century architecture, designed by Frank Gehry, one of the greatest architects of our time, whose exceptional creativity is admired throughout the world.

FINANCIAL HIGHLIGHTS

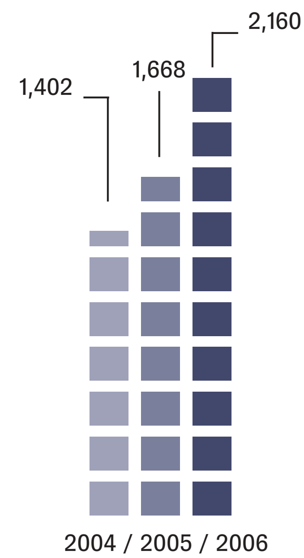
Revenue
EUR million



Profit from recurring operations
EUR million



Net profit
EUR million



EUR million and %)	2004	2005	2006
Total equity (1)	8,675	10,484	11,594
Net financial debt to equity ratio	61%	41%	29%
Net financial debt to adjusted equity	55%	41%	29%

(1) Includes minority interests.

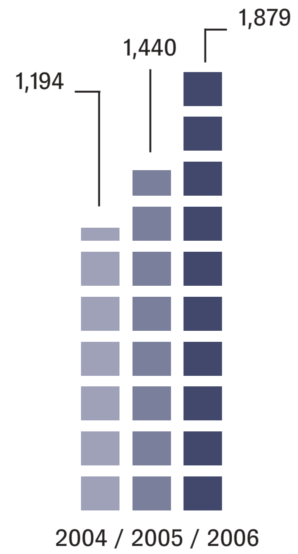
Revenue by business group

EUR million	2004	2005	2006
Wines and Spirits	2,259	2,644	2,994
Fashion and Leather Goods	4,366	4,812	5,222
Perfumes and Cosmetics	2,128	2,285	2,519
Watches and Jewelry	500	585	737
Selective Retailing	3,276	3,648	3,891
Other activities and eliminations	(48)	(64)	(57)
Total	**12,481**	**13,910**	**15,306**

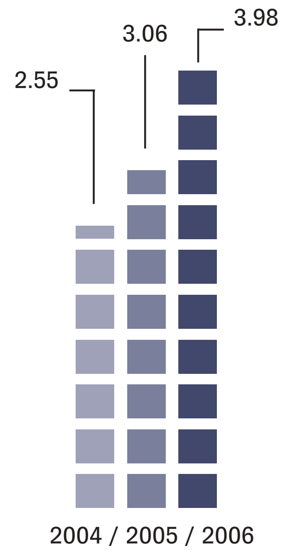
Profit from recurring operations by business group

EUR million	2004	2005	2006
Wines and Spirits	813	869	962
Fashion and Leather Goods	1,309	1,467	1,633
Perfumes and Cosmetics	150	173	222
Watches and Jewelry	(10)	21	80
Selective Retailing	238	347	400
Other activities and eliminations	(128)	(134)	(125)
Total	**2,372**	**2,743**	**3,172**

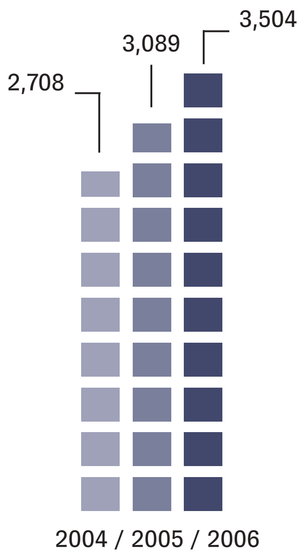
Group share of net profit
EUR million



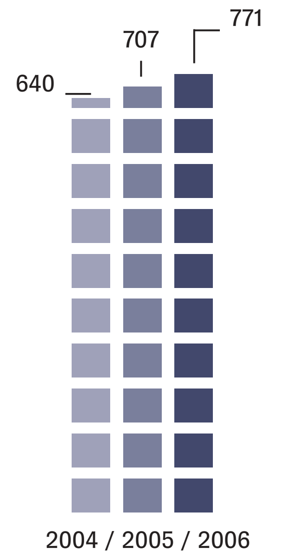
Basic group share of net profit per share
EUR



Cash flow from operations
EUR million



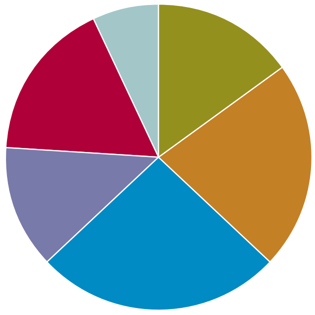
Capital expenditures (2)
EUR million



(2) Acquisition of tangible and intangible fixed assets.

Revenue by geographic region of delivery
%

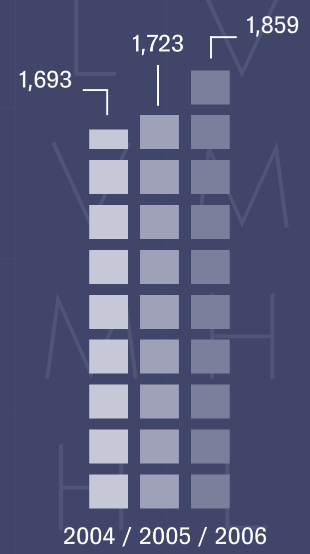
France	15%
Rest of Europe	22%
United States	26%
Japan	13%
Rest of Asia	17%
Other markets	7%



Store network at December 31, 2006

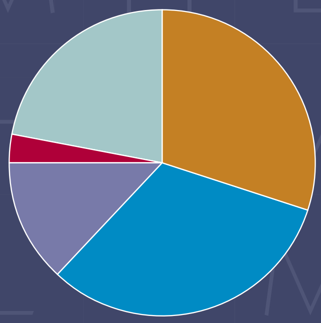
France	288
Rest of Europe	456
North America	409
South America	19
Japan	278
Rest of Asia	363
Pacific Region	31
Africa and Middle East	15

Number of stores



Revenue by currency
%

Euro	30%
US Dollar	32%
Yen	13%
Hong Kong Dollar	3%
Other currencies	22%



MANAGING LUXURY BRANDS

Creativity and reason, tradition and innovation — the secret of a successful symbiosis

Interview with
Antonio Belloni
LVMH Group Managing Director

Creativity is at the heart of the LVMH management philosophy. How can creative freedom on the one hand, and market realities and the need for rigorous management on the other co-exist?

Antonio Belloni: This question leads to a central component in the management of luxury brands — the manager-designer relationship. It is true that these two roles are often seen as conflicting. But this is clearly not our vision. Because our businesses are artistic and commercial at the same time, the success of our brands lies in the quality of the collaboration between managers and designers. It is inconceivable to lead a luxury company if you don't have a true passion for creation. It is essential for the designer to absorb the culture of the brand so that he or she is in harmony with its universe. At the same time, the manager's role is not to interfere in the creative process, but to support it with strong teams and translate that process into products and communications that can stir emotions and excitement. Our star brands are the perfect illustration of the power of a successful symbiosis.

How would you describe the model for excellence in the management of the LVMH brands?

A.B.: The magic of our business is that there is no single model. Each brand has its own concept of excellence. Each brand must be managed with respect for its uniqueness and its own strategic vectors. However, in terms of operational efficiency, the shared virtue of our management teams is their openness and their real proximity to our customers. Our brands all have an international dimension. They are evolving in a changing world; they are designed for customers from different cultures who do not all have the same relationship with luxury. We have to be aware of the diversity of those expectations, sense the trends, seize new opportunities for growth, and explore new markets. A brand will not progress if we stay inside our ivory tower; it will move forward if we visit our stores from Paris to Shanghai, from New York to Moscow, if we take an interest in the media, confront points of view etc... Our Group is a professional community of exceptional size and richness in which sharing our knowledge is fundamental. As an example, we have recently organized a seminar focused on China for managers from the different brands so that they can exchange their experiences.

How can a luxury brand permanently "stick" to trends which are, by definition, perpetually changing, without diluting the traditional values it has inherited?

A.B.: Louis Vuitton, Fendi, Christian Dior, Guerlain, Dom Pérignon, Hennessy, TAG Heuer and many other Group brands are exceptional because they are able to place their creative process within the flow of trends and new sensitivities, without denying their founding values. They defy time by preserving their magic, their aspirational quality, and the loyalty connection that binds them to their customers. These timeless brands have an extraordinary creative heritage, rich in iconic products of exceptional longevity. And it is precisely innovation that allows them to continue to bring this heritage to life. Louis Vuitton's Monogram, which is more than one hundred years old, is an inexhaustible source of renewal and inspiration for the contemporary designers and a continual object of desire for customers worldwide. The mythical Dom Pérignon, Shalimar perfume by Guerlain, the Carrera watches from TAG Heuer, the Liens jewelry from Chaumet and so many of our other designs are also striking examples of eternal youth.

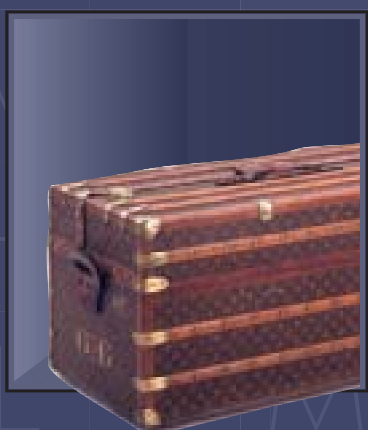
Is it possible to create such icons today?

A.B.: J'Adore perfume by Christian Dior is a new icon. Launched in 1999, this fragrance is an extremely elegant and modern expression of the brand's traditional values. Even though there are still millions of customers loyal to Miss Dior, which was created in 1947, the launch of Miss Dior Chérie in 2005 was extremely successful and attracted a new customer segment. This is a different fragrance, younger and more modern, but it carries in a modern expression all the esthetic codes of its older sister that are the hallmarks of a true luxury product. The bold creations of Veuve Clicquot for the presentation of its products strengthen its positioning as a luxury brand. The famous Baguette bag from Fendi is only ten years old and it is a cultural icon that is increasingly coveted. The recently designed Spy and B Fendi models have been highly successful and are becoming new icons. They are also perfect illustrations of the style and unique creativity of our Italian brand. When quality, creativity and the construction of a long-term image are respected, tradition and innovation interact in a process of positive tension. The art of managing a luxury brand consists of defining a line, bending it as trends evolve, but never breaking it.


1982


1995


2006


1896


1996

2000


2003


2006


2006


2006

CORPORATE GOVERNANCE

The objectives of the Board of Directors, the strategic body of LVMH, are to ensure the sustainable development of the value of the company, to adopt the major strategies that guide its management, to verify the fair and accurate presentation of information about the company, and to protect its corporate assets. As part of its mission, the Board of Directors supports the priority objective of LVMH management, which is, as it always has been, to ensure the continuous growth of the Group and a steady increase in value for its shareholders.

The Board of Directors has adopted a Charter that spells out the membership, mandates, operations and responsibilities of the Board of Directors.
The Board of Directors has two Committees, the membership, role and mandates of which are defined by internal procedural rules.
The Board of Directors' Charter and the rules of the Committees are provided to every candidate for the position of director, and to the permanent representative of any legal entity, before he assumes his duties.

BOARD OF DIRECTORS

The Board of Directors is made up of 18 members, 6 of whom are independent and free of any interests with respect to the Company.
Members of the Board of Directors must personally own at least 500 shares of LVMH.
The Board of Directors met four times in 2006, with an average attendance rate of 84%. The Board approved the annual and interim financial statements and reviewed the Group's major strategic guidelines, budget, the implementation of a stock subscription option plan and the allotment of bonus shares, authorization for third party guarantees, as well as various agreements with affiliated companies.
LVMH paid a total of 1,110,000 euros in directors' fees to the members of its Board of Directors. These fees were distributed among the directors and advisors in accordance with a distribution key defined by the Board of Directors that takes into account the duties performed on the Board and in the Committees.

EXECUTIVE MANAGEMENT

The Chairman of the Board of Directors also serves as Chief Executive Officer of the company. The Chief Executive Officer's powers are not limited in any way.
In agreement with the Chairman and Chief Executive Officer, the Board of Directors has appointed a Managing Director who has the same powers as the Chief Executive Officer.

PERFORMANCE AUDIT COMMITTEE

The Performance Audit Committee is primarily responsible for ensuring the compliance of the accounting principles followed by the Company and the Group and for reviewing the corporate and consolidated financial statements before they are submitted to the Board of Directors.
It has currently 3 directors, 2 of whom are independent. Its members and Chairman are appointed by the Board of Directors.
The Audit Performance Committee met three times in 2006. All the meetings were attended by all members, as well as by the Auditors, the Chief Operating Officer, the Chief Financial Officer, the Management Control Director, the Internal Audit Director, the Accounting Director, the General Counsel and, depending on the issues discussed, the Director of Financing, and the Treasurer.
In addition to reviewing the corporate and consolidated financial statements, the work of the Committee focused primarily on compliance with IFRS, the currency hedging policy, evaluation of the Group's brands and goodwill, and transactions connected with coverage of option plans and the formation of the Louis Vuitton pour la Création foundation.

NOMINATING AND COMPENSATION COMMITTEE

The responsibilities of the Nominating and Compensation Committee are listed below:

- recommendations on the distribution of Directors' fees paid by the Company, as well as compensation, in-kind benefits and stock options granted to the Chairman of the Board of Directors, the Chief Executive Officer and the Deputy Managing Director(s) of the Company,
- opinions on candidates for the positions of Director, Advisor to the Board or membership on the Executive Committee of the Group or the general management of its principal subsidiaries, on the compensation and in-kind benefits granted to the Directors and Advisors of the Company by the Company or its subsidiaries, and on fixed or variable, immediate or deferred compensation and incentive plans for senior executives of the Group.

The Committee has 3 members, 2 of whom are independent. Its members and Chairman are appointed by the Board of Directors.
The Committee met twice in 2006 with all its members in attendance. It issued recommendations on compensation and the awarding of stock options to senior executives, and issued an opinion on the compensation awarded to some Directors by the Company or its subsidiaries.

ADVISORY BOARD

The Shareholders' Meeting may, on the recommendation of the Board of Directors, appoint a maximum of nine advisors.
The advisors are drawn from the shareholders based on individual merit, and form an Advisory Board.
They are appointed for a three-year term that ends immediately after the Shareholders' Meeting called to approve the financial statements for the previous fiscal year, which is held during the year in which an Advisor's term expires.
Advisors are invited to attend Board of Directors' meetings and participate in the deliberations in an advisory capacity; their absence does not affect the validity of these proceedings.
The Advisory Board currently has one member.

COMPENSATION POLICY

Part of the compensation paid to members of the Executive Committee and key operations personnel is based on the generation of cash, operating profit, and the return on capital employed for the business groups and companies headed by the respective executives, as well as on their individual performance. The variable portion generally represents between one-third and one-half of their compensation.

BOARD OF DIRECTORS AND GENERAL MANAGEMENT

BOARD OF DIRECTORS

Bernard Arnault
Chairman & Chief Executive Officer

Antoine Bernheim *
Vice Chairman

Antonio Belloni
Group Managing Director

Antoine Arnault
Delphine Arnault
Jean Arnault
Nicolas Bazire
Nicholas Clive Worms *
Diego Della Valle *
Albert Frère
Jacques Friedmann *
Pierre Godé
Gilles Hennessy
Patrick Houël
Arnaud Lagardère *
Lord Powell of Bayswater
Felix G. Rohatyn
Hubert Védrine *

ADVISORY BOARD MEMBER

Kilian Hennessy *

PERFORMANCE AUDIT COMMITTEE

Antoine Bernheim *
Chairman

Nicholas Clive Worms *
Gilles Hennessy

NOMINATING AND COMPENSATION COMMITTEE

Antoine Bernheim *
Chairman

Albert Frère
Kilian Hennessy *

* Independent Director

EXECUTIVE COMMITTEE *

Bernard Arnault
Chairman & Chief Executive Officer

Antonio Belloni
Group Managing Director

Nicolas Bazire
Development & Acquisitions

Ed Brennan
Travel retail

Yves Carcelle
Fashion & Leather Goods

Pierre Godé
Advisor to the Chairman

Jean-Jacques Guiony
Finance

Patrick Houël
Advisor to the Chairman

Concetta Lanciaux
Advisor to the Chairman, Synergies, Human Resources

Christophe Navarre
Wines & Spirits

Patrick Ouart
Advisor to the Chairman

Philippe Pascal
Watches & Jewelry

Daniel Piette
Investment funds

Bernard Rolley
Operations

Pierre-Yves Roussel
Fashion

Mark Weber
Donna Karan

GENERAL SECRETARY

Marc-Antoine Jamet

* At December 31, 2006

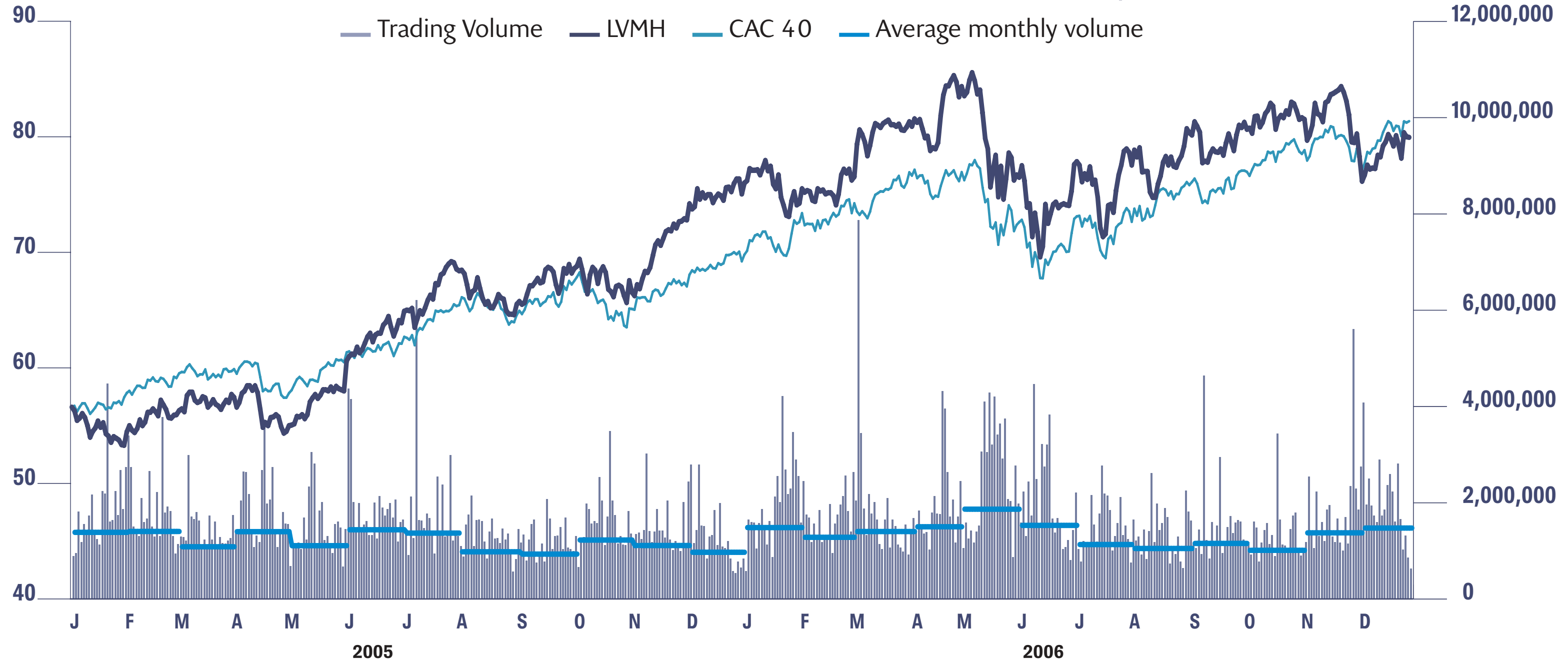
STATUTORY AUDITORS

DELOITTE & ASSOCIÉS
represented by Thierry Benoît and Alain Pons

ERNST & YOUNG AUDIT
represented by Jeanne Boillet and Gilles Galippe

THE LVMH SHARE

COMPARISON OF LVMH SHARE PRICE AND THE CAC 40 SINCE JANUARY 1, 2005



CHANGES IN LVMH SHARE PRICE

Continuing a three-year trend, the European stock markets rose again in 2006. After a brief decline in May and June, related to fears over inflation and raw materials prices, the equity markets again began to climb in the second half, supported by an economic environment that remained globally positive, with forecasts for moderate growth in the United States and control of inflation. The CAC 40 and DJ-Eurostoxx 50 indices thus closed the year with gains of 17.5% and 15.1% respectively, after advancing 23.4% and 21.3% respectively the previous year.

In a less favorable currency environment, marked by the depreciation of the dollar and yen against the euro, the LVMH share appreciated by 6.5% after rising more than 33% in 2005.

The LVMH share ended the year at 79.95 euros. LVMH's market capitalization thus rose to 39.1 billion euros, ranking it twelfth in the CAC 40.

LVMH is included in the principal French and European indices used by fund managers: CAC 40, DJ-EuroStoxx 50, MSCI Euro, FTSE-Eurotop 100.

LVMH shares are traded on the Eurolist of Euronext Paris (Reuters code: LVMH.PA, Bloomberg code: MC FP, ISIN code: FR0000121014). In addition, options based on LVMH shares are traded on the Paris Monep options exchange.

LVMH is among the French companies recognized by the main socially responsible investment indexes in France and Europe.

TOTAL RETURN FOR SHAREHOLDERS

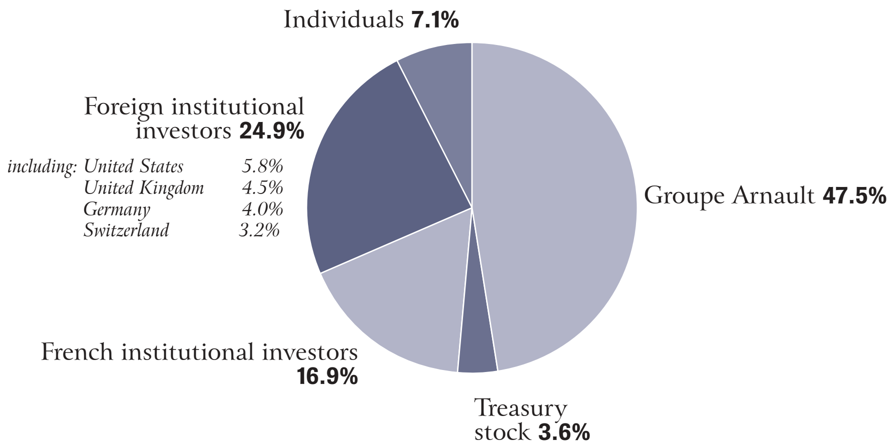
An LVMH shareholder who had invested €1,000 on January 1, 2005 would have capital of €1,458 as of December 31, 2006, based on reinvested dividends. In two years, his investment would have given him an average annual return of 20.7%.

2007 AGENDA

Wednesday, February 14, 2007	Publication of 2006 revenue and annual results
April 2007	Publication of 2007 first-quarter revenue
Thursday, May 10, 2007	Annual Shareholders' Meeting
Tuesday, May 15, 2007	Payment of the balance of the dividend for 2006
July 2007	Publication of 2007 half-year revenue and results
October 2007	Publication of 2007 third-quarter revenue

CAPITAL STRUCTURE

(Euroclear France survey on bearer shares at the end of December 2006)



MARKET CAPITALIZATION

Million euros	
December 31, 2004	27,608
December 31, 2005	36,770
December 31, 2006	39,170

A PROGRESSING DIVIDEND

	2004	2005	2006
Net dividend (€)	0.95	1.15	1.40
Growth for the year	*11.8%*	*21.1%*	*21.7%*
Payout ratio *	39%	39%	35%

** As percentage of Group share of net profit.*

THE FRENCH SHAREHOLDERS' CLUB - AN INITIATIVE TO STRENGTHEN TIES

Dedicated to individual French speaking shareholders who show a special interest in the life of the Group, the LVMH Shareholders' Club gives its members a better understanding of the Group, its businesses and its brands.

The magazine "Apartés," published in French for Club members, lets them order products to be delivered to addresses in France, subscribe to *La Tribune*, *Investir*, *Connaissance des Arts* and *Le Monde de la Musique* at special rates and be special guests on certain sites adapted for tours (caves and cellars) and benefit from special priority tickets for exhibits funded by LVMH (Yves Klein – *Corps, Couleur et Immatériel* [Matter, Color, Incarnation] at the Pompidou Center in 2006).

Contacts

Investor and Shareholder Relations
New number
+ 33 1 44 13 27 27
Fax: + 33 1 44 13 21 19

www.lvmh.com

BREAKDOWN OF CAPITAL AND VOTING RIGHTS

at December 31, 2006

	Number of shares	Number of voting rights	% of capital	% of voting rights
Groupe Arnault	232,933,190	441,048,905	47.54%	63.75%
Others (1)	257,004,220	250,757,857	52.46%	36.25%
Total	**489,937,410**	**691,806,762**	**100.00%**	**100.00%**

(1) At 12/31/2006, there were 17,618,089 shares of treasury stock, without voting rights


15
1000
30


SEPHORA

The Group's activities

Financial highlights

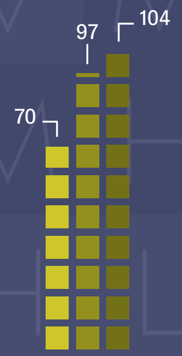
Wines & Spirits

2004 / 2005 / 2006

Revenue
EUR million

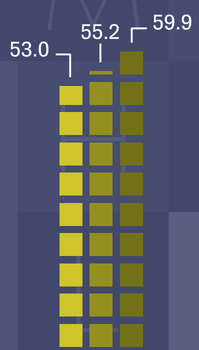
2004 / 2005 / 2006

Profit from recurring operations
EUR million



2004 / 2005 / 2006

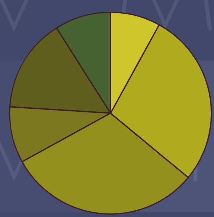
Investments
EUR million



2004 / 2005 / 2006
Champagne

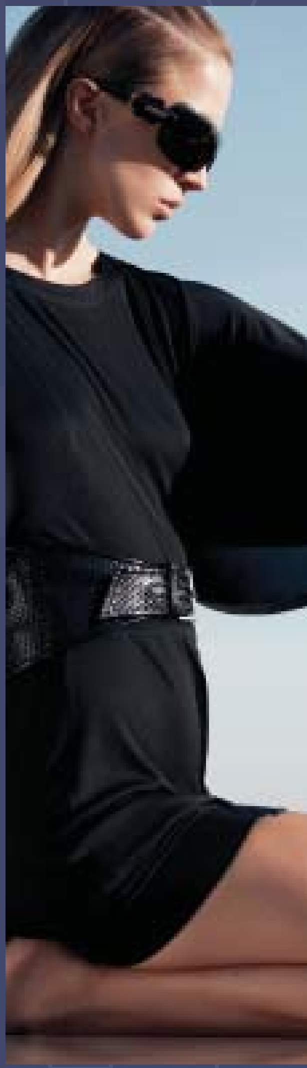
2004 / 2005 / 2006
Cognac

Sales volumes
millions
of bottles

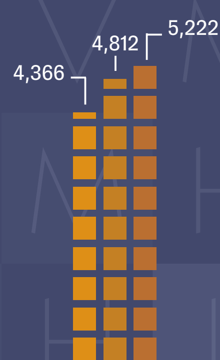


France	8%
Rest of Europe	28%
United States	31%
Japan	9%
Rest of Asia	15%
Other markets	9%

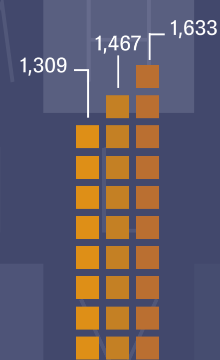
Revenue by geographic region of delivery
in %



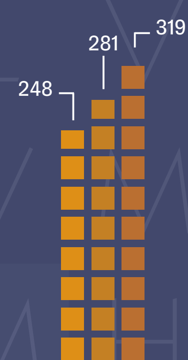
Fashion & Leather Goods



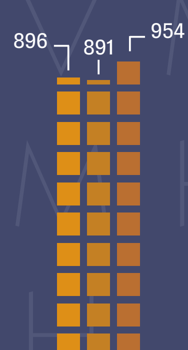
Revenue
EUR million



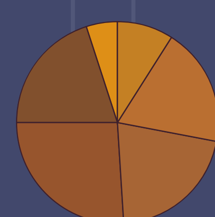
Profit from recurring operations
EUR million



Investments
EUR million

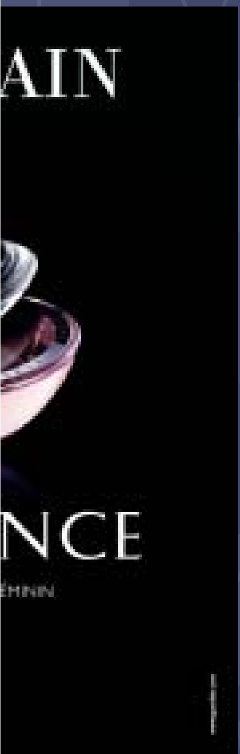


Number of stores

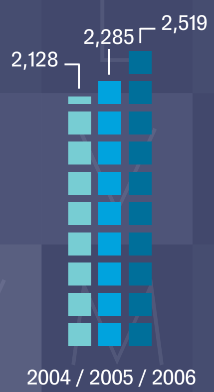


France	9%
Rest of Europe	19%
United States	21%
Japan	26%
Rest of Asia	20%
Other markets	5%

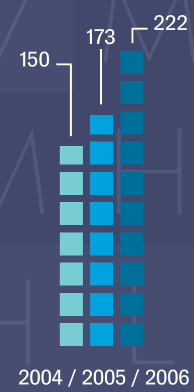
Revenue by geographic region of delivery
in %



Perfumes & Cosmetics

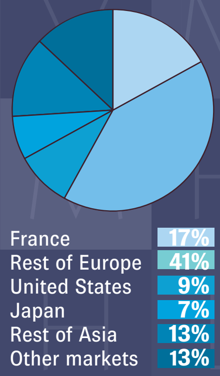


Revenue
EUR million

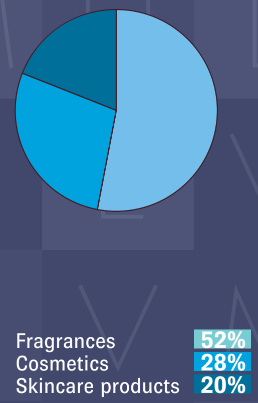


Profit from recurring operations
EUR million

Investments
EUR million

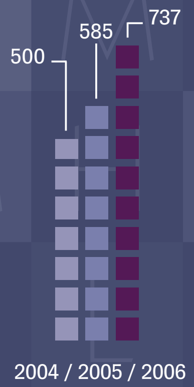


Revenue by geographic region of delivery
in %

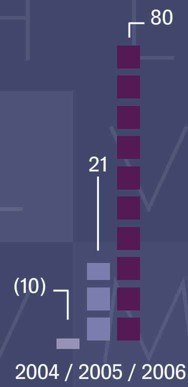


Breakdown of revenue by product category
in %

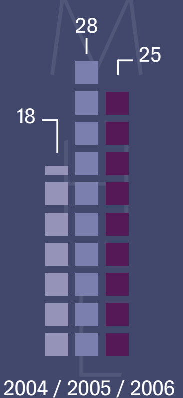
Watches & Jewelry



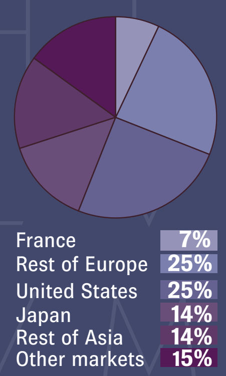
Revenue
EUR million



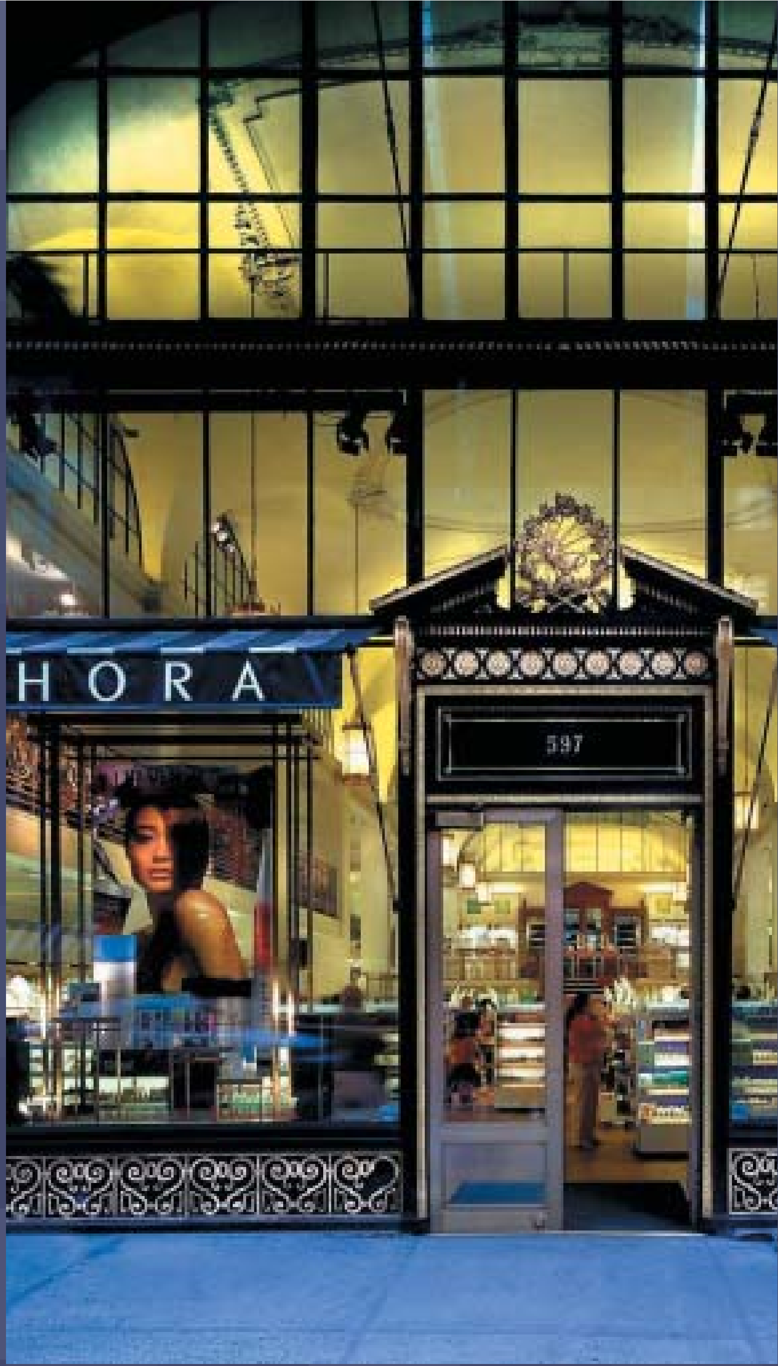
Profit from recurring operations
EUR million

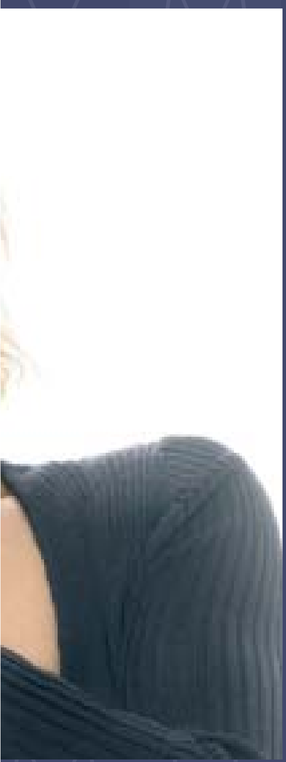


Investments
EUR million

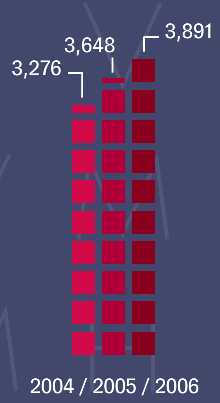


Revenue by geographic region of delivery
in %

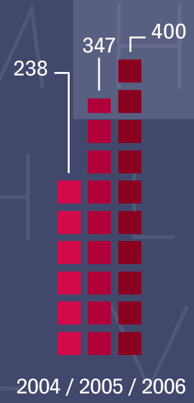




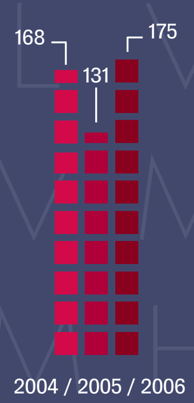
Selective Retailing



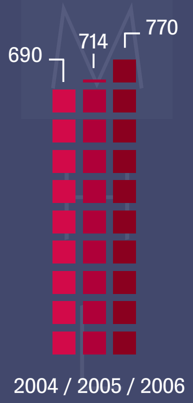
Revenue
EUR million



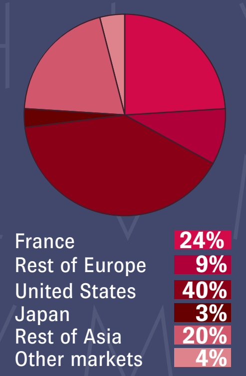
Profit from recurring operations
EUR million



Investments
EUR million



Number of stores



Revenue by geographic region of delivery
in %

Exceptional **Products** for Customers who Love Quality

wines & spirits

Global ambassadors of luxury, the wine and spirits brands within LVMH market exceptional products sought after by customers who love quality. These brands make our Group the world leader in prestige wines and spirits.


MOËT & CHANDON


KRUG

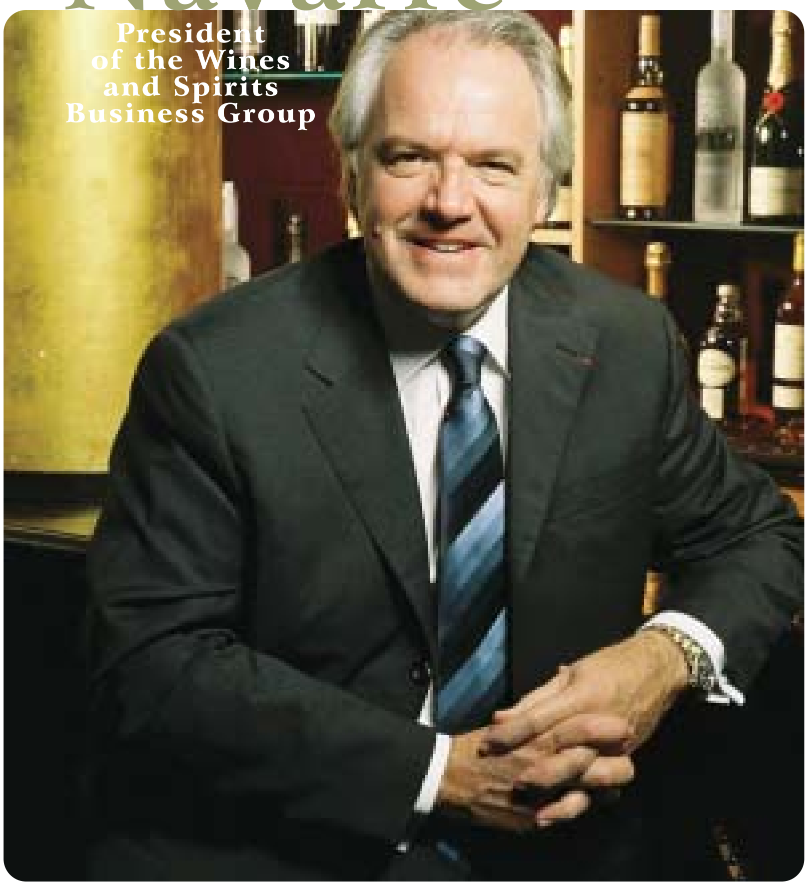

THE ORIGINAL X.O
X.O
COGNAC
Hennessy

Wines & Spirits

"A portfolio of prestigious brands which has no equivalent in the world."

Christophe Navarre

President of the Wines and Spirits Business Group



Strategy and Objectives

Today, a growing number of consumers throughout the world aspire to and attain luxury. The goal of our business group is to strengthen its position as a leader among these demanding customers in the Wines and Spirits sector. Our development strategy is built on three pillars: a diversified portfolio of prestigious brands, symbols of quality, authenticity and art de vivre, which has no equivalent in the world; an effective distribution network that we continue to strengthen from year to year, both in the large consumer countries and in markets with strong potential; a strong creativity devoted to our products, their presentation, and the image of our brands. The steady growth in our business group, supported by the entrepreneurial spirit and the proven expertise of our teams, illustrates the success of this value strategy.

Highlights

- The **Wines and Spirits** business group recorded organic revenue growth of 14%. The vigor of the brands is illustrated both by their growth in the key countries and by rapid advances supported by investments targeting new markets. The profit from recurring operations rose by 11%.
- The **Champagne and Cognac** volumes grew by 8% and 10%, respectively, in a context of price increases and new improvement in the product mix in favor of premium qualities and vintages.
- The growth in China confirms the potential of that immense market, particularly for **Hennessy**, whose X.O is the uncontested leader in its category.
- 2006 was characterized by an exceptional spirit of innovation displayed within the brands and by sustained efforts towards strong, targeted advertising.

Moët & Chandon Lights up Lady Liberty

September 28, 2006, one of the most fabulous nights of the year! To mark the 120th anniversary of Bartholdi's famous statue, which was France's gift to the United States, Moët & Chandon gave her a suit of lights. A resounding event in the legendary tradition of the brand.
Moët & Chandon has been present in the United States since 1787. In 1979 and then in 1983, the world's foremost brand of champagne paid homage to Lady Liberty, the ultimate symbol of liberty, modernity and pioneering spirit throughout the world.

wines & spirits

The LVMH's Wines and Spirits business group focuses its growth on the high-end segments of the market. Number one in champagne worldwide, LVMH also has a business in sparkling and still wines from the most famous wine-producing regions. The Group is the world's leader in cognac with Hennessy and, as a means of complementing that historic business, is expanding its presence in the luxury spirits area. The portfolio of brands is served by a powerful international distribution network.

In 2006, the vigor of the brands was illustrated both by their growth in the key countries and by rapid advances supported by investments targeting new markets. The distribution network of Moët Hennessy, which is a major competitive advantage, was further strengthened, especially in Russia, a market with high potential.

CHAMPAGNE AND WINES

MOËT & CHANDON strengthened its global leadership in 2006 by achieving solid performance in its traditional markets, but also double-digit growth in promising markets such as Central Europe and China. A particularly remarkable activity in Japan results from steady investments made to promote the brand in this high-potential market. The growth posted by its pink champagnes – Rosé Impérial and Nectar Rosé in the United States – confirms the unassailable position of Moët & Chandon in this very bullish segment.

The brand actively continued its "Be Fabulous" advertising campaign in Japan and the United States. On this occasion, New York hosted an extraordinary event during which Moët & Chandon lit up the Statue of Liberty, which was celebrating its 120th anniversary in 2006.

DOM PÉRIGNON recorded some excellent performances, in a context of price increases, in its three large markets, the United States, Europe and Japan. 2006 was marked by the international launch of Dom Pérignon Rosé 1996, which was received with great enthusiasm. On this occasion, Dom Pérignon teamed up with designer Karl Lagerfeld for the first Rosé advertising campaign in its history.

RUINART had a record year and reaped the fruits of its strategy focusing on premium qualities and prestige vintages. Their contribution in 2006 exceeded 40% of total revenue from the brand. Ruinart continued to expand its presence internationally, particularly in the United States.

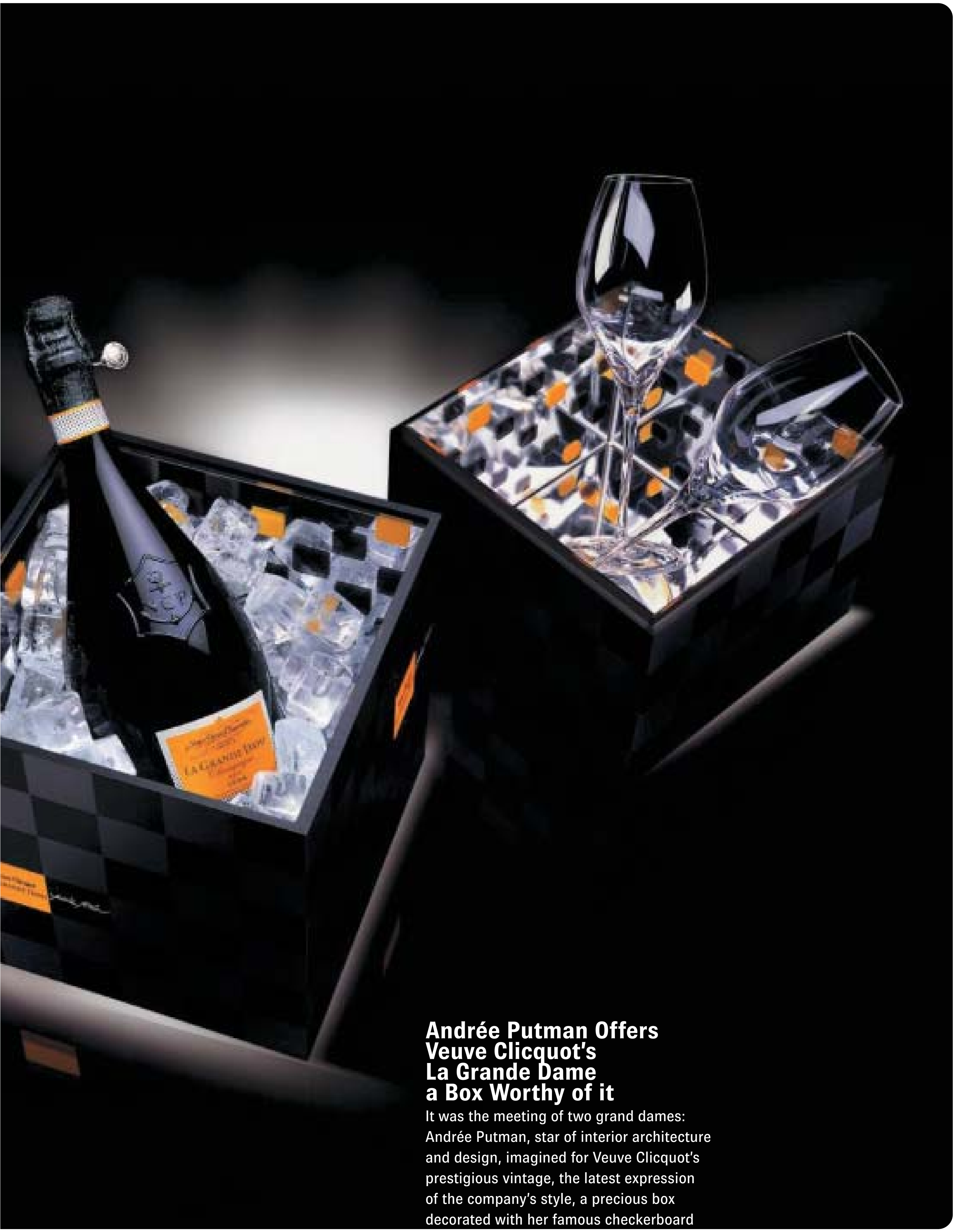
MERCIER, whose strategy is above all focused on the French market, continued to develop its presence in traditional restaurants, thanks to its original program, "*Les Lieux de Toujours*".

VEUVE CLICQUOT continued to advance in all its key geographic zones and set new revenue records in 2006. Veuve Clicquot's buoyancy was fostered by the gain in the famous orange label Brut, the strong growth in its prestigious La Grande Dame vintage and the success of the international launch of Veuve Clicquot Rosé, first in Paris, then in all the large capitals. The brand reinforced its premium position through price increases and confirmed the success of its value creation strategy.

KRUG's targeted investments in its strategic markets, its ability to enhance its unique positioning by its global advertising, and the praise from the international trade press spurred increased demand from consumers, which resulted in dynamic growth in volume and value for the brand.

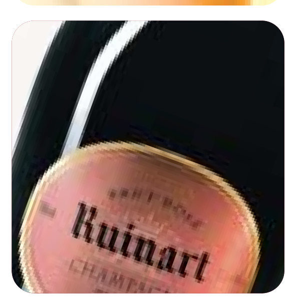
ESTATES & WINES, which regroups the sparkling and still wines of Moët Hennessy since 2004, posted a sharp increase in its financial results for the third consecutive year. Basing its expansion on a policy of excellence and innovation, all the brands in the portfolio grew in their domestic markets and internationally. The United States, the world's foremost market for wine in terms of value, and Japan and England, countries that are seeing continued growth in demand for fine wines, experienced the strongest growth.

2006 enabled **CHÂTEAU D'YQUEM** to reaffirm its status as the most prestigious Sauternes wine. The 2002 vintage met with a remarkable reception when it was brought to market and the excitement that specialists showed for the 2005 primeur was echoed by all buyers in all international markets. A prestigious party at the Château, whose renovation was completed in early 2006, kicked off the traditional week of introducing the 2005 Primeurs.



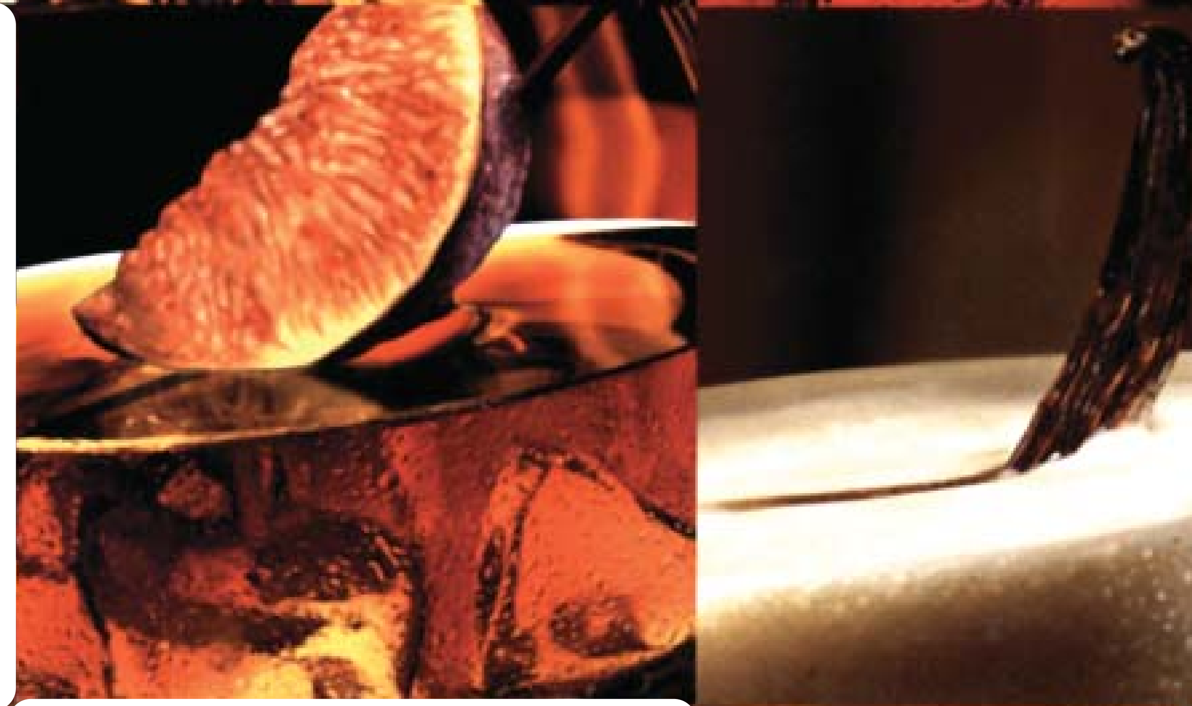
Andrée Putman Offers Veuve Clicquot's La Grande Dame a Box Worthy of it

It was the meeting of two grand dames: Andrée Putman, star of interior architecture and design, imagined for Veuve Clicquot's prestigious vintage, the latest expression of the company's style, a precious box decorated with her famous checkerboard pattern. Divided into matte and glossy squares on the outside, it is lined with mirrors and makes a sublime champagne bucket.



Stopover in Shanghai with Hennessy

Drinking cocktails is all the rage again. Cognac, which is made from grapes, rich in fruity, floral or spicy flavors, allows subtle and unusual marriages. Hennessy Shanghai is one of the "City Cocktails" in *The Art of Mixing* program that Hennessy launched in 2006. The result of teamwork between the oenologists of the Hennessy company and cocktail experts, *The Art of Mixing* offers different ways to mix Hennessy cognacs around the world. It is a way to remind people that the brand is present on all continents and plays a part in very diverse cultures.



COGNAC AND SPIRITS

HENNESSY, the world's uncontested leader in cognac, increased its growth in volume in 2006. That vigor was seen in all its products and its superior qualities posted excellent gains. The brand performed strongly in its strategic markets, the United States and China especially, two markets where Hennessy is benefiting from significant advertising investments.

In the United States, the company's leading market, Hennessy strengthened its position as leader in terms of volume and value in the cognac category. The brand relied on several growth vectors. It intensified the promotion operations at the selective points of sale and the innovative programs based on the creation of a tasting ritual in high-end establishments. It expanded its consumer base thanks to increased advertising and promotional resources. A large-scale advertising campaign on television and in the press in the United States entitled "Pure Character" increased the visibility of Hennessy V.S. cognac. The involvement of North American teams helped in carrying out the operations.

In Asia, 2006 saw strong growth, especially in China, the world's largest market for all high-quality products: V.S.O.P, X.O and the Prestige line. In Japan, where the market for brown spirits is still depressed, Hennessy maintains its value strategy centered around the X.O and the Prestige line, which are experiencing double-digit growth in volume.

Confirming its potential, Russia is positioned as the third pillar of growth for Hennessy after the United States and China. Hennessy V.S cognac is maintaining its exceptional market share in Ireland.

2006 saw the launch of *Hennessy Artistry*, a global advertising plan that is exceptional because of its concept and media impact. This program will be conducted over three years.

In 2006, **BELVEDERE** vodka experienced steady growth in the United States and accelerated its entry into other countries. The arrival of a new management team enabled it to reinforce its strategy and launch a new advertising campaign. **CHOPIN** vodka revised its packaging and set up an advertising program appropriate to speed up its growth.

The brand **10CANE**, first luxury rum produced in Trinidad, continued to build up a selective presence in the United States. Its distribution will be expanded to the United Kingdom, France and the Caribean in 2007.

In 2006, the brands of Glenmorangie Plc., which the Moët Hennessy network continued to promote, experienced excellent growth in volume and value. **GLENMORANGIE** strengthened its position in North America and Europe and expanded its presence in the Asia-Pacific. **ARDBEG**, the leading malt made on the Isle of Islay, increased its value in all its high-priority markets.

PRODUCTS, BRAND IMAGE: EXTRAORDINARY CREATIVITY

The many developments and initiatives in 2006 illustrate remarkably the strong culture of innovation shared by the companies of the Wines and Spirits business group.

Among the new products, of note is Veuve Clicquot's launch of two rare 18 and 21 year old vintages that come in a "Cellar Box", a totally innovative storage case; the creation of a half bottle of Krug Rosé, an exceptional format for a premium vintage; the launch of the Ruinart Prestige Collection, which comes with a silver spoon, created by the designer India Mahdavi. Hennessy, a pioneer in the art of blends, has launched a global program, *The Art of Mixing*, offering 28 recipes for cocktails and long drinks around its V.S and V.S.O.P. products.

A lot of work has also gone into packaging: the Moët & Chandon product line, Dom Ruinart, Hennessy V.S, V.S.O.P Privilège and X.O have all unveiled a new look.

Limited editions, designs and events with strong value added are ways for the brands to express their creative vitality. Moët & Chandon had a remarkable success with its "Flowers" which, in 2006, took the colors of Rosé Impérial, or the "Star of the Night" bottles and grand flacons encrusted with Swarovski crystals for New Year's Eve celebrations. In line with the audacious creations of Veuve Clicquot, the limited edition designed for La Grande Dame 1998 is signed by Andrée Putman.

OUTLOOK

In 2007, the brands of the Wines and Spirits business group will continue their value strategy and their policy of innovation.

Moët Hennessy will continue to expand its global distribution network and will strengthen its international presence, especially in Russia, China and Vietnam. Supported by ambitious, experienced staff, armed with prestigious and growing brands, the business group has the best assets to continue profitable growth and to strengthen its leadership in the market of prestigious wines and spirits.

Dom Pérignon by Marc Newson

In 2006, Dom Pérignon enlisted Marc Newson, one of the most talented designers of his generation – named "Designer of the Year 2006" at Art Basel (Miami) –, who conceived a modern interpretation of the iconic Dom Pérignon bottle. In a limited edition, Marc Newson designed a sculptural ice bucket, intended for collectors and fans of contemporary design.

Fashion & Leather Goods

A Unique Family of Brands in the Luxury Market

In the fashion and leather goods sector, LVMH holds a unique set of brands, led by Louis Vuitton, by far the world's leading luxury brand.

Highlights In 2006, the **Fashion and Leather Goods** business group posted organic revenue growth of 11% and improved profit from recurring operations by 11%. The fashion and leather goods brands invested strongly in their global expansion. The business group's global retail network represented 954 stores at December 31, 2006. **Louis Vuitton** continued to enhance its leadership position with remarkable performance in all regions. Backed by the success of its flagship products and its new creations, the brand posted particularly dynamic growth among its European, Chinese and South Korean customers. Confirming the trend established in 2005, **Fendi** turned in an excellent performance in 2006, marked by strong growth in all product categories and further improvement in its profitability.

Louis Vuitton, Donna Karan, Fendi, Loewe, Celine, Kenzo, Marc Jacobs, Givenchy, Thomas Pink, Pucci, Berluti, Rossimoda and Stefanobi form the Fashion and Leather Goods business group. This exceptional group of brands from both sides of the Atlantic has 954 stores throughout the world. While it respects the individual identity and the creative positioning of its brands, LVMH supports their growth by offering shared resources. The business of Eluxury.com in the United States is also consolidated within the Fashion and Leather Goods business group.

"A unique creative heritage with inexhaustible sources of renewal and modernity."

Yves Carcelle

President of the Fashion and Leather Goods Business Group

Strategy and Objectives

For over 150 years, time has been the leading strategic partner of Louis Vuitton. Time has allowed us to build a unique creative heritage which, once again this year, with Damier Azur or the various reinterpretations of Monogram, has demonstrated that it is endowed with inexhaustible resources for renewal and modernity. Time has made it possible to build the world's leading network of stores. By combining tradition and the cutting-edge spirit that make up our genetic code, our Company has always been able to anticipate the desires and changing needs of our different customers and has achieved unparalleled global success. With new exciting challenges and strong potential for growth in our products and regions, the next few years will be used to enhance this long-term growth model and strengthen our leadership in luxury brands.
The other brands in our business group continue to make progress, according to their own plan and specific business model. The expansion of Fendi - the first remarkable success story - the significant progress made in 2006 and the clear potential identified are all elements that confirm a strong medium-term outlook.

LOUIS VUITTON STRENGTHENS ITS LEADERSHIP

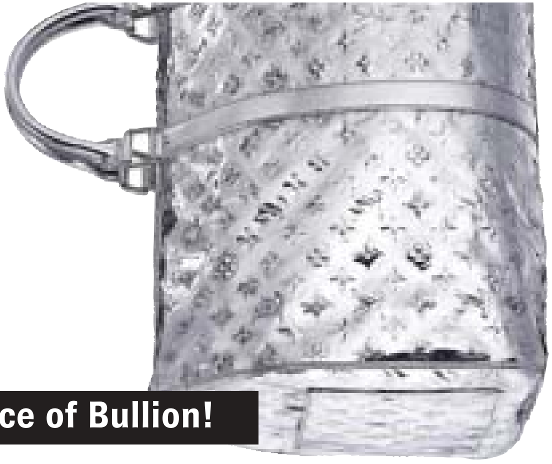
Louis Vuitton continued to post double-digit organic revenue growth. In all regions of the world - Europe, Asia and America - the brand's success was driven by strong demand from local customers. Particularly strong performance was achieved in Western and Central Europe and in Asian countries like China and South Korea. In a difficult monetary context that decreased the purchasing power of Japanese travelers (a weak yen all year), the changes in tourism-based revenue reflected the growing customer base from Mainland China, Eastern Europe and the Middle East.

Louis Vuitton expanded its retail network significantly, completing several exceptional renovation projects and ended the year with a net 23 new stores, raising its number of stores throughout the world to 368 as of December 31, 2006. The inauguration of the Maison Louis Vuitton in Taipei and the Macau Wynn store, as well as the first stores opened in Ukraine (Kiev), Hungary (Budapest) and Norway (Oslo) were highlights of 2006.

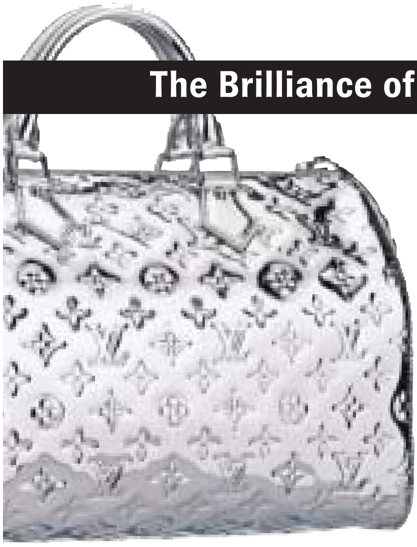
ICONS AND NEW CREATIONS - EXCEPTIONAL VITALITY

In terms of product development, 2006 was a year of exceptional achievements in the innovation and enhancement of the iconic products of **Louis Vuitton**. This was illustrated by the success of the new leather lines of *Suede*, *Monogram Perforé*, *Mini Lin*, *Monogram Groom* and *Monogram Miroir*, and the new colors of the *Monogram Denim* line. The outstanding performance of the historic *Damier* line and the remarkable reception of its new model *Damier Azur* were particularly noteworthy. Louis Vuitton continued to expand its watch and jewelry lines, while the ready-to-wear, footwear and sunglass collections also performed extremely well.

Louis Vuitton continued to focus on its promotional efforts and the image of its brand worldwide. In addition to the expansion of its media presence through two high-impact campaigns,



The Brilliance of Bullion!



The **Miroir** line, designed by Marc Jacobs and inspired by the work of artist Sylvie Fleury, is offered in four iconic models from Louis Vuitton. Contrary to appearances, these bags are not dippedf in metal, but are fashioned from a highly innovative material. Given its success, you may have to wait a little to obtain a Speedy Miroir…

a series of events highlighted the solid ties between Louis Vuitton and the art world throughout the year: the opening of the Cultural Space at the Maison des Champs-Élysées was an opportunity to present three exhibits during the year, including one on the iconic products of Louis Vuitton freely reinterpreted by nine contemporary artists; a work by artist Oliafur Eliasson was hung in the Maison Louis Vuitton in New York, then the artist's work was exhibited in the windows of all stores during the holiday period. The preliminary regattas for the Louis Vuitton Cup in Valencia, Spain and the classic car rally Louis Vuitton Classic Boheme Run, which crossed the heart of Europe from Budapest to Prague via Vienna, were two other events that enhanced the prestigious image of the brand.

Monogram Groom, an irresistible line of limited edition small leather goods was inspired by a 1921 Louis Vuitton ad. In that classic era, a groom (bellboy), who was always impeccably dressed, worked very hard to ensure a pleasant experience for the world travelers in the palaces where they stayed.

FENDI: SUCCESS CONFIRMED

With strong revenue growth and a further rise in profitability, **Fendi** posted an historic year, continuing the excellent performance that characterized 2005.

The successes achieved by the Italian brand, which were remarkable in Europe and Asia, were particularly outstanding in the United States. Fendi significantly expanded its retail network, opening 21 new stores worldwide over the year, including 10 boutiques within the prestigious American department stores Saks and Bloomingdales. It inaugurated its expansion in Kuwait, Germany, Macao and India. A large number of stores benefited from a remodeling inspired by the interior architecture created initially for the Roman Palazzo, Fendi's flagship store in Europe.

All product categories recorded strong growth. The cohesion of the collections, enhanced and promoted through the association of all the

Company's creative forces within the *Palazzo*, was a significant factor in its success. The popularity of the ready-to-wear collections designed by Karl Lagerfeld, the footwear and sunglasses was exceptional. The accelerated development of the leather goods lines designed by Silvia Fendi generated very strong results, particularly the *Spy*, *B-Fendi*, and *Chef* & *Bag-de-jour* lines.

TRENDS FOR THE OTHER BRANDS OF THE BUSINESS GROUP

DONNA KARAN, a symbolic brand in the United States, continued to implement its strategy based on an expansion of its designs and the implementation of a new concept of exclusive boutiques. The women's ready-to-wear collections (the luxury *Collection* line and the more active *DKNY* line) recorded solid growth. The brand benefited from the very promising launch of the *Gold Donna Karan* fragrance and the success of the clothing and accessories it inspired. In 2006, Donna Karan again improved its profitability. 2006 was marked by the arrival of new President Mark Weber, who was also appointed President of LVMH Inc. (United States), and who holds operational responsibility for Thomas Pink worldwide.

CELINE continued its reorganization, focusing on its priority vectors to expand its leather goods and footwear lines. Among other initiatives, this strategy generated the launch of the new *Bittersweet* line of very high quality leather products. The success of the ready-to-wear collections designed by Ivana Omazic, Artistic Director since 2005, was highly encouraging. The brand invested in its retail network in Japan, Asia and Europe. In 2006, it renovated its flagship stores in Monaco and Milan that introduced a new concept.

Fendi's 2007 spring-summer line is photographed by Karl Lagerfeld, the designer of the Italian brand's ready-to-wear collection.

The prestigious Spanish brand **LOEWE** continued to capitalize on its roots and unique expertise in working the noblest leathers. The brand posted strong growth in revenue and profitability based on the performance of its flagship leather lines *Senda* and *Amazona*, along with the *Loewe160* line, created in 2006 to celebrate its 160th anniversary. It augmented its promotional investments and launched a new campaign, the various components of which particularly illustrate the elegant and refined lifestyle that finds expression in Loewe products.

KENZO increased its revenue and its financial results. The brand continued to benefit from the positive impact generated by the Artistic Direction of Antonio Marras and the creative consistency he has enhanced through his progressive participation in Kenzo's various forms of expression. The new ready-to-wear collections continued to be commercially successful and the leather goods lines achieved solid performance. The reopening of the historic store in Place des Victoires in Paris in July 2006 was immediately successful, generating intensive media coverage. The new concept launched with this store will be progressively extended to Kenzo boutiques in France and abroad.

In 2006, **GIVENCHY'S** success was driven by its Women's collections: the style renewal generated very strong press coverage and a steady increase in sales of *haute couture* and ready-to-wear. Sales of accessories, the focus of renewed design efforts, also rose substantially, particularly with the buzz created by the *Nightingale* line.

THOMAS PINK, the British specialist in high-end shirts, opened two new stores in Great Britain and the United States in 2006. The brand increased its revenue with, in particular, the expansion of its women's lines and is preparing for new stores in the United States, a high-potential market.

MARC JACOBS continued to record very strong growth driven by the increasing success of its ready-to-wear collections. Each of its fashion shows was an event in New York. The second line *Marc by Marc Jacobs* has created particularly

steady demand. In order to take advantage of the brand's strong potential, a major design effort was initiated to develop its two leather goods lines. Two footwear collections that complete the direct offering from Marc Jacobs have been successful since the first seasons. Marc Jacobs continued to expand its retail network. The opening of the Palais Royal boutique in Paris, the first site in Europe, and the *Marc by Marc Jacobs* store in San Francisco were highlights of 2006.

For PUCCI, 2006 was essentially characterized by the stylistic change contributed by new designer Matthew Williamson. The network of boutiques of the Italian brand (23 stores at December 31) recorded an increase in ready-to-wear revenue. Pucci opened two new stores in Japan and California and two franchise boutiques in Kuwait and Malaysia during the year.

BERLUTI turned in a record performance, marked by continued strong revenue growth, an excellent launch in the United States, a sixth boutique in Japan, and the expansion of the historic store in Rue Marbeuf in Paris. The brand launched *Indio*, a new shoe collection, and continued to enhance its star lines with the *Démesures* limited series and the new *Tatoués*. The recently created line of bags was also expanded and highlighted in a promotional campaign to develop Berluti's image in this segment.

OUTLOOK

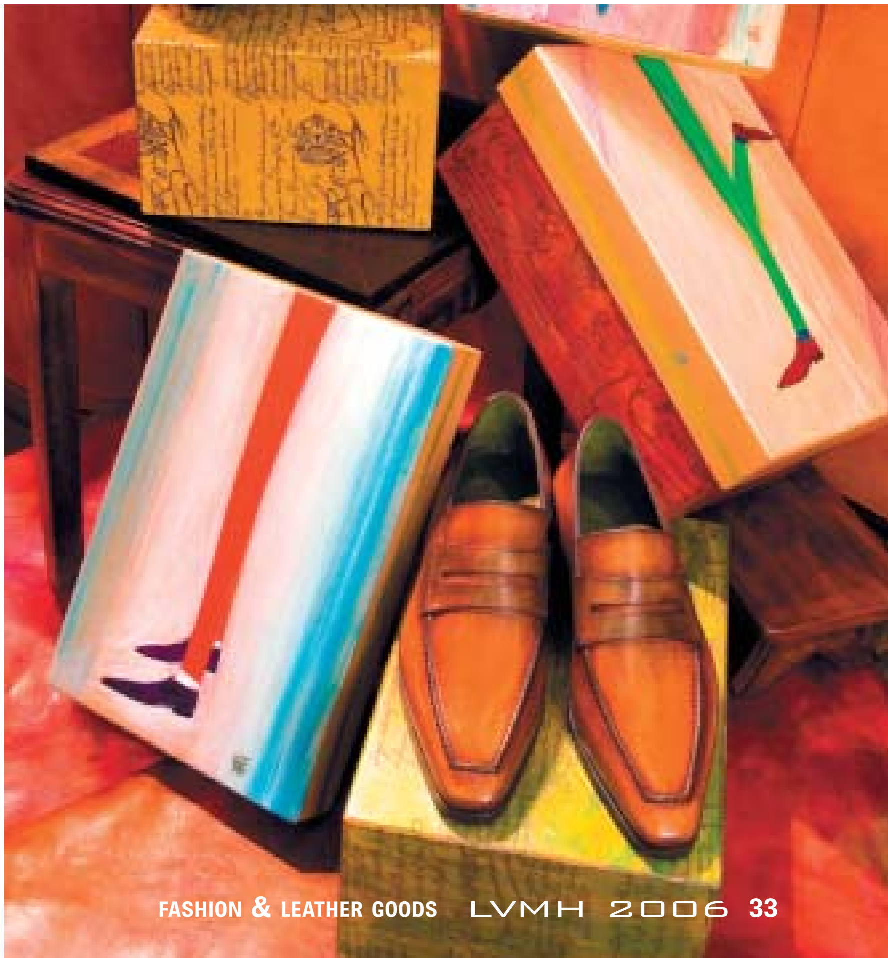
2007 will be a year full of creative developments for **Louis Vuitton**. This vitality will be reflected both in the expansion of its permanent lines, particularly *Monogram*, *Damier*, *Monogram Multico*, *Denim* and *Epi* and in the launch of new products from the fashion runway shows. In order to support production of these new products, Louis Vuitton will continue its efforts to boost productivity and improve logistics.

The brand will continue to expand and renovate its network of stores with about twenty new stores opened in all regions of the world and it will extend its presence to several new countries.

Louis Vuitton will place 2007 under the travel sign, a reflection of its roots and its historic form of expression and will maintain major promotional campaigns. The American actress Scarlett Johansson will be the face of the 2007 spring-summer campaign, which will launch in February 2007. Finally, 2007 is the year of the LV Cup and the America's Cup, one of the most prestigious events in the world of sports, which will place Louis Vuitton in the spotlight to launch a *Louis Vuitton Cup* line.

Fendi, which has now established a trend of profitable growth, will enhance all its product categories, launch a new high-potential line of leather goods and embark into new territories, particularly with the launch of a perfume.

The other brands of the Fashion and Leather Goods business group will intensify the efforts already initiated to adapt their growth model, reaffirm their progress by capitalizing on their own identities, and boost their economic contribution to overall results.



An Icon Exalted:
Olga Berluti has created a new form "Démesure" in a limited series for the mythic "Andy Warhol" loafer.

FOR STRONG AND PROFITABLE GROWTH

PERFUMES & COSMETICS

By combining their strengths of a culture of excellence, outstanding creativity, and an ability to develop their bestsellers into great classics, our brands are demonstrating an unparalleled dynamic within the selective worlds of perfumes and beauty products.

Highlights

The **Perfumes and Cosmetics** business group recorded organic revenue growth of 11%, demonstrating an exceptionally dynamic performance in its competitive sphere. Profit from recurring operations rose 28%.

The growth in the business, to which all the group's brands and product lines contributed, was driven both by the flagship lines and by remarkable innovations.

Thanks to an even more selective positioning, the major French brands in the portfolio gained market share. They recorded a significant increase in revenue in the United States and Europe and turned in exceptional performance in Asia, which is a major growth driver.

The cosmetics brands, which entered the business group more recently, continued to gain position in their respective market niches and expanded to new geographic regions.

LVMH is a major global player in the sector of selective perfumes and cosmetics, with the major French brands Christian Dior, Guerlain, Givenchy and Kenzo. In addition to these world-renowned brands, this business group also includes BeneFit Cosmetics and Fresh, two young, highly innovative and rapidly growing American companies, the prestigious Italian brand Acqua di Parma, Parfums Loewe and Make Up For Ever, a French brand specializing in professional makeup products, which has successfully started to expand its customer base to the public.

Strategy and Objectives

Anchored in the world of luxury, our perfume and cosmetics brands are pursuing a differentiation strategy that explains their strong growth in a market threatened by commoditization and riddled with product introductions that can be short-lived. Their growth is built on the upscale segment of the market with excellent and creative products, an exceptional image and selective retailing. These principles, which drive their long-term vision, will generate the continued dynamic and profitable growth and gains in market share that characterized the business group's activity in 2006. Stronger leadership in Europe, steady growth in the United States, expansion in Asian markets, qualitative development of the niche brands, as well as growth in operating margin are the objectives for the coming years.

THE BUSINESS GROUP EXCEEDS ITS OBJECTIVES

In 2006, the Perfumes and Cosmetics business group significantly exceeded its performance compared to 2005, which was already a year of strong growth. All the brands contributed to the growth in revenue. The increase in profit from recurring operations exceeded objectives even in a context of higher promotional investments.

Backed by their image of excellence, the major French brands continued to gain market share, through innovation as well as through the perennial success of their flagship products and lines. The newer brands in the business group's portfolio continued to grow steadily.

PARFUMS CHRISTIAN DIOR: STRONG, BALANCED AND PROFITABLE GROWTH

PARFUMS CHRISTIAN DIOR continued its rapid and profitable growth with steady expansion in all product categories and solid performances in all geographic regions. The flagship brand of the business group maintained its status as growth leader within its competitive segment. This success was driven by a differentiation strategy resolutely aimed at the high end of the selective retailing segment and the synergies developed with fashion. Parfums Christian Dior gained market share in the major consumer countries - in Europe and the United States, it recorded double-digit revenue growth - and increased its position in the emerging markets of China, Russia and the Middle East, where it made solid advances.

Without a major product launch in 2006, Dior based the growth in its perfumes on the quality and vitality of its great classics: *J'Adore*, which is promoted with the face of Charlize Theron, continued its exceptional performance; *Miss Dior Chérie*, created in 2005, solidified its success. Both fragrances were offered in "extract" versions in 2006. The perfume *Dior Addict* also demonstrated exceptionally dynamic performance.

The essence of a perfume - the extract is the ultimate expression.

Among other events, the high-growth makeup segment benefited from the highly successful launch of the new *Rouge Dior*, embodied by Monica Bellucci, the development of the foundation *Diorskin* and the strong demand for the *Collection* and *Backstage* lines, which originated from the trends in the Dior Couture fashion shows.

The strong growth of the beauty care segment was generated particularly by the performances of the core *Capture* line and the remarkable success of *Capture Totale*, an exceptional product represented by Sharon Stone. *Capture Totale* allowed Dior to significantly confirm its expertise and strengthen its position in the high-growth anti-ageing segment. The *Hydraction* line launched in 2005 in the skin hydration segment also recorded very strong growth. Another highlight of the year was the October launch of a very fine line, *Dermo System*, a series of six skin care products for men based on two patented active ingredients.

Against a backdrop of higher investments for product promotion, the growth in sales recorded enabled Parfums Christian Dior to increase its profitability once again.

A brand that surrounds itself with beauty

The faces that promote Parfums Christian Dior convey an image of prestige and luxury:

Charlize Theron for J'Adore, **Sharon Stone** for Capture Totale and **Monica Bellucci** for Rouge Dior.

Ange ou Démon by Givenchy,
a great perfume presented in a real sculpture.

GUERLAIN ACCELERATES ITS GROWTH

GUERLAIN confirmed its dynamic performance and the relevance of its strategy to highlight its status as a major perfume maker by achieving growth rates that outpaced the market. Its 2006 performance was excellent in all its priority markets, generating new and strong improvement in Guerlain's profitability.

The company recorded double-digit revenue growth, driven by a vigorous policy of innovation, in its perfume, makeup and skin care segments. Supported by the international success of the premium product *Orchidée Impériale*, launched early in the year, and by the growth in the *SuperAqua* line, skin care achieved the greatest advance. In perfumes, Guerlain benefited from the launch of *Insolence* in the second half. The brand's new great women's perfume received an extremely positive welcome, both in France and in the English-speaking countries where it benefited from the name recognition of its muse, Hilary Swank. Along with the launch of this leader, new editions of its mythic perfumes and new limited-series fragrances highlighted 2006, illustrating the brand's unique expertise. Finally, the Guerlain star lines *KissKiss* and *Terracotta* made a particularly strong contribution to growth in the makeup segment for the third consecutive year.

After the magnificent renovation of its site at 68 Champs-Élysées in 2005, Guerlain remodeled its site and its institute on rue de Sèvres on the Left Bank of Paris. In addition, the continued deployment of the new concept of sales counters in department stores generated higher than projected success.

TRENDS FOR THE BUSINESS GROUP'S OTHER BRANDS

PARFUMS GIVENCHY confirmed its new momentum in 2006 with double-digit revenue growth and an improved profit from recurring operations that exceeded initial objectives for the year.

The brand grew substantially throughout the world, with particularly strong performances in France, in other European markets, and in Russia, while it continued to expand its presence in the Middle East and Latin America, and prepare for expansion to China.

The early months of the year were marked by the launch of vintage versions of the perfumes *Amarige*, *Organza* and *Very Irresistible Givenchy*. The new perfume *Ange* ou *Démon* for women, launched in the second half of the year in only ten countries, recorded very promising results.

PARFUMS KENZO recorded strong growth in 2006, with a particularly strong performance in Europe and America, and a solid performance in Russia. The growth of the brand was driven by the excellent reception given to the launch of *KenzoAmour*. This new perfume, distinguished by some creative elements of great originality, testifies to the unique poetic values incarnated by Kenzo. It is rapidly establishing a place alongside *FlowerbyKenzo*, which is now a classic perfume.

KenzoAmour:
This new fragrance testifies for the poetic values incarnated by Kenzo.

Insolence by Guerlain and Hilary Swank: a love match

Unusual beauty, vibrant personality, the luminous actress Hilary Swank, a two-time Oscar winner, is the muse for Insolence by Guerlain. Demanding in everything she does, the star had previously refused all collaborations requested by other brands in the past. "But," she explains, "when Guerlain asked me to symbolize Insolence, I didn't need to think about it for very long." Her childhood was scented by Shalimar - her mother wore it every day, and the history and aura surrounding the brand were, in her own words, the deciding factor. "The scent of the perfume convinced me. I completely love it, but more than that, it offers the same richness as many roles."

BeneFit:
innovative products, play and irresistible packagings!

L'Or de Vie or the encounter of Dior and Château d'Yquem

More beautiful and stronger every year, the Yquem vineyard possesses a remarkable power to regenerate. After years of research, Dior has identified the substances at the source of this miracle. Once stabilized, they become infinitely precious for the skin. Dior researchers associated them with other molecules recognized for their highly protective properties and gave birth to L'Or de Vie. This exceptional skin care product, which the United States discovered in December 2006, continually regenerates the skin's beauty cycle. It will be launched internationally in 2007.

2006 again confirmed the remarkable potential of BENEFIT COSMETICS, which succeeded in combining rapid growth with a very high level of profitability. In the United States, its country of origin, the brand enjoyed an exceptional growth rate and has become one of the leaders in the makeup segment. In the United Kingdom, its primary European market, it expanded its network of owned boutiques, with results vastly exceeding expectations and it accelerated its expansion in France. In 2006, a first point of sale successfully opened in Spain; the expansion of the brand to Asia, which began in South Korea, continued in Hong Kong and Taiwan with excellent and promising results.

In 2006, MAKE UP FOR EVER continued to grow steadily in all its strategic markets: France, South Korea, the Middle East, and the United States, an area where the brand is significantly expanding its presence thanks to the Sephora network. Make Up For Ever also substantially improved its profitability.

ACQUA DI PARMA and FRESH recorded excellent results. These two brands strengthened their exclusive positioning and achieved good increases in revenue and profitability.

OUTLOOK

The business group has strong prospects for new gains in market share and continued improvement in its operating margin in 2007.

PARFUMS CHRISTIAN DIOR plans to continue its high-quality and profitable growth, by reinforcing all of the foundations for its development. While continuing to support its flagship perfumes, the company will launch a major new perfume for women in September 2007. The Couture inspiration for the new Dior makeup creations will be intensified. In skin care, the brand will actively continue the roll out of *Capture*, and *Capture Totale* will benefit from an innovation based on the discovery of a new molecule patented by LVMH Perfumes and Cosmetics Laboratories.

Growth for GUERLAIN will be driven by an innovation plan to strengthen the flagship lines of *Insolence*, *L'Instant*, *Orchidée Impériale*, *KissKiss* and *Terracotta*, and will include the launch of a new foundation product and the initiation of a project to gradually replace the brand's skin care line.

PARFUMS GIVENCHY projects a new year of revenue growth and improved profitability. The highlights of 2007 will be the continued roll out of *Ange ou Démon* in the global markets, the launch of a new fragrance variant of *Very Irresistible Givenchy* for Men and a brand new lipstick, *Rouge Interdit*.

2007 is off to a good start for PARFUMS KENZO, with a creative dynamic that will strengthen the brand's positioning. The brand will focus, among other initiatives, on a new promotional campaign dedicated to the *FlowerbyKenzo* line, the deployment of *KenzoAmour* and the launch of a new fragrance for men.

In the Miss Dior Chérie family

an *eau de toilette* joins the perfume in January 2007

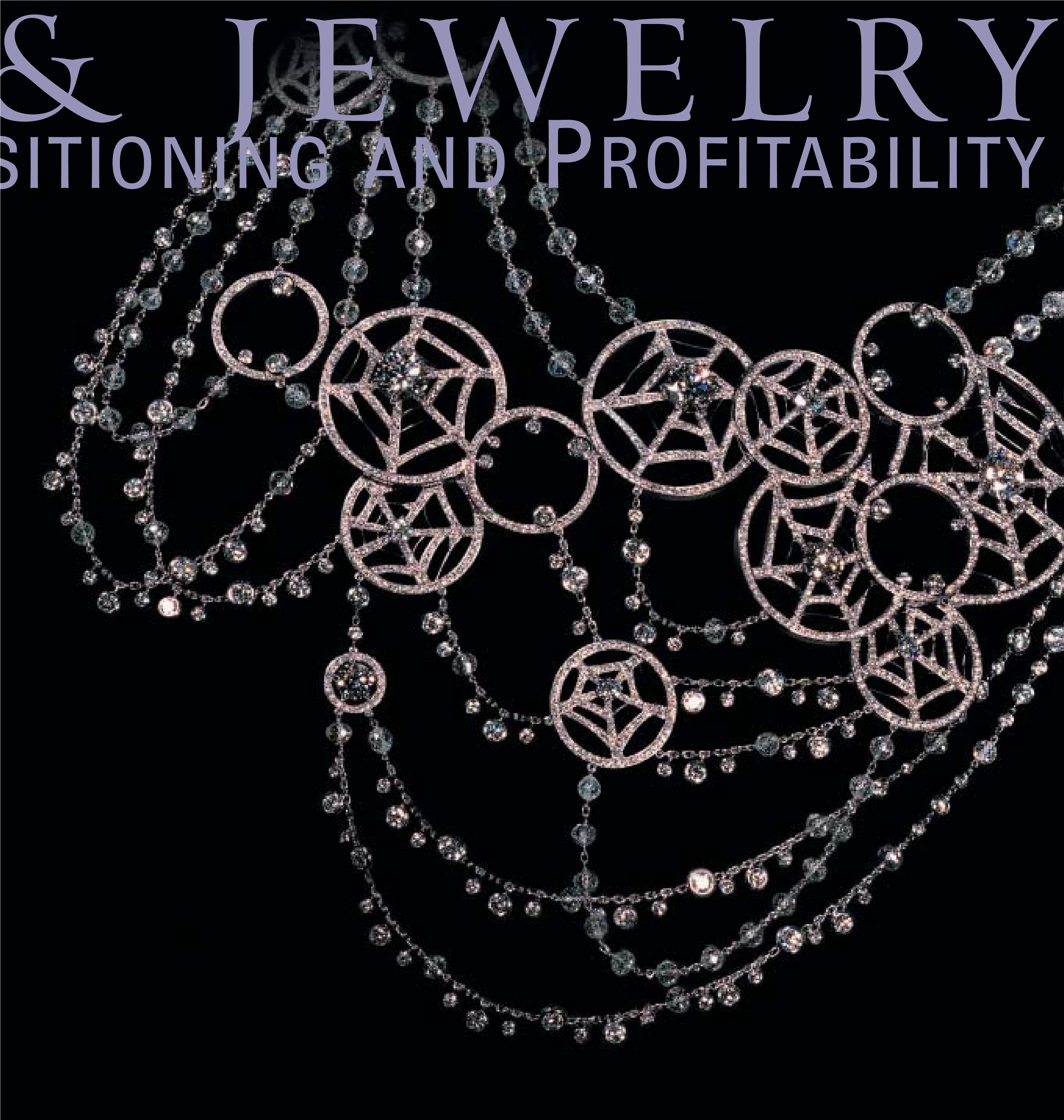
SHARON STONE, CAPTURE

WATCHES

INNOVATION, UPMARKET POS

With strengthened iconic lines and a strategy that combines innovation with upmarket positioning within its brands, the Watches and Jewelry business group recorded double digit revenue growth and strongly improved its profitability from recurring operations, which went from 4% to 11% of revenue from 2005 to 2006.

& JEWELRY
SITIONING AND PROFITABILITY



Highlights ■ The **Watches and Jewelry** business group recorded organic revenue growth of 28%, gained market share and strongly increased its profit from recurring operations. ■ TAG Heuer showed excellent commercial and financial performance worldwide through its remarkable capacity for innovation, the development of its iconic product lines, and the effectiveness of its marketing investments. ■ Manufacture Zenith posted strong growth and has significantly improved its results. ■ Chaumet strengthened its presence in Europe and Asia. ■ Dior Watches confirmed the success of the *Christal* line, which was created in late 2005 in collaboration with John Galliano. ■ The De Beers brand has experienced steady growth, particularly in the United States market, where it was introduced in late 2005.

The most recent of the LVMH Business Groups holds a portfolio of leading watches and jewelry brands with complementary positionings: TAG Heuer, the world leader in prestige sports watches and chronographs; Zenith, a watch manufacturer known for its famous El Primero movement; Dior Watches, with collections inspired by the designs of the fashion house; Chaumet, the historic and prestigious jeweler of the Place Vendôme; Fred, the designer of contemporary jewelry; and Omas, the Italian designer of writing instruments. De Beers*, a brand developed by a joint venture formed in July 2001, confirms its positioning as a diamond jeweler and accelerates its expansion.

**De Beers activities, previously consolidated in Other Activities of LVMH, are now integrated in the Watches and Jewelry business group.*

Philippe Pascal

President of the Watches and Jewelry Business Group

Strategy and Objectives

A recent and dynamic player in the watch and jewelry sector, our business group stands out in its market due to a very sustained rate of revenue growth and has significantly improved its profitability. That profitable growth is the result of a strategy that focuses on value growth levers and rigorous management. We concentrate energies and resources on our geographic and operating priorities while preparing our growth drivers.
Our mission at the brands and in all regions of the world can be summed up simply: to seduce consumers and service our retail clients efficiently. Seduction means innovation, creativity and quality in our collections and our communications. Effective service means supporting our aggressive sales efforts with the best after-sale service and effective targeting of our marketing investments.

"A strategy that focuses on value growth levers."

In 2006, for the third consecutive year, the organic revenue growth from LVMH Watches and Jewelry brands has been much higher than that of its competitors. That growth is balanced among Europe, the Americas, Asia and Japan, and every watch and jewelry brand has improved its performance. The development of new markets is being actively pursued: the strengthening of distribution agreements, with the acquisition of an equity stake in Xinju Hengdeli in China, has enabled TAG Heuer, then Dior Watches and Zenith to gain a visible presence; the presence of TAG Heuer in India is today significant; the Middle East and Eastern Europe are also seeing openings and receiving targeted investments, both in jewelry and in watches. The financial recovery of the business group has continued and has translated into a 281% increase in profit from recurring operations.

TAG HEUER BOOSTS ITS STAR BRAND STATUS

A record year for the world leader in sports-inspired watches and chronographs: TAG HEUER continues to experience remarkable growth in volume and in value and is strengthening its star brand status within the LVMH portfolio and Swiss watchmaking.
2006 was marked by increased revenue in all markets, continued upmarket positioning and recognized technological innovation. TAG Heuer increased its leadership in the market segment of watches priced between 1,000 and

4,000 euros. The growth was driven by the strengthening of iconic lines, particularly *Aquaracer*, *Link*, *Carrera* and *Monaco*, and by two major innovations, the *Monaco 69* and the *Carrera Calibre 360*, the only mechanical chronograph able to measure one hundredth of a second, which received the Grand Prix de l'Horlogerie de Genève.

The advertising campaign, which utilizes Ambassadors, star athletes or celebrities selected for their personality and activity, effectively supports the image and fame of TAG Heuer: Tiger Woods, Uma Thurman, Brad Pitt, Maria Sharapova, Fernando Alonso, Steve McQueen, Jeff Gordon in the United States and Shah Rukh Khan in India make up a unique team that embodies prestige and performance.

The women's versions of TAG Heuer's Link and Aquaracer product lines are becoming increasingly successful.

Grand Prix d'Horlogerie de Genève

Once again crowned for its innovation capacity: the TAG Heuer Carrera Calibre 360 Chronograph received the very prestigious Grand Prix d'Horlogerie de Genève, in the Sports Watch category.

On November 9, 2006, an independent international jury composed of experts, journalists, retailers and watch historians declared the TAG Heuer Carrera Calibre 360 to be the "Sports Watch of 2006" at the 6th Grand Prix d'Horlogerie de Genève. That fourth prize won by TAG Heuer in just six years ("Design" in 2002 and 2004, "Montre Dame" in 2005) recognizes an ability to innovate that is unique in the watch industry and confirms TAG Heuer's position among the most recognized luxury watch brands.

Defy from Zenith: an aesthetic and mechanical revolution

Manufacture Zenith has launched Defy, a collection of sports watches and chronographs. In so doing, it is reconnecting with the past and a time when it excelled in that field, winning records in chronometry. An unexpected design, cutting-edge technology, a unique style, and unprecedented performance: Defy asserts its strong personality.
Thanks to the combined use of innovative materials, Defy watches have works and a case that are designed for extreme conditions: that is how Zenithium was developed, an exclusive alloy, ultra light and strong, from which the movement bridges are made.

ZENITH CONTINUES ITS GROWTH Manufacture ZENITH has again posted strong growth in revenue and greatly improved its results. The brand experienced double-digit growth in all its markets while maintaining very selective distribution.

2006 was marked by two main launches: the Open concept, a signature of the brand which reveals the heart of its famous El Primero movement, in the *Class* line; and the *Defy* collection, the first sports line for Zenith. The *Defy* collection, which is available in *Classic* and *Xtreme*, has experienced rapid success whose full-year impact will be felt in 2007. It combines the watchmaking know-how for which Zenith is famous, cutting-edge technology, strength designed for extreme conditions and tremendous modern aesthetics.

DIOR WATCHES: CHRISTAL CONTINUES GROWTH AND UPMARKET POSITIONING The growth of DIOR WATCHES is driven by the success of the *Christal* line, which was launched in late 2005. That watch-intensive collection stands out sharply in the fashion watch market. It has continued its expansion and upmarket positioning thanks to the launch of jewelry versions, which have been very well received worldwide.
2006 was also marked by the launch of a Black Time version, a superb, all-black automatic chronograph in the *Chiffre Rouge* men's line.
Dior Watches has increased the selectivity of its distribution network, particularly in Asia.

CHAUMET STRENGTHENED ITS POSITIONS IN EUROPE AND ASIA Continuing its targeted expansion, CHAUMET strengthened its presence in high-priority markets, located primarily in Europe and Asia. While making those investments, the brand continued to improve the productivity of its stores. After the 2005 opening in Taiwan, Chaumet opened a major store in Hong Kong in September, the bridgehead of its expansion in China. The brand has considerably increased its recognition and its positions in Japan where it is experiencing steady growth and has opened new boutiques inside Harrods in London, and under franchise in Saint Petersburg and in Almaty, Kazakhstan. The launch of the *Attrape-moi si tu m'aimes* jewelry collection and the development of the *Dandy* line of watches are the other highlights of 2006.

De Beers : collection Secret of the Roses.

TRENDS FOR THE BUSINESS GROUP OTHER BRANDS The DE BEERS brand had an excellent year. While continuing its steady growth in Japan, it had a promising performance in the United States, a market that it entered in late

2005 in New York and Los Angeles. De Beers has strengthened its presence in London and opened its first boutique in the Middle East, in Dubai. The *Talisman* and *Secret of the Roses* collections, fine jewelry and engagement rings contributed to substantial growth in revenue per store. To increase its recognition and image, a new advertising campaign was launched in 2006 for De Beers.

FRED is continuing its targeted expansion in Japan and France. The brand celebrated its 70th anniversary by launching a *Coral* collection and a *Boule* ring and by designing its first complicated wristwatch, the *Move 1* GMT.

OMAS, whose expansion is focused on Italy, France and the United States, received the Grand Prix du Stylographe for its *Emotica* line in 2006.

OUTLOOK Innovation, steady organic growth and continued improvement in profit from recurring operations are the goals that have been set for each brand and in each market in 2007.

TAG HEUER, ZENITH and DIOR WATCHES have planned many innovations in their iconic lines and will continue their policy of upmarket positioning. TAG Heuer will update the architecture of its stores. CHAUMET will increase its wristwatch offerings and its emblematic line *Liens* and will open a store in London on Bond Street while continuing to strengthen its presence in Asia, the Middle East and Eastern Europe. DE BEERS will introduce its first wristwatch collection and will increase its presence in the United States (in Las Vegas in January), the Middle East, Japan, Hong Kong and Korea. FRED will relaunch its *36* line of watches and will design a line of unisex jewelry.

The Watches and Jewelry business group will make its largest investments in Japan, the United States and China, without neglecting the specific resources allocated to the growth of emerging markets, the Middle East, India and Russia.

The Boule ring from Fred plays with coral, gold and pearls.

Selective Retailing

Excellence in selection and service

The Selective Retailing businesses being developed by LVMH are present on three continents and seek to promote a commercial environment and service quality that match the image of creativity and excellence embodied by luxury brands.


CHARLES·SCRIBNER'S·SONS
SEPHO
A
SEPHORA
597

Selective Retailing

Excellence in selection and service

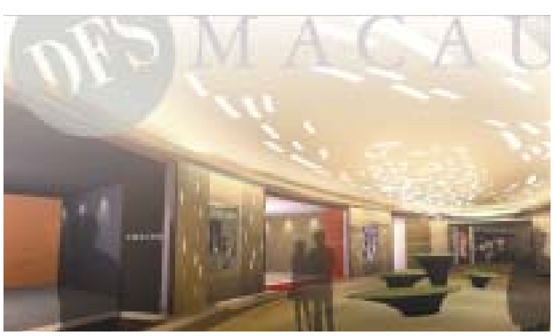
Highlights

■ The Selective Retailing group posted organic revenue growth of 9% and improved its profit from recurring operations by 15%.

■ DFS expanded its customer base thanks to the increase in Chinese tourism and, bolstered by its success with those customers, is preparing to open a Galleria in Macao, a destination with high potential.

■ Sephora, the only selective retailing perfumery present on three continents, continued its expansion in these three geographic zones, further improved its performance and strengthened its positioning as a beauty expert.

■ Le Bon Marché continued to assert its identity as the most creative and prestigious department store in Paris and is again experiencing growth that sets it apart from its competitors.



The Selective Retailing companies of LVMH operate in Europe, North America and Asia. They operate in two areas: distribution designed for international traveler customers ("travel retail"), which is the business of DFS and Miami Cruiseline, the leaders in their market segments; selective retailing concepts represented by Sephora, the most innovative company in the beauty segment, and Le Bon Marché, the prestigious Parisian department store on the Left Bank.

DFS *positions itself upmarket and expands its customer base*

In a climate of reduced spending by Japanese tourists, whose buying power declined in 2006 due to the weakness of the yen, **DFS** took advantage of the growing number of Chinese travelers. Because this phenomenon was anticipated and placed at the center of the DFS strategy for the past few years, the stores servicing destinations frequented by these new customers have experienced solid revenue growth.

Continuing to capitalize on this market segment with high growth potential, DFS signed an agreement to open a Galleria in Macao in early 2008, at the site of the Four Seasons Hotel. For the leader in travel retail, which now has acquired a good knowledge of Chinese customers, particularly at its Galleria in Hong Kong and Singapore, this development is a remarkable opportunity. In order to fully reflect the DFS strategy of upmarket positioning, the Galleria in Macao will be exclusively centered on the luxury segment through its offerings and the quality of its architecture. At the same location, it will have an extraordinary number of boutiques devoted to flagship brands in fashion, leather goods, watches and jewelry and will offer a level

Strategy *and* Objectives

Within their respective market segments, our teams have closely related ambitions: to be the best partners of the luxury brands that they distribute throughout the world and to offer preferred locations for customers who are sometimes from different cultures but are all very demanding in terms of selection and service. By cultivating that difference, our companies affirm their expertise and their value added. By endeavoring to anticipate upcoming trends and conquer new markets, they increase their lead over their competition. The drivers of their growth are an attentive approach to each customer, a strong capacity for innovation and adaptation, a continuous quest for quality and exclusivity, and tireless efforts to improve their organization, increase their sales productivity and instill customer loyalty.

of services capable of satisfying the most demanding expectations. With the same objective of upmarket positioning, and following the renovation of the Galleria in Guam, DFS will begin renovating its Waikiki and Hong Kong locations in 2007.This in turn will improve the appeal of those sites.

Miami Cruiseline: a strategy of upmarket positioning

Miami Cruiseline, which holds strong positions in the cruise market, continued to raise its revenue and profitability significantly thanks to the increase in average purchasing per passenger. The upmarket positioning of its boutiques and its product offerings are the drivers of that growth.

Sephora: very steady growth worldwide

In 2006, with revenue growth, gains in market shares, new and strong improvement in profitability, **Sephora** exceeded its goals on both sides of the Atlantic. It expanded its presence in China and is preparing its foothold in the Middle East. The expansion into these new territories is financed by the cash flow generated in Europe and America. As of December 31, Sephora's global network consisted of 621 stores.
Sephora's continued expansion in Europe translated into 31 net store openings and a large number of renovations. These developments meet Sephora's objective of increasing its positions by targeting the best locations in the key countries where its concept is increasingly successful every year.

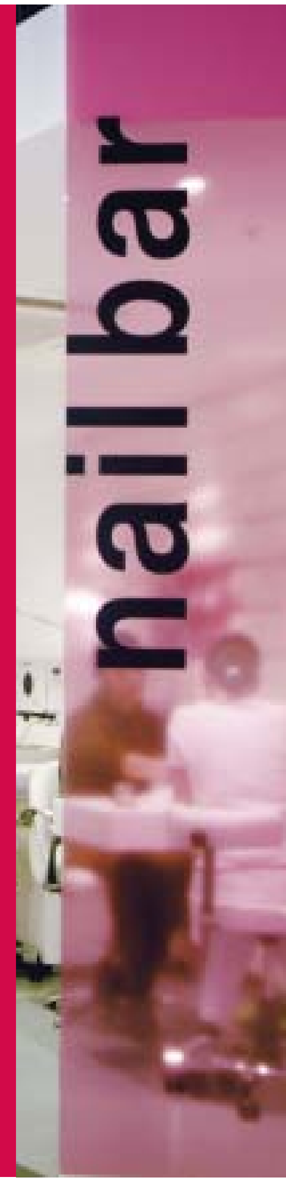
Sephora continues to assert itself in France as the most dynamic retailer in the beauty sector and to gain market share. The performance of the sephora.fr website, which was recently created, is exceeding expectations. In 2006, in addition, it was awarded a trophy for the quality of online customer service. In Spain, activity on a same-store basis is experiencing double-digit growth and the partnership formed in 2005 with the El Corte Inglés department stores is a success. In Poland, Sephora has acquired very strong positions in just a few years. Similar success is underway in other countries of Central Europe.

In the United States, for the sixth consecutive year, Sephora experienced double-digit revenue growth on a same-store basis and again posted a sharp increase in its profit from recurring operations. The solid performance in all regions translates into gains in market share. Sephora had

Excellence in selection and service

Private Stylist: Men, too

Spurred by the success of the concept that **Le Bon Marché** created in 2005 in partnership with Vendôme Services for its customers, Balthazar, the men's department, now has its "private Stylist" service. Whether they want to renew a stylish and sober traditional wardrobe, move toward more "trendy" clothing, or find an outfit for a special occasion, men will discover the privileges of unparalleled service in a welcoming space, with a professional at their call: getting a first impression of what they are looking for with a telephone call, selecting the stylist who best understands what they want, assembling a personalized wardrobe, making an appointment that can accommodate the busiest work schedules to try on and choose the outfits that have been selected, in a private room. A "five star luxury" service that should satisfy men who are busy but still care about looking their best.



23 net openings in 2006 on the American continent, which brings the number of large stores in its network to 142 (including four in Canada). Of note are openings at very high-quality locations, particularly in Manhattan, where Sephora is present through 11 points of sale. The website sephora.com continues to experience very strong growth.

Sephora is actively pursuing winning new territories. In China, where it made its debut in 2005, Sephora had 12 stores principally located in Shanghai and Beijing, had launched its loyalty card and developed its website by December 31, 2006. At the end of 2006, Sephora had also opened its first location in the Middle East.

A bolder strategy of differentiation

In 2006, **Sephora** emphasized its strategy of differentiation and building customer loyalty, which rests on several pillars: an innovative and high-quality selection of exclusive brands that meet high expectations, such as Strivectin (anti-wrinkle care) and Bare Escentuals (mineral makeup); forming dynamic partnerships with the inescapable large brands in the selective world of perfume and cosmetics; strengthening its positioning as a beauty expert, illustrated by the development of innovative services and welcoming spaces, such as Sephora Studio, a dispenser of care and wellness, which was created in 2006. Sephora also continues to successfully renew and develop the high-quality products that are sold at especially attractive prices under its own brand. That entire policy is supported by steady investment in the training of advisors and store managers: there is an in-house school on each of the three continents where Sephora operates.

The success of its loyalty card, a key component of a close relationship with its customers, has led Sephora to expand it to virtually every country in Europe and to develop in the United States a similar program due to commence in 2007.

Sephora has greatly increased its visibility on the three continents by advertising through numerous media (billboards, press, radio, television, Internet, mailings). In 2006, a very well received first advertising film was shown in French movie theaters.

Le Bon Marché affirms its unique positioning

Every year, **Le Bon Marché** increasingly asserts itself as the benchmark store for luxury and prestige in the heart of Paris. Its recent developments in the world of women's fashion contributed to a sharp increase in its revenue and profit from recurring operations in 2006. More high-end foreign customers are choosing Le Bon Marché as their preferred store when they are in Paris.
In 2006, the lingerie space underwent renovation and will represent one of the drivers of growth in 2007. A new advertising campaign with a very chic design has been conducted to reinforce the high-end positioning and image of this Left Bank department store.

Outlook

In 2007, **DFS** will amplify the efforts involved in its strategy of upmarket positioning to strengthen its standing as the leader among Japanese and Asian customers. The continued increase in international travel in zones where it has locations is an important source of long-term growth.

Sephora's Studio Space: An Interlude of Beauty and Well-being

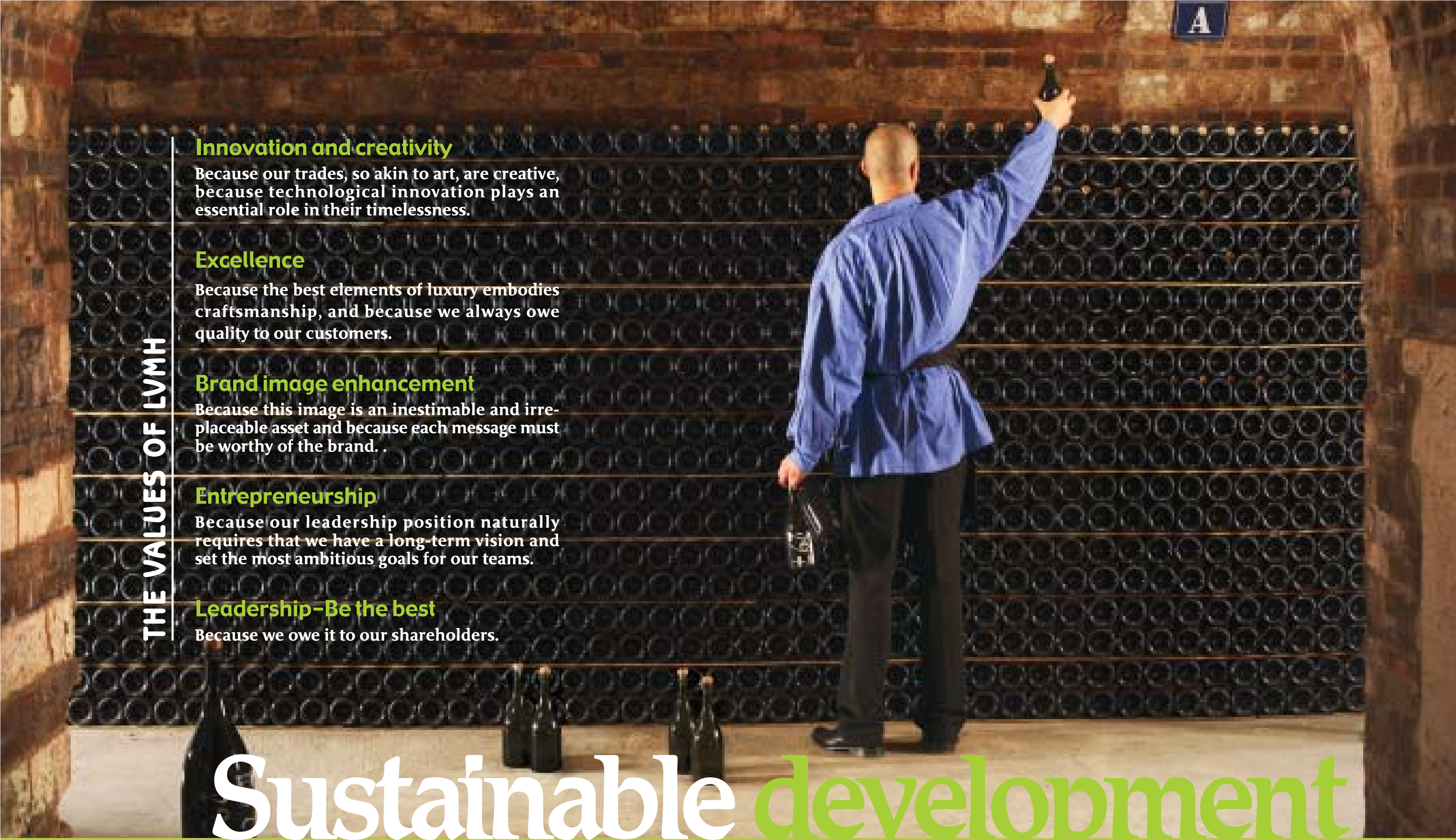
In the new boutique on Boulevard Saint Germain in Paris, Studio Sephora has four booths. Two are for body care, a third is devoted to the face, and the last one has a self-tanning space. A "nail bar" and a "makeup bar" for a quick beauty treatment of the nails and face round out those services. More than 100 treatments created by Sephora use the technology of the most advanced products. Appointments for these interludes of pleasure and beauty can be made up to 48 hours in advance.

Sephora on the Big Screen

Why do at night what you can do every day? That is the theme of the Sephora film in movie theaters, which strikes a playful tone to illustrate all facets of beauty and the incredible palette of pleasures that are freely accessible at its stores. In 2007, Sephora also goes on television!

Sephora's goal is to intensify its profitable growth and, in order to do that, it will continue to strengthen its policy of innovation and exclusivity, while expanding its offerings in new profitable segments. The modernization of its network will continue, and the rate of store openings will be accelerated, particularly in France, the United States and China, not to mention the development of new markets (Middle East, Central Europe), which constitute growth drivers for the next few years.

Continuing to cultivate its assets, **Le Bon Marché** starts 2007 with confidence. This year will be marked by the launch of a master plan for a large-scale, three-year transformation of the sector devoted to the home. La Grande Epicerie de Paris will renovate part of its commercial space.



THE VALUES OF LVMH

Innovation and creativity

Because our trades, so akin to art, are creative, because technological innovation plays an essential role in their timelessness.

Excellence

Because the best elements of luxury embodies craftsmanship, and because we always owe quality to our customers.

Brand image enhancement

Because this image is an inestimable and irreplaceable asset and because each message must be worthy of the brand. .

Entrepreneurship

Because our leadership position naturally requires that we have a long-term vision and set the most ambitious goals for our teams.

Leadership–Be the best

Because we owe it to our shareholders.

Sustainable development

our commitments

Social Policy

To encourage all our employees to reach their full career potential and achieve their aspirations, develop the diversity and the wealth of human resources in our companies in all the countries where we operate, and encourage initiatives in these areas. Outside our own company, to contribute to the knowledge and preservation of our businesses and our know-how as artisans and designers.

A Commitment to Citizenship

To implement a patronage program for the benefit of the largest number, the components of which reflect and transmit our fundamental values. To provide active support for major causes, fund humanitarian projects and public health challenges, and develop initiatives for young people.

Environment

To work together to preserve the resources of the planet, to design and develop products that respect the environment, to report on our policies and projects and the progress achieved in meeting our objectives. To contribute to environmental protection above and beyond the factors directly related to our operations, by entering into active partnerships with cooperating business groups, local authorities and associations.

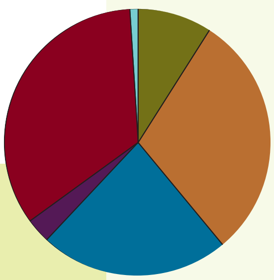
Economic Performance

To combine economic growth and respect for sustainability criteria, which are represented for our luxury businesses by the values of creativity and excellence. To apply our creative passion to a genuine *art de vivre* to which our customers aspire. To strengthen our position as a global leader, and to be the benchmark in the management and development of luxury brands.

A human resources policy that promotes the Group's values

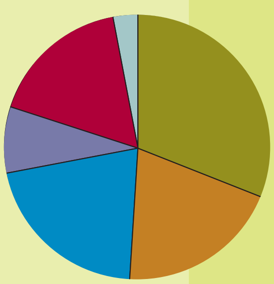
With fifty brands co-existing in different market sectors and a presence in 62 countries, LVMH has strength and diversity founded on a unique asset of multi-faceted talent. Its men and women come from all over the world, bring a variety of cultures and skills to the table, are united by a shared commitment to the same values and are driven by the same desire for excellence.
The Group guarantees its continued effectiveness by identifying the best people, recruiting them with transparency, and retaining them by offering rich career possibilities for advancement and professional growth.
By cultivating its ethical values of openness and diversity daily, LVMH ensures strong, cohesive teams that are proud to belong to the Group.
Through this approach, the LVMH Human Resources policy has become one of the primary assets in the Group's strategy.

Average workforce by business group in %



Wines & Spirits	5,612	9%
Fashion & Leather Goods	17,570	29%
Perfumes & Cosmetics	14,104	23%
Watches & Jewelry	1,878	3%
Selective Retailing	21,253	35%
Other activities	879	1%
Total	**61,296**	

Average workforce by geographic region in %



France	19,154	31%
Rest of Europe	12,181	20%
United States	12,665	21%
Japan	4,625	8%
Rest of Asia	10,577	17%
Other markets	2,094	3%
Total	**61,296**	

PROTECT AND DEVELOP JOBS IN FRANCE AND AROUND THE WORLD

LVMH employs over 64,000 women and men worldwide who, with their many talents, form a long chain for product design, manufacture and distribution. The teams work in very different activities based on the Group's business sectors: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, and Selective Retailing.
Through its policy of selling products that carry the "made in France" label, a sign of quality and excellence, LVMH maintains industrial jobs in France. In addition, given the continued growth of its brands, a large number of jobs, particularly sales positions, have been created in many of the countries in which the Group is present. As a result over 69% of its workforce is employed abroad, essentially in the retail networks of Europe, North, America and the Asia-Pacific region.

IDENTIFY AND ATTRACT TALENT

Identifying and attracting talent is a strategic component of the LVMH recruiting policy. Accordingly, throughout the year, the companies of the LVMH group participate in a large number of events organized in France and abroad on the campuses of engineering and business schools, at design schools, and schools specializing in the skills specific to their businesses.
The continued development of these meetings with young people has given LVMH the opportunity to enhance their knowledge of the LVMH group and its companies, to share with them the rich fabric of its businesses and the attractive career opportunities they offer. As a result, a survey conducted in 2006 by the marketing firm Universum with 7,700 students from 62 major French schools ranked LVMH at the top of the list of companies preferred by young business school graduates.
Similar projects have been undertaken abroad in the United States (Columbia, Harvard), Japan (Waseda, Keio, Hitotsubashi) and in the major Asian universities. In addition, aware of the exceptional growth potential in the countries of the Asia-Pacific region, LVMH has continued to expand its presence and initiatives in the region. Since 1986, the LVMH Asia Scholarships offer business school students the opportunity to travel to Asia for study. In 2006, three winners from the CEIBS (China Europe International Business School) also won scholarships to complete four to six-week training sessions in France at Louis Vuitton, Parfums Christian Dior and Moët Hennessy.
The Group's companies also conduct a large number of local projects in high schools or colleges and at trade schools that train young people in the skills needed in their business group.

A DYNAMIC RECRUITING APPROACH THAT VALUES DIFFERENCES

For the 13,700 men and women who joined LVMH in 2006, it was the human qualities that made the difference. LVMH offers the opportunity to develop the entrepreneurial spirit, look for initiative and responsibilities within a highly decentralized group, be creative and innovative, have a vision of the future that is built on respect and loyalty for the profound soul of prestigious companies, some more than one hundred years old.
To ensure maximum exposure for job offers, and in order to encourage a broad diversity of applicants, the

professional opportunities within the Group companies are available on the LVMH Internet sites. Each job offered includes a job description that precisely defines the experience and skills needed in the position to be filled. Candidates are selected primarily based on the fit between the skills required and those of the candidate, whatever his or her origin or type of experience. Many of the Group's companies have developed recruiting procedures to make the most objective choice possible among candidates for a position.

Encourage Tomorrow's Designers

LVMH works to encourage talent by assisting young people in the design and luxury industries. LVMH and Moët & Chandon again partnered for the Hyères International Fashion and Photography Festival as official sponsors. The image opposite shows the work of Anthony Vaccarello, the Grand Prize winner for Fashion at the 2006 Festival.

AN ATTRACTIVE SALARY POLICY

The policy of the LVMH companies is to offer compensation packages that compare favorably with the market in order to attract, retain and motivate the employees of the Group.
Compensation surveys are conducted every year to measure the position of managerial and non-managerial pay packages in the different regions in which the Group is present. In addition, surveys specific to a business sector or a business are conducted periodically for a country or a group of countries.
Thanks to their excellent performance, most of the Group's companies bestow their employees in France with profit-sharing at generally much higher than the market average levels.
In 2006, LVMH also continued its stock option program to retain its best employees.

TRAIN AND DEVELOP FOR THE FUTURE

The Group's policy to develop its human resources is one of the drivers of its growth. Every year, LVMH systematically reviews its available resources and future needs with each of its companies.
Critical skills and specific talents are identified, individual development plans are established, and programs are approved to facilitate the construction of real professional career paths within the Group.
The tools used to encourage career construction vary widely: Geographic or functional mobility is one of the priority methods, but there are many others, such as developing responsibility on the basis of operational objectives, training, participation in cross-functional projects, international assignments, even sharing of experience with Group companies.

LVMH and YOU in 2006

2,200 offers published
83,000 applicants
4,000 visits per day

The new "Join LVMH" pages on the LVMH website have been online since June 2006, and enable applicants to consult the ads and apply on line. All the companies of the Group worldwide publish their job offers on the site, along with opportunities for internships, international business volunteer programs (VIE) and apprenticeships.
Every day, over 4,000 visitors search for and view offers and sign up for alerts; 250 candidates submit an online application to apply for one or more offers.
To ensure equity and transparency, all candidates for the same position complete the same application in which only experience, training and skills are considered. The application does not ask for a date of birth or a photo.

FORMATIVE CAREER PATHS AND FUNCTIONAL AND INTERNATIONAL MOBILITY

LVMH works to develop the expertise needed in its businesses by combining professional experience, functional and geographic mobility, and facilitating cross functional projects and inter-company networks. The goal is to make LVMH a real “learning organization” within which each employee can grow individually and professionally.

The Group encourages mobility among its employees—from one region to another or from one business to another. The diversity of the companies in the LVMH group, their identity, and their business expertise in a variety of sectors all promote this mobility.

Every year, there are many professional promotions adapted to the skills and aspiration of each employee.

LVMH also encourages transfers from one professional category to another by motivating its employees to acquire new skills, primarily through specific training or certification courses.

A rich Variety of Professions

A number of professions co-exist within the different companies. Technicians, financial professionals, attorneys, and marketing and communication teams give the Group its power and modernity. The network of sales associates, who are the brand ambassadors with their customers, ensure ongoing attention to their expectations and desires. However, the heart of the business lies with the designers and craftsmen, the enologists, cellar masters, leather workers, watchmakers, setters, and others. They are the soul of LVMH. All these professions demand excellence which requires customized training.

Today, nearly half of the managerial positions are filled internally. 30% of these transfers are to another company in the Group; one out of five is to another country.

CUSTOMIZED TRAINING

The companies of the Group offer a broad range of training opportunities to allow employees to develop their professional expertise and their “business” skills as artisans and designers, and to share a common vision. Training seminars are chosen on the basis of the needs and specific characteristics of the businesses of each company, and are organized by the training centers in each business group. These seminars are provided by outside trainers as well as by Group managers who are considered experts in their area of expertise.

In addition, LVMH organizes orientation seminars that introduce new employees to the culture of the Group, to its values, and to its basic management principles and its brands. Over 14,800 employees completed these seminars in 2006.

The “Universe” days (perfumes, jewelry, champagne, leather goods, etc.) initiated in 2005 were repeated in 2006. They give employees a new vision of a different professional universe and the opportunity to expand their sources of inspiration and innovation.

70% of the employees attended at least one day of training in 2006. The training was evenly divided among hierarchical levels and between men and women.

INVEST IN A SOCIALLY RESPONSIBILITY POLICY

LVMH and each of its companies are evolving within a multi-cultural context. We share the luxury of our products with customers throughout the world. This diversity is, therefore, both its treasure and its asset. Thus, for many years, each brand works to recruit and develop the best international talents in order to appreciate cultural sensitivities and make this a competitive advantage.

This search for the mutual enrichment generated by different cultures, origins and skills is the foundation of the diversity policy developed by the Group.

EQUAL OPPORTUNITY IN FRANCE AND ABROAD

As a signatory of the Global Pact and the French Charter of Diversity and the Chart of Business Commitment to Equal Opportunity in Education, LVMH organized an awareness seminar and a corporate social responsibility convention for the Group's Departments of Human Resources in 2006. Global Social Responsibility reporting has been implemented and working groups have been formed in order to expand initiatives in the Group's companies in 2007.

Respectful of human rights and equal opportunity—in the spirit of the International Labor Organization—the companies of the LVMH group, without discrimination of any kind, offer each person the opportunity to achieve his or her professional aspirations.

AN ACTIVE POLICY TO ASSIST YOUNG PEOPLE

On June 9, 2005, LVMH signed the Apprenticeship Charter in which the Group made a commitment to increase the number of apprentices by 20% in two years, to respect the diversity of French society in recruiting, to develop a tutorial system and increase collaboration between training organizations and the companies in order to improve the qualification of young workers.

In 2006, 185 apprentices in work-study programs were welcomed in all the Group's companies in France. The LVMH companies were also the driving force behind the creation of several academic programs in the regions in which they are present. Louis Vuitton developed a post-baccalaureate training program for leather workers with the Lycée d'Issoudun.

In Saint-Jean-de-Braye (near Orléans) in 2006, Parfums Christian Dior conducted several presentations of the cosmetics businesses in high schools and plant visits for young students. Since 2003, as part of its investment in youth training and employment, Parfums Christian Dior has developed a close partnership with the apprentice training center at the Institute of Health Product Businesses and Technologies (IMT) in Tours in order to develop and train young workers as cosmetics makers, packaging agents and quality technicians. This program prepares for the future by giving the apprentices solid qualifications.

WOMEN IN THE GROUP

Women make up over two-thirds of the workforce. This large proportion is partly due to the nature of the LVMH businesses, with their strong presence in fashion, perfumes and cosmetics and the distribution of luxury products. However, this is not the only reason, and the Group's desire to see women in all jobs and at all levels is reflected in a deliberate policy: in 2006, 75% of the new employees were women. Women represent 87% of the employees at Sephora, and 80% at Parfums Kenzo. In the Group as a whole, one out of two managers is a woman. Women represent 28% of executive committee members, and six companies of the Group are led by a female President: Veuve Clicquot Ponsardin, Fred, Montres Dior, Parfums Kenzo, Emilio Pucci and Acqua di Parma.

Share the vision and best practices

Founded in London in 1999, LVMH House, a management and innovation center specifically dedicated to the development of Group executives, offers forums focused on global strategic issues such as leadership, new technologies, innovation, creativity and the art of developing a luxury brand. LVMH House has welcome more than 2,000 participants since it opened.

MANAGING SENIOR WORKERS

13.2% of the employees of the LVMH group are over the age of 50 (18.6% in France).

The existence of different generations of artisans and luxury professionals actively and effectively contributes to the transmission of skills within the Group. The LVMH companies encourage and support this practice, particularly through the tutorial programs assigned to older workers. Studies have been initiated to offer them motivating projects. Moët Hennessy Diageo has set up a Senior commission, the purpose of which is to work and ensure non-discrimination in terms of compensation, training or professional advancement.

PROGRAMS TO ASSIST DISABLED WORKERS

LVMH has set a goal to promote the employment of disabled workers. There are a number of initiatives under way in the Group's companies to establish a physical environment to welcome these workers under the best conditions.

Parfums Christian Dior has set up a modified shop in which manufacturing personnel with serious medical restrictions can work. The company also recruited ten hearing-impaired workers at the Saint-Jean-de-Braye site. The teams working with the new employees were trained in sign language.

Louis Vuitton also hired 95 hearing-impaired employees in its shop in Asnières, as did Kami at the distribution center in Tours. Parfums Givenchy is organizing remote work stations for employees with temporary disabilities.

Le Bon Marché and Moët Hennessy Diageo are actively recruiting disabled workers through specialized agencies.

Parfums Christian Dior, Kami, Hennessy, Louis Vuitton and Le Bon Marché have signed subcontracting contracts with protected workshops.

Moët & Chandon has created the Internal Mobility Reclassification Space (ERIM) to assist employees who have occupational health problems to return to their jobs. A program for the operational modification of rooms and work stations is under way. It is based on the elements of "Workplace health and disabilities."

RELATIONS WITH SUPPLIERS

LVMH markets a high percentage of "made in France" products, and most of its production operations are located in France, including those of Louis Vuitton, Moët & Chandon, Veuve Clicquot, Hennessy and Parfums Christian Dior. Most of its subcontractors are located in France and Italy, which facilitates LVMH's compliance with the provisions of the fundamental conventions of the International Labor Organization.

Several Group companies (Moët & Chandon, Louis Vuitton, Parfums Christian Dior, Sephora, TAG Heuer) have established supplier charters and codes of conduct. Audits are conducted with suppliers, particularly in countries that are just beginning to be sensitive to the standards set by the ILO.

Additional information is available in the 2006 LVMH reference document.

Employment Data

The data below includes all employment data, including LVMH's share of the joint-ventures.

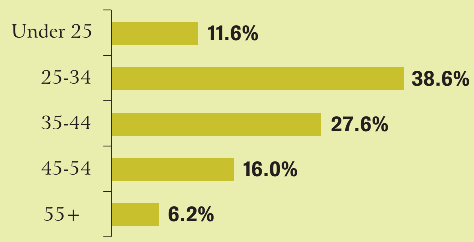
64,253 employees

The total workforce under regular and temporary employment contracts at December 31, 2006 was 64,253 employees, including 9,198 part-time employees, i.e., 14% of the total. This represented 60,414 full-time equivalent employees.

10,335 managers

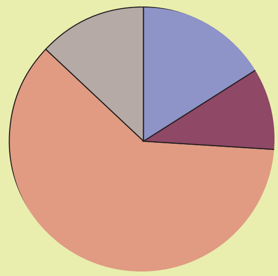
The total workforce at December 31, 2006 included 56,216 regular employees and 8,037 temporary employees.

Average **age of 34**



Workforce as at December 31 by Professional Category

(includes both regular and temporary personnel)



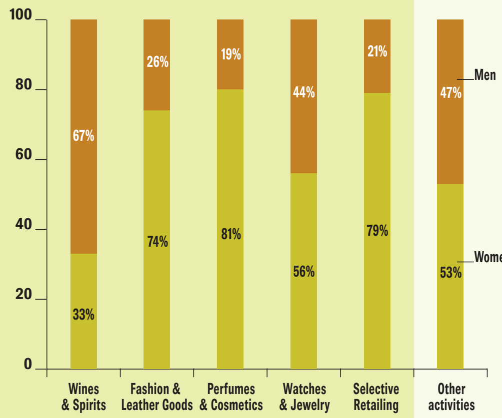
	2004	2005	2006	
Managers	9,038	9,548	10,335	16%
Technicians and supervisors	5,716	6,021	6,282	10%
Administrative and sales employees	35,548	36,513	39,106	61%
Production workers	8,908	9,006	8,530	13%
Total	**59,210**	**61,088**	**64,253**	**100%**

72% women

Managers	57%
Technicians and supervisors	70%
Administrative and sales employees	81%
Production workers	62%

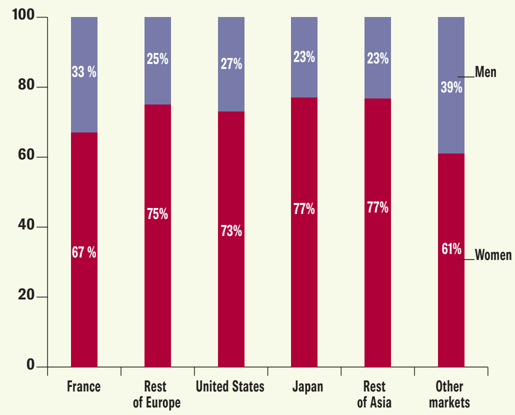
Breakdown of women/men by business group

(regular employees)



Breakdown of women/men by geographic region

(regular employees)



€52 million
invested in training

2.8% of payroll costs

- Training investment totaled 52.1 million euros, representing an average of 800 euros per employee or 2.8% of payroll costs excluding incentives and profit-sharing worldwide and an increase of 17% over 2005.
- 70.6% of our employees (45,200) received at least one training session in 2006.
- Training per employee averaged 5.0 days.
- In 2006, LVMH offered a total of 325,000 days of training, the equivalent of 1,400 persons in full-time training over the year.

	Training investment (million euros)	% of payroll
France	20.1	3.2
Rest of Europe	9.0	2.3
United States	12.6	3.0
Japan	4.0	2.5
Rest of Asia	5.4	2.5
Other markets	1.0	2.7

A patronage to support culture, youth and humanitarian action

Implement, for the benefit of the greatest number of people, a dynamic and innovative patronage program whose various components express and transmit the values of all our Companies: this is the general thrust of the approach taken by LVMH since 1990.

Since 1990, the success of LVMH has allowed it to build an innovative and original patronage program. This is a legitimate approach because it expresses the values that bind LVMH companies together and forms the basis for their success, without impacting individual communications and sponsorship projects. It is also a useful approach, because LVMH's institutional communications are intended to demonstrate its active commitment to protecting historical and artistic heritage, promoting contemporary design, assisting young people and supporting great humanitarian causes, through initiatives designed to help the greatest number of people.

CULTURE, HERITAGE AND CONTEMPORARY CREATION—TO PRESERVE, BRING TO LIFE AND CONTRIBUTE TO OUR ARTISTIC HERITAGE

The first component of the LVMH corporate sponsorship program is to preserve artistic heritage in France and throughout the world by supporting the restoration of historic monuments, expanding the collections of leading museums, contributing to major national exhibits and encouraging contemporary creation. The support provided to 26 national exhibitions gave millions of French and international visitors the chance to discover major works and artists from the history of art. After being one of the principal sponsors of the China and France Years in 2004 and 2005, LVMH sponsored two major exhibits in 2006: "Pierre Bonnard" at the Museum of Modern Art in Paris and "Yves Klein" at the Georges Pompidou Center.

Our support for contemporary creation was most notably illustrated by our order and exhibit of the works of internationally recognized artists (Richard Serra, Matthew Barney, Ange Leccia, Nan Goldin, Gary Hill, Michal Rovner, Takashi Murakami) in the LVMH corporate headquarters and by our continued support for the French Pavillon at the Venice Biennale. In June 2005, French artist Annette Messager received the Lion d'Or prize at the 51st Biennale for Casino, a work created for the French Pavillon and completed with the sponsorship of LVMH.

Announced on October 2, 2006, the birth of the Louis Vuitton Foundation for Creation is the natural culmination of sixteen years of commitment by LVMH to promote culture, heritage and contemporary creation. This project, which marks a major step in the Group's patronage program, adds a new dimension and creates a permanent framework.

INITIATIVES TO SUPPORT YOUTH—TRAINING AND TRANSMISSION

Various initiatives to assist young people represent the second component of the LVMH patronage program. Children in elementary and high schools as well as undergraduate students benefit from educational programs designed and initiated by the Group, in order to provide them with greater access to culture, particularly in the areas of music and the arts. LVMH's "Discovery and Learning" classes organized during exhibits supported by the Group have reached over 20,000 children to date.

Another goal is to encourage the talent of the future, which led to the creation of the LVMH Prize for young designers, awarded every year during exhibits sponsored by the Group. This program has awarded nearly 100 scholarships to students in art schools in France and around the world to complete their training.

Finally, the Stradivarius instruments loaned from the LVMH collection every year have given young virtuosos (Maxim Vengerov, Laurent Korcia, Kirill Troussov, Tatjana Vassilieva, Raphael Pidoux, among others) the opportunity to display the full measure of their talents.

A COMMITMENT TO COMMUNITY THROUGH MEDICAL RESEARCH AND SOCIAL PROGRAMS:

Since 1990, LVMH has provided continuing support to humanitarian and scientific and medical research projects in France and around the world.

Our Group supports a number of institutions that work for children, in particular the Foundation for Hospitals in Paris—Hospitals in France, the "Pont-Neuf" association, and the Save the Children Foundation in Japan. LVMH has also made a commitment to the Claude Pompidou Foundation which serves the elderly and disabled, the Universal Fraternity Foundation, the Robin Hood Foundation in New York, and others.

Finally, LVMH has chosen to support several foundations or scientific teams engaged in public health research, including the Pasteur Institute (LVMH contributed to the creation of the Pasteur Institute in Shanghai), the American Foundation for AIDS Research, cancer research at the Paul Brousse and Henri Mondor hospitals and the Curie Institute, and the Parkinson's Disease Foundation in New York.

Preserving the environment

In order to make products of excellence, the brands in the Group use fine leathers, rare essences, precious stones and even the best grapes. These resources come from nature; they are intimately tied to it and cannot be used without a concern for protecting their source. Every year, the brands innovate to integrate this dimension into the design and manufacture of their products. This has involved going through many steps. The employees, who have been trained in the issues, are motivated. Accordingly, progress has been made to protect nature by optimizing the use of natural resources, reducing waste, and water and energy consumption. The Group opens itself to suppliers, clients and others in civil society to adopt a responsible attitude together. The latest evidence of this ongoing quest for excellence is the new Cergy warehouse, which centralizes Louis Vuitton products and reships them throughout the world; it was designed to meet the requirements of High Environmental Quality.

Preserving the environment has long been an important issue for LVMH. It became strategic in 2001 when Bernard Arnault signed the "Environmental Charter" and was renewed in 2003 when LVMH joined the Global Compact launched by Kofi Annan.

MOTIVATED EMPLOYEES

The "Environmental Charter" asks each brand to set up effective environmental management and asks each President to make a commitment to observing it. Goal achieved. Now there are about fifty environmental correspondents who have been appointed in the various brands. They are the contact persons of the environmental department; some are specialists, others are not. To help them be informed and better answer questions from their staff members, the Group has set up a new training module over the Internet, which addresses all the company businesses and the best way to integrate an environmental dimension into them.

The key to success of an environmental policy lies in motivation and training, at all levels, starting with the Presidents of the brands and the members of the executive committees. To raise their consciousness of the issues, the environment division has been sending them a newsletter, "Attitude," since winter 2006. The first issue addresses the topic of greenhouse gas emissions assessment and its use within the brands.

Under the aegis of the specialist Jean-Marc Jancovici, who has supported LVMH for the past five years and was involved in the last sustainable development week, the consciousness-raising actions target all levels of LVMH hierarchy. At Parfums Givenchy, all employees can track the brand's environmental performance every day through a computer tool that records, in real time, all environmental data at the company's two sites. At Louis Vuitton, the environmental policy has been very widely disseminated at the headquarters and in the workshops. And at Hennessy, every employee has clear and concise pocket-sized safety data sheets that can be referred to quickly at anytime to find out what precautions must be taken for handling hazardous products.

To encourage employees to adopt an eco-friendly attitude, environmental criteria were incorporated into the profit-sharing agreements that were signed in 2006 in Champagne. At Moët & Chandon, the goal is clear: to reduce electricity consumption by considering all the activities of the company. If the goal is achieved, the amount of profit-sharing is significant. At Veuve Clicquot, three environmental criteria have been adopted: water consumption, energy consumption and the quality of waste sorting.

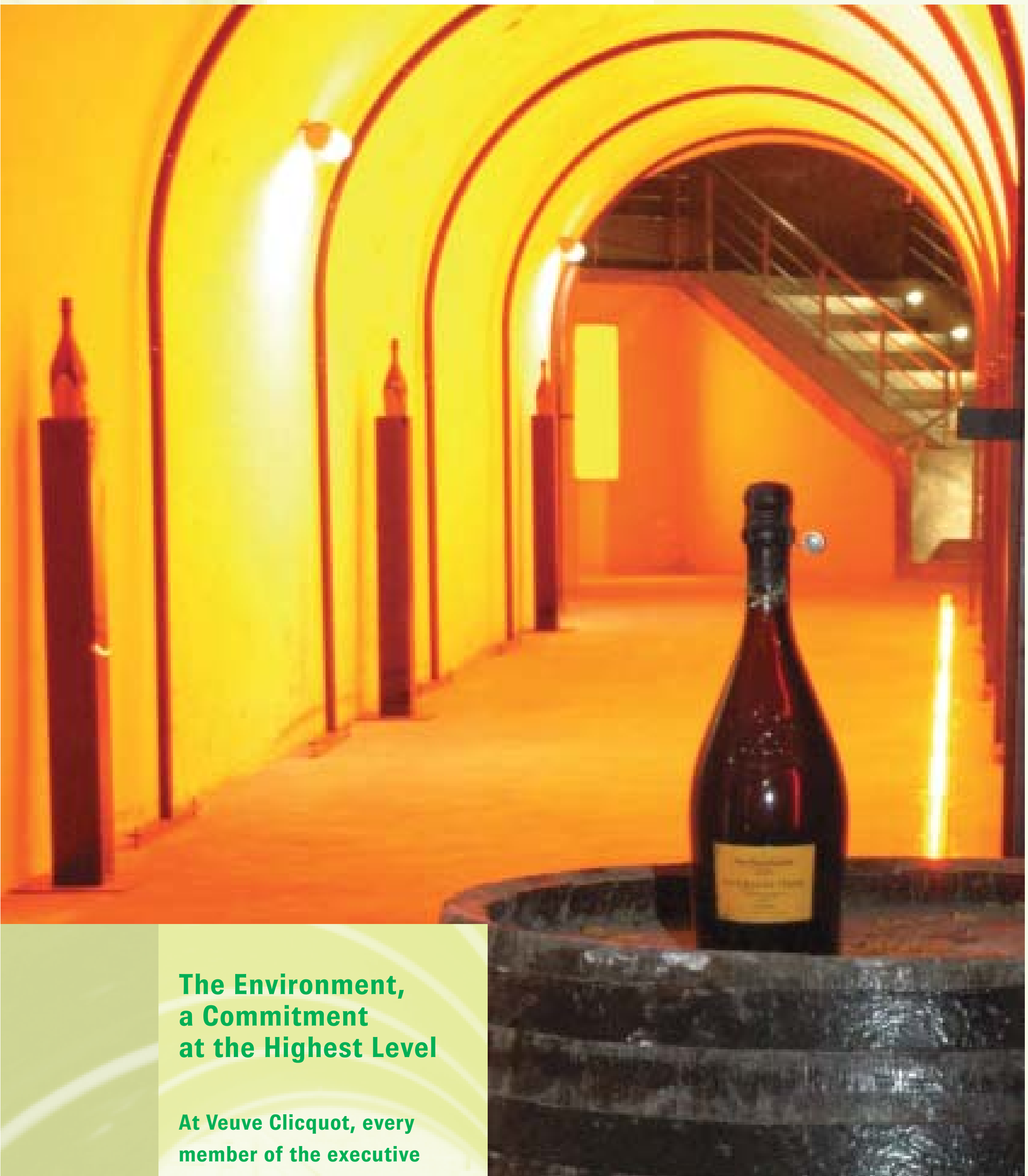
TANGIBLE RESULTS

A comprehensive approach to the environment has enabled us, in five years, to obtain tangible improvements in combating the dangers that threaten the planet, starting with one of the most worrisome: the increase in greenhouse gasses. The preferred tools are ISO 14001 certification, which guarantees a well conducted strategy, and greenhouse gas emissions assessment, which enables us to better know the emissions of a company or a site to take effective measures.

ENTIRE CHAMPAGNE-COGNAC DIVISION SOON TO BE ISO 14001 CERTIFIED

After Hennessy, which was certified in 1998, and then Veuve Clicquot and Krug in 2004, SODEPA, the wine-making subsidiary of Hennessy, which is also in charge of managing its green spaces, was certified in 2006. Moët & Chandon, which began the process in 2005, is on the right track. Certification should take place in the second quarter 2007. The entire Cognac and Champagne division of LVMH will then be certified.

At the same time, greenhouse gas emissions assessments done at Hennessy, Veuve Clicquot, Parfums Christian Dior and Louis Vuitton have enabled us to identify priority areas for action. At Hennessy, energy diagnoses have been done with support from the French Agency for Environment and Energy Management (ADEME) at the "La Richonnne" administrative site and at the "La Vignerie" industrial site, which alone account for 62% of total energy consumption. The same diagnosis was done at Moët & Chandon for all Epernay sites. It identified potential areas for reduction of electricity (-13%) and gas (-5%) consumption. Specific actions are scheduled for 2007. At Veuve Clicquot, the focus has been on reducing packaging, using renewable-source materials and implementing a program to reduce energy consumption, with the goal of reducing greenhouse gas emissions by 20% in ten years. At Louis Vuitton, energy consumption has been reduced by 40% in the new stores. More than 60% of leather goods are now shipped by boat to supply about 360 Louis Vuitton stores. An innovation in 2006: 70% of products are also shipped on river boats between Gennevilliers and Le Havre, France.



The Environment, a Commitment at the Highest Level

At Veuve Clicquot, every member of the executive committee is committed to supporting and continuing most specifically one of the actions undertaken after greenhouse gas emissions assessment, i.e., the need to work on packaging, transportation, energy and the adoption of that effort by suppliers.

BUILDINGS GO GREEN

Eole, the new logistics platform of Louis Vuitton in Cergy, seeks to set an example by adopting the requirements of the HQE (Haute Qualité Environnementale – High Environmental Quality) system. The heating makes partial use of geothermal energy, the windows take advantage of natural light, the frame is made of wood and the sewage, which is recovered, passes through various ponds where it is treated by plant life. Other projects are in preparation, particularly the construction of a new research laboratory for LVMH Perfumes and Cosmetics.

A longstanding concern – the reduction in waste – is being pursued. Following the example of Moët & Chandon, which, in partnership with the ADEME, has taken actions to reduce its waste by 10% in two years, many brands of the Group are working to reduce their packaging. In a new challenge, Louis Vuitton is now addressing the decorations of its display windows and is studying how to reuse or recycle them after they are used.

SUSTAINABLE VITICULTURE AND PROTECTION OF BIODIVERSITY GAIN GROUND

In vineyards, sustainable viticulture is gaining ground. At Moët & Chandon, actions to reduce herbicide consumption and use of grassing are continuing. Accomplishments in 2006: setting up new precision weeding equipment, grassing in 100% of the forage fields (i.e. 80 hectares located around the vineyards), large-scale experimentation with grassing by planting winter grains (18 hectares) etc. Also, Veuve Clicquot has 55% of the area of the vineyard in "natural grassing." Progress is also being made abroad. The brands within Estates & Wines are replanting the areas surrounding the vineyards in Australia and recycling rainwater for irrigation in California.

Research continues in ethnobotany to try to find more natural plants around the world, particularly in Madagascar, Burkina Faso, Vietnam and China, whose extracts can be used as ingredients in cosmetic products. These projects enable us to participate in local economic development and contribute actively to the preservation of certain plant species.

Vine Shoots from Château d'Yquem

After the longoza plant was used in the *Capture Totale* cream that was launched in early 2006, extracts of vine shoots from Château d'Yquem went into the composition of the *L'Or de Vie* line that was launched in September at Parfums Christian Dior.

COMMON CONCERNS

Making every effort to preserve the environment is something that LVMH intends to share with its partners, suppliers, investors and clients. Together with them, it is studying how to steadily improve its actions and is trying to integrate thoughts about environmental impact into the design of new products.

SHARING ENVIRONMENTAL PRACTICES WITH OUR SUPPLIERS

LVMH continues to cooperate with its suppliers so that everyone will share the best environmental and social practices. To help the various Companies evaluate their suppliers' performance and, if need be, support them in efforts at improvement, the environmental department has given them a tool, which was enhanced in 2006 with new textile sheet. Adapted to each business line, it tells them the laws in effect in the various countries and enables them to ask each supplier the right questions.

Major progress has been made. The specifications of Hennessy's suppliers cite the Company's environmental policy, which has been ISO 14001 certified, and asks them to follow its lead. Veuve Clicquot has scheduled three years of consciousness-raising, in groups of 500 people, for the 1,500 vintners who supply it, and Moët & Chandon explains its practices to grape transporters and urges them to adopt the same. Other brands of the Group, such as Louis Vuitton, Donna Karan, Sephora, TAG Heuer and Parfums Christian Dior, have also set up supplier charters and codes of good conduct. SA 8000-type social audits are done at suppliers.

PRESERVING CONSUMER HEALTH

Watching out for the health of consumers is one of the main concerns of LVMH. The Group advocates responsible consumption: drink less but better, and avoid driving after consuming alcohol. In 2006, it was decided to include a message of responsibility in all advertisements issued by the Wines and Spirits companies. The action conducted with the marketing teams that are in charge of enforcing a code of good conduct has been intensified.

Every effort is made to guarantee the safety of cosmetic products. Very obviously, the Group complies with all international regulations. The same holds true for the prohibition on animal testing. Anxious to protect consumers, even beyond the regulations, LVMH refrains from using certain ingredients whose safety is not fully guaranteed.

OFFERING ENVIRONMENTALLY FRIENDLY PRODUCTS

Incorporating environmental criteria into product design is another challenge for LVMH. Guerlain updates the refills for its perfumes to current tastes. The Champagne houses are on the verge of finalizing a project that originated at Moët & Chandon, which aims to make bottles lighter. Bottles weighing 830 grams instead of 890 grams are in the industrial vetting phase at Moët & Chandon and at Veuve Clicquot. The first ones will be used in 2007.

MEASURING OUR PROGRESS

It is difficult to evaluate the cost of the environmental policy. Initially, it involves a commitment, a conviction, hours of training, and investments. But over the years, the adoption of green policies reduces water and electricity consumption, and less packaging means lower shipping costs. All that translates into savings. Those actions are conducted under the attentive eye of agencies that analyze good practices. LVMH gets good grades. The Carbon Disclosure Project (CDP) ranks it as the French leader in the "consumer goods" category. The French Center for Information on Businesses (CFIE) places it ahead of the curve for environmental issues. The British stock index FTSE4Good lists it among the companies with the best practices in terms of social and environmental responsibility.

Materials from Renewable Resources

Louis Vuitton eyeglasses are manufactured from cellulose acetate, a natural, high-quality material from a renewable resource: wood.

Celebrating Nature

Setting a good example, in late June the Jardin d'Acclimatation in Paris organized a week-long Nature Festival (Fête de la Nature), a sort of big ecology happening, under the leadership of the ADEME and various associations, such as the French Bird Protection League.

CIVIL SOCIETY OUTREACH

To advance the discussion, share its experiences and continue learning, LVMH extends its action to society. The Group listens to associations, and is engaged in more and more actions directed at schools, local governments and federal agencies.

PARTNER OF ASSOCIATIONS

The work we have been doing with Orée for some time now is starting to bear fruit. This association, which was created in 1992, consists of businesses, local governments and associations and endeavors to set up specific actions in the field. It publishes various guides of good practices, this year on the topic of shipping of merchandise and logistics. A second guide, produced at the request of the Ministry of Ecology and Sustainable Development and several associations, concerns the biodiversity of the sites where the companies are located. The LVMH group is also part of many other organizations with which it works regularly. The environmental commission of the Consumer Business Liaison Institute (ILEC) discusses environment-related and trademark-related topics. The French National Council of Packaging studies ways to improve package design and disposal. The Council for Responsible Practices in Jewelry Making (CRJP), an international association, ensures that responsible attitudes are adopted throughout the jewelry industry. The Group also works hand in hand with various professional federations, such as the Federation of Perfume Industries. Through that participation, LVMH regularly meets with environmental protection and consumer protection associations and works with them.

CLOSE TO YOUTH AND SMALL AND MEDIUM-SIZED BUSINESSES

To educate young people in issues of sustainable development, a mission that it has set for itself, LVMH is regularly active in professional schools, such as the National Conservatory for Arts and Trades (CNAM) or the ESSEC. LVMH is also involved in getting Small and Medium-Sized Businesses to adopt the best environmental practices. For the past two years, the Group has been part of the Club Ile-de-France – Global Compact initiated by the Regional Directorate for Industry, Research and the Environment (DRIRE) of Ile-de-France, which has asked several large companies to act as consultants to small and medium-sized businesses to help them adopt the environmental criteria of the Global Compact.

READY TO SHARE ITS EXPERIENCES

In the regions, LVMH shares its experiences. In Champagne, where Veuve Clicquot was the first to do a greenhouse gas emissions assessment, the goal is to have similar practices adopted by the entire Champagne joint-trade organization. Following greenhouse gas emissions assessment of the entire production process, a work group was formed within the Interprofessional Committee for Champagne Wines (CIVC) to work on various topics: viticulture, energy consumption, building design and packaging. The goal of the Champagne climate plan is ambitious: to reduce greenhouse gas emissions for the entire region by 25% in ten years. Changes in mentality and behavior and efforts at persuasion will be necessary. Another sign of good conduct, an auction sale of extraordinary bottles, including a Hennessy cognac valued at 10,000 euros, was held in October in Dallas, with the proceeds going to protect wildlife in Tanzania.

More information, including the guidelines of the Global Reporting Initiative and the requirements derived from the Law on New Economic Regulations, and indicators of environmental impact, can be found in the 2006 LVMH reference document and in the LVMH environment report which is available on the Group's website. Any individual or association that has questions for the Group may submit them, and is guaranteed to receive a response, by writing to: environnement@lvmh.fr

LVMH

2006 CONSOLIDATED FINANCIAL STATEMENTS

THE CONSOLIDATED FINANCIAL STATEMENTS PRESENTED IN THE FOLLOWING PAGES ARE ABREVIATED.

LVMH
MOËT HENNESSY . LOUIS VUITTON

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 2006

ASSETS

EUR millions	2006	2005	2004
Brands and other intangible assets - net	8,227	8,530	7,838
Goodwill - net	4,537	4,479	4,048
Property, plant and equipment - net	5,173	4,983	4,541
Investments in associates	126	128	115
Non-current available for sale financial assets	504	451	718
Other non-current assets	658	660	628
Deferred tax	395	306	217
NON-CURRENT ASSETS	**19,620**	**19,537**	**18,105**
Inventories and work in progress	4,383	4,134	3,598
Trade accounts receivable	1,461	1,370	1,364
Income taxes	512	317	113
Other current assets	1,587	1,225	1,302
Cash and cash equivalents	1,222	1,470	1,035
CURRENT ASSETS	**9,165**	**8,516**	**7,412**
TOTAL ASSETS	**28,785**	**28,053**	**25,517**

LIABILITIES AND EQUITY

EUR millions	2006	2005	2004
Share capital	147	147	147
Share premium account	1,736	1,736	1,736
LVMH treasury shares	(1,019)	(972)	(1,006)
Revaluation reserves	917	658	521
Other reserves	7,062	6,158	5,390
Cumulative translation adjustment	(119)	292	(200)
Group share of net profit	1,879	1,440	1,194
Equity - Group share	10,603	9,459	7,782
Minority interests	991	1,025	893
TOTAL EQUITY	**11,594**	**10,484**	**8,675**
Long term borrowings	3,235	3,747	4,188
Provisions	983	949	883
Deferred tax	2,862	2,925	2,458
Other non-current liabilities	3,755	3,357	3,237
NON-CURRENT LIABILITIES	**10,835**	**10,978**	**10,766**
Short term borrowings	2,100	2,642	2,529
Trade accounts payable	1,899	1,732	1,581
Income taxes	692	373	201
Provisions	255	305	259
Other current liabilities	1,410	1,539	1,506
CURRENT LIABILITIES	**6,356**	**6,591**	**6,076**
TOTAL LIABILITIES AND EQUITY	**28,785**	**28,053**	**25,517**

COMMENTS ON THE CONSOLIDATED BALANCE SHEET

LVMH's consolidated balance sheet total amounted to 28.8 billion euros as of December 31, 2006, which represents a year-on-year increase of 2.6%.

Non-current assets totaled 19.6 billion euros, compared with 19.5 billion euros at year-end 2005, representing 68% of total assets compared to 70% one year earlier.

Tangible and intangible fixed assets remained stable at 17.9 billion euros at year-end, against 18.0 billion euros at year-end 2005. Brands and other intangible assets amounted to 8.2 billion euros compared with 8.5 billion euros as of December 31, 2005, mainly due to exchange rate fluctuations on brands and other intangible fixed assets recognized in US dollars, such as the Donna Karan brand and the DFS trade name.

Goodwill remained unchanged at 4.5 billion euros. This results from exchange rate fluctuations on goodwill recognized in US dollars, particularly that of Donna Karan and Miami Cruiseline, offset by the increase in goodwill on purchase commitments for minority interests.

Property, plant and equipment amounted to 5.2 billion euros, up from 5.0 billion euros at year-end 2005, mainly due to the revaluation of vineyard land, which has recurred since the transition to IFRS, and operating investments – notably at Louis Vuitton – which exceeded the depreciation expense in 2006.

Investments in associates, non-current available for sale financial assets, other non-current assets and deferred tax increased slightly from 1.5 billion euros at year-end 2005 to 1.7 billion euros at year-end, primarily as a result of the increase in deferred tax assets and the rise in value of non-current available for sale financial assets.

Inventories amounted to 4.4 billion euros compared with 4.1 billion euros at year-end 2005 due to the continued replenishment of inventories of distilled alcohol for cognac and of champagne wines.

Cash and cash equivalents, excluding current available for sale financial assets, decreased from 1.5 billion euros at year-end 2005 to 1.2 billion euros.

The Group share of equity before appropriation of profit increased significantly to 10.6 billion euros thanks to the 30% rise in net profit attributable to the Group and despite the negative change in the cumulative translation adjustment resulting from the depreciation of the US dollar in relation to the euro.

Minority interests remained stable at 1.0 billion euros as a result of the share of minority interests in the net profit after the distribution of dividends, offset by the opposite impact of the depreciation of the US dollar on minority interests in DFS, which constitutes the bulk of this item.

Total equity thus amounted to 11.6 billion euros and represented 40% of the balance sheet total against 37% in the previous year.

Non-current liabilities amounted to 10.8 billion euros, including 3.2 billion euros in long term borrowings, compared to 11.0 billion and 3.7 billion at year-end 2005, respectively. Non-current liabilities as a proportion of the total balance sheet fell slightly to 38% from 39% one year earlier.

Long term resources thus amounted to 22.4 billion euros, and exceeded total non-current assets.

Current liabilities amounted to 6.4 billion euros as of December 31, 2006, compared to 6.6 billion euros at year-end 2005, due notably to the decrease in short term borrowings. Their relative weight in the balance sheet decreased to 22%.

Net financial debt, including the market value of interest rate derivatives, and net of cash, cash equivalents and current available for sale financial assets, amounted to 3.4 billion euros as of December 31, 2006 compared to 4.3 billion euros one year earlier, representing a gearing of 29% compared with 41% at year-end 2005.

Long term borrowings exceed 80% of total net debt.

As of December 31, 2006 confirmed credit lines amounted to 4.3 billion euros, of which only 0.3 billion euros were drawn, which means that the undrawn amount available was 4.0 billion euros. The Group's undrawn confirmed credit lines substantially exceeded the outstanding portion of its commercial paper program, which amounted to 0.5 billion euros as of December 31, 2006.

CONSOLIDATED INCOME STATEMENT

EUR millions except for earnings per share	2006	2005	2004
REVENUE	**15,306**	**13,910**	**12,481**
Cost of sales	(5,481)	(5,001)	(4,373)
GROSS MARGIN	**9,825**	**8,909**	**8,108**
Marketing and selling expenses	(5,364)	(4,892)	(4,512)
General and administrative expenses	(1,289)	(1,274)	(1,224)
PROFIT FROM RECURRING OPERATIONS	**3,172**	**2,743**	**2,372**
Other operating income and expenses	(120)	(221)	(199)
OPERATING PROFIT	**3,052**	**2,522**	**2,173**
Cost of net financial debt	(173)	(188)	(214)
Other financial income and expenses	120	45	(6)
NET FINANCIAL INCOME (EXPENSE)	**(53)**	**(143)**	**(220)**
Income taxes	(847)	(718)	(537)
Income (loss) from investments in associates	8	7	(14)
NET PROFIT	**2,160**	**1,668**	**1,402**
of which:			
minority interests	281	228	208
GROUP SHARE	**1,879**	**1,440**	**1,194**
BASIC GROUP SHARE OF NET EARNINGS PER SHARE *(in euros)*	**3.98**	**3.06**	**2.55**
Number of shares on which the calculation is based	471,901,820	470,206,389	468,953,254
DILUTED GROUP SHARE OF NET EARNINGS PER SHARE *(in euros)*	**3.94**	**3.04**	**2.53**
Number of shares on which the calculation is based	477,471,955	474,047,257	472,601,925

BUSINESS REVIEW

Consolidated revenue for the year ended December 31, 2006 was 15,306 million euros, up 10% from the previous year. At constant exchange rates, growth was 11%.

Changes in the Group's scope of consolidation, mainly the business suspension of the Samaritaine department store in Paris in June 2005, slightly affect the comparability of revenue between these two fiscal years. At constant structure and exchange rates, organic growth was 12%.

The breakdown of revenue by invoicing currency was largely unchanged in 2006. The contribution of the euro zone, the US dollar and the Hong Kong dollar remained stable at 30%, 32% and 3% respectively, whereas that of the yen dropped by 2 points, from 15% to 13%, while the contribution of all other currencies taken together increased from 20% to 22%.

Viewed by geographic region, the year saw a decline in the relative contribution to Group revenue of Japan (from 14% to 13%) and the United States (from 27% to 26%), mainly as a result of exchange rate fluctuations. France, Asia (excluding Japan) and other markets remained stable at 15%, 17% and 7% respectively, while Europe (excluding France) increased by 2 points to 22%.

The breakdown of revenue by business group changed little: Wines and Spirits and Watches and Jewelry increased their contribution by 1 point, from 19% to 20% and from 4% to 5%, respectively; Fashion and Leather Goods dropped by 1 point, from 35% to 34%, as did Selective Retailing, from 26% to 25%; Perfumes and Cosmetics remained stable at 16%.

Wines and Spirits posted revenue growth of 13% based on published figures. Excluding the impact of exchange rate fluctuations which decreased revenue by 1 point, organic growth for this business group was 14%. Revenue was buoyed by growth in sales volumes for the Champagne and Cognac segments, which posted increases of 8% and 10% respectively, and also by higher selling prices. By market, growth in revenue for the Champagne segment was especially strong in Japan. The Cognac segment performed especially well in Asia excluding Japan, particularly in mainland China, while the US market maintained its strong levels of growth, and Europe, especially Russia, posted excellent results.

Fashion and Leather Goods posted organic revenue growth of 11%, and 9% based on published figures. Louis Vuitton recorded double-digit organic revenue growth. Fendi continued to demonstrate its strong momentum. The other brands in this business group together turned in strong results, particularly in Europe, Asia and the United States.

Perfumes and Cosmetics posted organic growth of 11%, and 10% based on published figures. Revenue increased for all brands, and especially for Parfums Christian Dior, which posted excellent results in all its product lines. Guerlain and Parfums Givenchy also saw double-digit growth in revenue.

Watches and Jewelry posted organic revenue growth of 28%, and 26% based on published figures. The strongest increases were recorded in the United States where TAG Heuer continued the upward trend noted in 2005. Zenith and Montres Dior launched new lines which were hugely successful. Revenue for the De Beers LV joint venture increased significantly as it made further expansions in its retail network, especially in the United States.

Selective Retailing posted revenue growth of 7% based on published figures. Changes in commercial structure, in particular the business suspension of the Samaritaine department store in June 2005 for safety reasons, had a negative impact of 2 points on revenue growth: organic growth was 9%. DFS benefited from the excellent performance of Chinese tourism. Sephora's revenue remained buoyant in Europe and posted double-digit growth in North America, on a same-store basis.

Within Other Activities, the Media division managed by DI Group posted revenue growth in comparison to 2005.

The Group posted a gross margin of 9,825 million euros, up 10% compared to the previous year. The margin on revenue remained stable at 64%.

Marketing and selling expenses totaled 5,364 million euros, up 10% over the previous year, amounting to an 11% increase at constant structure and exchange rates. These expenses represented 35% of revenue, a proportion equivalent to that recorded in 2005. Over and above robust communications expenditures by the Group's main brands, this increase is due to the continued development of retail networks, especially those of Louis Vuitton, Fendi and Sephora.

General and administrative expenses totaled 1,289 million euros, up 1% based on published figures, and up 2% at constant structure and exchange rates. These expenses represented 8% of revenue, a decline of 1 point from 2005, thanks to sustained efforts over the last several years to enhance productivity.

The Group's profit from recurring operations was 3,172 million euros, up 16% from 2005. The Group's operating margin as a percentage of consolidated revenue amounted to 21%, 1 point higher than in 2005. This improvement reflects the rise in marketing and selling expenses keeping pace with growth in revenue, combined with better control of both general and administrative expenses and the costs of products sold. It also results from the strong profitability gains posted in Watches and Jewelry (up 7 points to 11%) and to a lesser degree in Perfumes and Cosmetics (up 1 point to 9%), Fashion and Leather Goods (up 1 point to 31%), and Selective Retailing (up 1 point to 10%).

Exchange rate fluctuations had a negative net impact on the Group's profit from recurring operations of 97 million euros compared with the previous year. This figure reflects three factors: the effect of exchange rate fluctuations on the sales and purchases of the Group's importing and exporting companies, the change in the net impact of the Group's policy of hedging its exposure to various currencies, and the impact of exchange rate fluctuations on consolidation of the profit from recurring operations of subsidiaries operating outside the euro zone. On a constant currency basis excluding the effect of currency hedging, the increase in the Group's profit from recurring operations was 19% compared to 2005.

Profit from recurring operations for Wines and Spirits was 962 million euros, up 11% from 2005. Sales volume growth as well as price increases reflecting the premium positioning of the Group's products, together with better control of costs, outweighed the adverse impact on profit of exchange rate fluctuations and the necessary increases in advertising and promotional expenditure for strategic market development. Although this business group's operating margin declined slightly by 1 point, it remains high at 32%.

Fashion and Leather Goods posted profit from recurring operations of 1,633 million euros, up 11% from 2005. Exchange rate fluctuations had a negative impact, although this was offset by profit growth at Louis Vuitton, which continued to enjoy a very high level of profitability and by the enhanced performance of other brands.

Profit from recurring operations for Perfumes and Cosmetics was 222 million euros, up 28% from 2005. Parfums Christian Dior, Guerlain, and Parfums Givenchy delivered strong profit growth, thanks to the success of their market-leading product lines and considerable innovative momentum. The strong potential of BeneFit Cosmetics was also confirmed in 2006, with rapid growth accompanied by high profitability.

Profit from recurring operations for Watches and Jewelry continued to rise sharply, from 21 million euros in 2005 to 80 million euros in 2006, fueled by strong growth at TAG Heuer and improvements in the performance of other brands.

Profit from recurring operations for Selective Retailing was 400 million euros, up 15% from 2005. Sephora's profitability continued to improve significantly both in Europe and the United States. Despite lower expenditure on the part of Japanese tourists, DFS maintained its level of profitability thanks to the rise in Chinese tourism and sustained efforts to control operating expenses. Le Bon Marché has firmly positioned itself in the luxury market, achieving wide recognition as the most exclusive department store in Paris with a prime location in the center of city, and continues to increase its already high level of profitability.

The net result from recurring operations of Other Activities and eliminations was a loss of 125 million euros, compared to a loss of 134 million euros in 2005. Apart from headquarters costs, Other Activities also includes the Group's Media division.

Other operating income and expenses represented a net expense of 120 million euros, compared to a net expense of 221 million euros in 2005. In 2005, the amount recognized included a total expense of 179 million euros as a result of the closure to the public of the Samaritaine department store in Paris, which was required in order to carry out major work to ensure that the buildings comply with safety and other regulations. In 2006, apart from fixed asset depreciation, amortization and impairment which amounted to 28 million euros, other operating income and expenses included the cost of industrial or commercial restructuring for 63 million euros. The remaining 29 million euros consisted of miscellaneous non-recurring charges or provisions.

The Group's operating profit was 3,052 million euros, up 21% from 2005.

The net financial expense was 53 million euros, compared to 143 million euros in the prior year.

The cost of net financial debt was reduced to 173 million euros in 2006, down from 188 million euros in 2005. The interest expense on borrowings included in this amount fell by 9 million euros in 2006 to 180 million euros, reflecting two contrasting trends: the decline in the amount of net financial debt and the adverse impact of the rise in rates on the finance charge for variable interest rate borrowings. The remainder corresponds to the change in the market value of interest rate hedging instruments.

Other financial income amounted to 120 million euros, up from 45 million euros in 2005. The financial cost of foreign exchange operations had a negative impact of 45 million euros in 2006, down from a negative impact of 106 million euros in 2005. Capital gains realized on the sale of various available for sale financial assets and dividends received from unconsolidated investments increased by 13 million euros to a total of 185 million euros in 2006.

The Group's effective tax rate was 28% in 2006, compared to 30% in 2005. The change in the tax regime for perpetual bonds in the French Finance Act for 2006 had an adverse impact on the tax expense in 2005. The tax expense recognized for 2006 reflects the favorable impact of the tax regime applicable in France to certain disposals of non-current available for sale financial assets.

Income from investments in associates was 8 million euros in 2006, compared to 7 million euros in 2005.

Profit attributable to minority interests was 281 million euros in 2006, compared to 228 million euros in 2005. This total mainly includes profit attributable to minority interests in Moët Hennessy and DFS. In 2005, these amounts were partially offset by expenses and provisions recognized in connection with the Samaritaine department store.

The Group share of net profit for the year ended December 31, 2006 was 1,879 million euros, up 30% compared to the previous year, representing 12% of the Group's revenue for the period, 2 points higher than in 2005.

CONSOLIDATED CASH FLOW STATEMENT

EUR millions	2006	2005	2004
I. OPERATING ACTIVITIES			
Operating profit	3,052	2,522	2,173
Net increase in depreciation, amortization and provisions, excluding tax and financial items	474	639	529
Other unrealized gains and losses, excluding financial items	(31)	(102)	(25)
Dividends received	28	47	20
Other adjustments	(19)	(17)	11
CASH FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL	**3,504**	**3,089**	**2,708**
Cost of net financial debt: interest paid	(174)	(222)	(215)
Income taxes paid	(784)	(616)	(389)
NET CASH FROM OPERATIONS BEFORE CHANGES IN WORKING CAPITAL	**2,546**	**2,251**	**2,104**
Change in inventories and work in progress	(351)	(281)	(252)
Change in trade accounts receivable	(146)	(67)	29
Change in trade accounts payable	208	27	(88)
Change in other receivables and payables	31	64	92
TOTAL CHANGE IN WORKING CAPITAL	**(258)**	**(257)**	**(219)**
NET CASH FROM OPERATING ACTIVITIES	**2,288**	**1,994**	**1,885**
II. INVESTING ACTIVITIES			
Purchase of tangible and intangible fixed assets	(771)	(707)	(640)
Proceeds from sale of tangible and intangible fixed assets	10	21	63
Guarantee deposits paid and other operating investments	12	7	(11)
OPERATING INVESTMENTS	**(749)**	**(679)**	**(588)**
Purchase of non-current available for sale financial assets	(87)	(69)	(57)
Proceeds from sale of non-current available for sale financial assets	172	469	95
Impact of purchase and sale of consolidated investments	(48)	(604)	(401)
Other financial investments	-	65	-
FINANCIAL INVESTMENTS	**37**	**(139)**	**(363)**
NET CASH FROM (USED IN) INVESTING ACTIVITIES	**(712)**	**(818)**	**(951)**
III. TRANSACTIONS RELATING TO EQUITY			
Capital increases subscribed by minority interests	6	3	1
Purchase and proceeds from sale of LVMH treasury shares	(48)	32	(131)
Interim and final dividends paid by LVMH	(566)	(446)	(412)
Interim and final dividends paid to minority interests in consolidated subsidiaries	(120)	(120)	(109)
NET CASH FROM (USED IN) TRANSACTIONS RELATING TO EQUITY	**(728)**	**(531)**	**(651)**
IV. FINANCING ACTIVITIES			
Proceeds from borrowings	785	1,192	1,599
Repayment of borrowings	(1,757)	(1,559)	(1,686)
Purchase and proceeds from sale of current available for sale financial assets	(181)	(40)	11
NET CASH FROM (USED IN) FINANCING ACTIVITIES	**(1,153)**	**(407)**	**(76)**
V. EFFECT OF EXCHANGE RATE CHANGES	**(10)**	**41**	**(9)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)	**(315)**	**279**	**198**
Cash and cash equivalents at beginning of period	**1,080**	**801**	**603**
Cash and cash equivalents at end of period	**765**	**1,080**	**801**
Transactions generating no change in cash:			
- acquisition of assets by means of finance leases	8	9	56

COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement details the main cash flows for fiscal year 2006.

In 2006, cash from operations before changes in working capital rose 13% to 3,504 million euros from 3,089 million euros in 2005.

Net cash from operations before changes in working capital (i.e. after interest and income tax) rose 13% to 2,546 million euros from 2,251 million euros in 2005.

Interest paid in 2006 decreased significantly from 222 million euros in 2005 to 174 million euros in 2006, mainly as a result of the reduction in net financial debt.

Income tax paid in 2006 amounted to 784 million euros against 616 million euros in 2005 in line with the increase in profit before tax.

Working capital requirements increased by 258 million euros, as in 2005. Changes in inventories increased cash requirements by 351 million euros, due to the increase in business volumes and the replenishment of distilled alcohol inventories for cognac and wines for champagne. The year-on-year increase in trade accounts receivable generated a cash requirement of 146 million euros, mainly at the Champagne Houses and Hennessy, while the decrease in trade accounts payable provided extra cash of 208 million euros, notably at the Champagne Houses and Sephora.

Overall, net cash from operating activities posted a surplus of 2,288 million euros.

Net cash used in investing activities - both operating and financial - amounted to 712 million euros.

Group operating investments, net of proceeds from disposals, resulted in a net cash outflow of 749 million euros. Their increase reflects the Group's dynamic growth policy and that of its brands, such as Louis Vuitton, Sephora, Parfums Christian Dior and DFS.

Disposals of non-current available for sale financial assets exceeded purchases by 85 million euros, mainly as a result of the disposal of shares and various investments. The remaining impact of the purchase and sale of consolidated investments represented a cash outflow of 48 million euros.

Transactions relating to equity generated a 728 million euro outflow.

Acquisitions of LVMH treasury shares and share derivatives by the Group, net of disposals, generated a cash outflow of 48 million euros. In particular, LVMH call options were acquired to hedge purchase options granted to employees.

In 2006, LVMH S.A. paid 566 million euros in dividends, excluding the amount attributable to treasury shares, of which 425 million euros were distributed in May in respect of the final dividend on 2005 profit and 141 million euros in December in respect of the interim dividend for 2006. Furthermore, the minority shareholders of consolidated subsidiaries received 120 million euros in dividends. These mainly consist of dividends paid to Diageo related to its 34% equity interest in Moët Hennessy and minority interests in DFS.

After all operating, investing and equity transactions, including the dividend payment, excess cash flows totaled 848 million euros.

As a result of these inflows, borrowings and financial debt were amortized in 2006 for an amount of 1,757 million euros, which is significantly higher than the amount of new borrowings.

Bond issues and new borrowings provided a cash inflow of 785 million euros. The Group continued to finance its business in Japan through private placements issued under its Euro Medium Term Notes program and increased its recourse to the French commercial paper program in 2006.

At the year-end, cash and cash equivalents net of bank overdrafts amounted to 765 million euros.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

EUR millions	Number of shares	Share capital	Share premium account	LVMH treasury shares and related derivatives	Revaluation reserves	Cumulative translation adjustment	Net profit and other reserves	Total equity: Group share	Total equity: Minority interests	Total equity: Total
AS OF DECEMBER 31, 2005	**489,937,410**	**147**	**1,736**	**(972)**	**658**	**292**	**7,598**	**9,459**	**1,025**	**10,484**
Translation adjustment						(411)		(411)	(90)	(501)
Income and expenses recognized directly in equity					259			259	29	288
Net profit							1,879	1,879	281	2,160
TOTAL RECOGNIZED INCOME AND EXPENSES		**-**	**-**	**-**	**259**	**(411)**	**1,879**	**1,727**	**220**	**1,947**
Stock option plan expenses							32	32	3	35
(Acquisition)/disposal of LVMH treasury shares				(47)			(2)	(49)		(49)
Capital increase in subsidiaries								-	6	6
Interim and final dividends paid							(566)	(566)	(120)	(686)
Changes in consolidation scope								-	(6)	(6)
Effects of purchase commitments for minority interests								-	(137)	(137)
AS OF DECEMBER 31, 2006	**489,937,410**	**147**	**1,736**	**(1,019)**	**917**	**(119)**	**8,941**	**10,603**	**991**	**11,594**

LVMH
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