

C R E A T I V I T Y

P A S S I O N A T E A B O U T



LVMH

MOËT HENNESSY • LOUIS VUITTON

1999 ANNUAL REPORT

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L V M H
MOËT HENNESSY ♦ LOUIS VUITTON

A coherent universe of men and women passionate about their work, motivated by entrepreneurship and the desire to innovate.

A unique portfolio of powerfully evocative brands and great names that symbolize the tradition of luxury.

A natural alliance of crafts with a rich artistic content, driven by creativity, virtuosity and quality.

*A tremendous financial success:
over 40,000 employees around the world,
the largest luxury goods sales volume,
the world leader in champagne and cognac,
number three in luxury perfumes and cosmetics,
a key force in selective retailing.*

A unique blend of global vision and dedication to serving the needs of each client.

A successful alliance of cultures committed to tradition and elegance, linked with state-of-the-art marketing, production and management technologies.

A potent cocktail of talent, audacity and discipline in pursuit of excellence.

A one-of-a-kind enterprise.

Two words summarize our philosophy: creative passion.

RECORD GROWTH AND EXCELLENT PROSPECTS



Bernard Arnault
President



Myron Ullman
Managing Director

A year ago, we started to feel the effects of accelerating growth. Confident in the Group's strength and the work undertaken to build foundations for solid and profitable growth, we anticipated a rapid increase in our activities.

This development has been visible in all our business markets and has exceeded our original forecasts. Our growth accelerated throughout 1999 and LVMH achieved record sales in December with further improved profitability during the financial year.

Our achievements were reflected by our performance on the Bourse, significantly increasing the value of our shareholders' funds: LVMH was one of the best performing shares on the CAC 40 in 1999.

A STRATEGY BASED ON STRONG INTERNAL GROWTH

The strategy we have implemented, favouring organic growth, is proving to be effective: in line with our objective, we are advancing more quickly than our competitors.

A focus on increased productivity across all our business areas make us more competitive and efforts to control costs allow greater investment in the elements which drive our business, whilst maintaining a high level of profitability.

Innovation is at the heart of our strategy: new products launched in the past two years represented more than 29% of sales in the

Our growth accelerated throughout 1999 and profitability continued to improve in the course of the financial year.

In line with our objective, we are advancing more quickly than our competitors.

Innovation, development of our distribution networks and investments in communications are our main catalysts for growth.

Fragrances and Cosmetics division in 1999; new products accounted for almost 15% of sales in Leather Goods; new product sales have almost doubled in Wines & Spirits.

The development of our distribution networks is also an important catalyst for growth: in 1999, we strengthened distribution of wines and spirits and, excluding acquisitions made by Sephora in Italy, opened 129 new stores throughout the world.

Brand communication initiatives and product promotions are also contributing to increases in our market share: 12% of our 1999 sales was devoted to these.

The extension of the Group's geographic scope, and particularly the strengthening of its position in strategic markets, are ongoing. Particular efforts are being made in the United States, where our brands have strong growth potential and will develop their presence. We have set ourselves the target of earning a third of Group sales from this market within five years. 1999 Group sales in the United States grew by 28% and investments we have made in the last few months, especially for Sephora, will intensify this development in the medium term. Sales also increased in Japan, by 25% and in Europe, by 23%.

Creativity and entrepreneurship are two of our key values and we continue to implement initiatives that will promote growth in the medium term : the new concept of " young " Sephora stores currently being trialled in France and the premium quality wines launched by Chandon Estates in various markets worldwide, are two examples of such activities.

A NEW DIVISION WITHIN LVMH

1999 was also notable for dynamic external growth. With numerous opportunities available to us, we remained very selective in the acquisitions we made, choosing businesses that will bring growth in the medium term.

The main event was LVMH's entry into a new area of activity, Watches

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*With a fifth division,
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& Jewelry. The creation of this new business area follows the acquisitions of TAG Heuer, Ebel, Chaumet and Zenith during the second half of the year. It reflects our desire to play a major role in this sector, which is one of the most dynamic in the luxury goods universe. We have already gained considerable presence, being third in the world, with a comprehensive group of highly renowned products, exceptional know-how and a successful manufacturing base. With this fifth business group, LVMH is now active across all luxury goods sectors and has considerably reinforced its market leading position.

A STRENGTHENED BRAND PORTFOLIO

The addition of Krug and Château d'Yquem, two highly valued and globally renowned brands, completed our Wines & Spirits brand portfolio.

In the United States, we have built up a presence in Cosmetics, grouping together four young, high-growth companies. Thanks to the Group's support, their development potential will be accelerated. They represent a source of growth for LVMH, in the framework of its objectives in the United States and provide a "window" on the trends of tomorrow. We have also acquired Make Up For Ever, a French brand with international ambitions, specialising in professional make-up, opening up a new segment of the market to us.

We have formed a strategic alliance with the Prada Group and the Fendi family, in order to develop Fendi, one of the greatest fashion and leather brands in Italy. This partnership strengthens our presence in Italy and offers Fendi exceptional prospects for development.

Finally, in January 2000, consistent with our strategy to enlarge the client base of the Selective Retailing division, LVMH acquired the American company, Miami Cruiseline Services, the world leader in the rapidly developing sector of sales of duty-free products on cruise ships, complementing the activities of DFS.

The Group's unique rapport with consumers of luxury products means we are ideally placed to develop selective retailing activities on the internet.

In order to enhance the creation of shareholder value, we are aiming to double the Group's operating profits in the next five years.

LVMH IS BECOMING A MAJOR PLAYER IN THE NEW ECONOMY

The Group's unique rapport with consumers of luxury products means we are ideally placed to develop selective retailing activities on the internet in what is an excellent economic climate.

LVMH has therefore undertaken to become a major player in the new economy. The launch of the internet site sephora.com in the United States is the first evidence of this intent, in line with our vocation as an industry leader; other initiatives, in particular the launch of the commercial portal e.luxury, will come to fruition in the near future.

EXCELLENT PROSPECTS

LVMH can look to the future from an excellent position. Economic growth should continue to stimulate our product markets. Our Group is the global leader in luxury goods, our global market share is increasing in all our areas of activity and we have ambitious objectives. To develop shareholder value further, we aim to achieve sales in excess of EUR 15 billion (FRF 100 billion) and double operating profits in the coming five years. Setting high standards has always been a characteristic of our business culture. Our teams have the talent and energy necessary to lead the race – the 1999 results prove it. We are sure we can count on them, to achieve our new ambitions.

Bernard Arnault
President

Myron Ullman
Managing Director

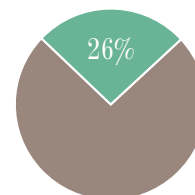


THE GROUP'S ACTIVITIES

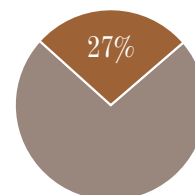
Business groups

Percentage of total Group sales

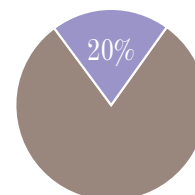
WINES
&
SPIRITS



FASHION
&
LEATHER GOODS



FRAGRANCES
&
COSMETICS

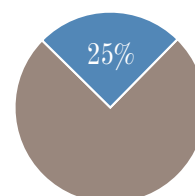


WATCHES
&
JEWELRY



*The Watches and Jewelry
business group
will be consolidated as
of January 1, 2000.
On a proforma basis,
1999 net sales amounted to
EUR 561 million.*

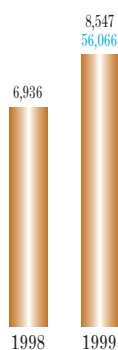
SELECTIVE
RETAILING



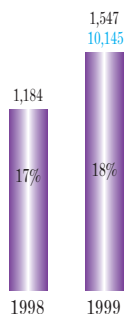
Brands	Milestones	Objectives	Geographical breakdown of sales														
<p><i>Champagne:</i></p> <ul style="list-style-type: none">• Moët & Chandon • Dom Pérignon• Mercier • Ruinart• Veuve Clicquot • Krug• Canard-Duchêne• Pommery <p><i>Still and sparkling wines:</i></p> <ul style="list-style-type: none">• Château d'Yquem• Chandon• Cape Mentelle • Cloudy Bay <p><i>Cognac:</i></p> <ul style="list-style-type: none">• Hennessy • Hine	<p><i>Champagne:</i></p> <ul style="list-style-type: none">• Number 1 worldwide • Market share: 19%• Sales volume: 62.7 million bottles• Operating margin: 28% <p><i>Still and sparkling wines:</i></p> <p>Vineyards in Europe, the United States, Latin America, Australia and New Zealand</p> <ul style="list-style-type: none">• Sales volume: 32.2 million bottles <p><i>Cognac:</i></p> <ul style="list-style-type: none">• Number 1 worldwide • Market share: 34%• Sales volume: 36.5 million bottles• Operating margin: 31%	<ul style="list-style-type: none">• Strengthen growth potential of all brands and prepare for the post-Millennium.• Pursue strategy of innovation and value creation.• Step up efforts to penetrate emerging markets and attract new consumers.	<table border="1"><thead><tr><th>Region</th><th>Percentage</th></tr></thead><tbody><tr><td>Americas</td><td>35%</td></tr><tr><td>Rest of Europe</td><td>27%</td></tr><tr><td>France</td><td>13%</td></tr><tr><td>Rest of Asia</td><td>9%</td></tr><tr><td>Japan</td><td>13%</td></tr><tr><td>Rest of the world</td><td>2%</td></tr></tbody></table>	Region	Percentage	Americas	35%	Rest of Europe	27%	France	13%	Rest of Asia	9%	Japan	13%	Rest of the world	2%
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<ul style="list-style-type: none">• Louis Vuitton Malletier• Loewe• Céline• Berluti• Kenzo• Givenchy• Christian Laacroix• Fendi• Pucci	<ul style="list-style-type: none">• Operating margin: 36%• 482 stores worldwide, including 15 Louis Vuitton “global stores”• Louis Vuitton: the world’s leading luxury goods brand• 51% interest in Fendi acquired with Prada group• 67% interest acquired in Emilio Pucci	<ul style="list-style-type: none">• Reinforce creativity, brand image, and control over distribution.• Develop synergies within the business group, established in 1999.• Implement acquisition strategy targeting strong complementary houses.	<table border="1"><thead><tr><th>Region</th><th>Percentage</th></tr></thead><tbody><tr><td>Japan</td><td>37%</td></tr><tr><td>Rest of Europe</td><td>13%</td></tr><tr><td>Americas</td><td>17%</td></tr><tr><td>Rest of Asia</td><td>19%</td></tr><tr><td>Rest of the world</td><td>2%</td></tr></tbody></table>	Region	Percentage	Japan	37%	Rest of Europe	13%	Americas	17%	Rest of Asia	19%	Rest of the world	2%		
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<ul style="list-style-type: none">• Christian Dior• Guerlain• Givenchy• Kenzo• Bliss, Hard Candy, BeneFit, Urban Decay• Make Up For Ever	<ul style="list-style-type: none">• Operating margin: 9%• Number 3 worldwide in selective fragrances and cosmetics• Number 1 in Europe• Establishment in 1999 of a US-based cosmetics activity through acquisition of four innovative startups	<ul style="list-style-type: none">• Pursue aggressive growth of sales and income from operations.• Accelerate pace of innovation strategy.• Develop US-based startups acquired in 1999.	<table border="1"><thead><tr><th>Region</th><th>Percentage</th></tr></thead><tbody><tr><td>Rest of Europe</td><td>32%</td></tr><tr><td>France</td><td>26%</td></tr><tr><td>Americas</td><td>21%</td></tr><tr><td>Rest of Asia</td><td>8%</td></tr><tr><td>Rest of the world</td><td>5%</td></tr></tbody></table>	Region	Percentage	Rest of Europe	32%	France	26%	Americas	21%	Rest of Asia	8%	Rest of the world	5%		
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<ul style="list-style-type: none">• TAG Heuer• Ebel• Chaumet• Zenith• Fred Joaillier	<ul style="list-style-type: none">• Business group established late 1999• Number 3 worldwide in luxury watchmaking• Active in all stages of the watchmaking process, from production of movements to distribution• Strong legitimacy and expertise in jewelry	<ul style="list-style-type: none">• Seize strong synergy opportunities in development, purchasing and supply chain, production and distribution.• Strengthen the individual identity of each brand and expand their footprints.• Implement selective acquisition strategy.															
<ul style="list-style-type: none">• DFS• Sephora • sephora.com• Solstice • Synchrony• Miami Cruiseline Services• Le Bon Marché• Franck et Fils	<ul style="list-style-type: none">• World leader in selective retailing of luxury goods• 487 stores around the world• DFS: number 1 worldwide in international travel retail• Sephora: one of the largest European perfumery chains, carrying out an aggressive international expansion strategy• Launch of new retailing concepts – Solstice and Synchrony – and of sephora.com in 1999• Acquisition of Miami Cruiseline Services in January 2000• Launch of e.luxury in May 2000	<ul style="list-style-type: none">• Strengthen DFS's market leadership.• Pursue Sephora's international development.• Broaden existing customer base.• Create and develop new specialty retailing concepts.• Expand e-commerce activities.	<table border="1"><thead><tr><th>Region</th><th>Percentage</th></tr></thead><tbody><tr><td>Asia</td><td>34%</td></tr><tr><td>United States</td><td>30%</td></tr><tr><td>France</td><td>28%</td></tr><tr><td>Rest of the world</td><td>6%</td></tr></tbody></table>	Region	Percentage	Asia	34%	United States	30%	France	28%	Rest of the world	6%				
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CONSOLIDATED HIGHLIGHTS

Net sales
(EUR million)
(FRF million)



Income from operations
(EUR million)
(FRF million)
Operating Margin
(in %)



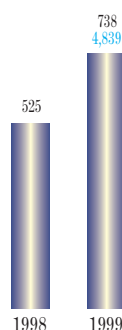
In 1999, consolidated net sales of the LVMH Group rose by 23% to EUR 8.5 billion. All business groups and geographical regions recorded steady sales growth, accelerating in the third quarter. Excluding changes in the scope of consolidation, sales would have increased by 15%, or 18% excluding currency fluctuations.

Income from operations rose 31%, leading to an increase in operating margin from 17% to 18% of sales. This increase primarily stems from growth of over 30% in Champagne and Wines, Fashion and Leather Goods, and Fragrances and Cosmetics.

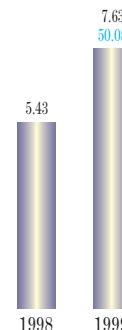
Net income before amortization of goodwill and unusual items rose by 40%.

Net income per share before amortization of goodwill and unusual items increased by 41%, restated for June 1999 one-for-ten bonus share distribution.

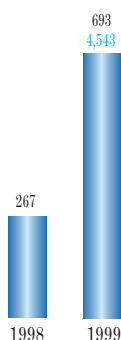
Net income before amortization of goodwill and unusual items
(EUR million) (FRF million)



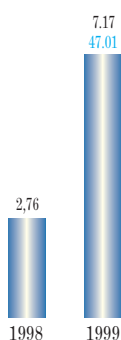
Net income per share before amortization of goodwill and unusual items
(in EUR) (in FRF)



Net income
(EUR million)
(FRF million)

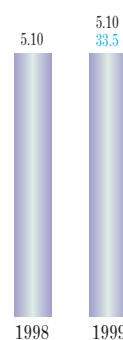


Earnings per share
(in EUR) (in FRF)



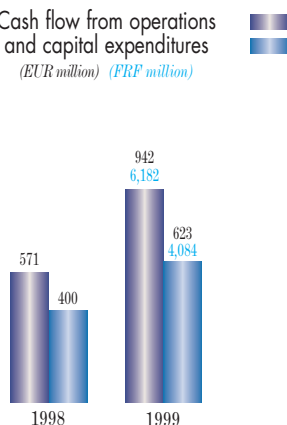
Net income rose up 160%, bolstered by unusual items, notably related to the sale of part of LVMH's investment in Diageo.

Dividend per share including "avoir fiscal" tax credit
(in EUR) (in FRF)



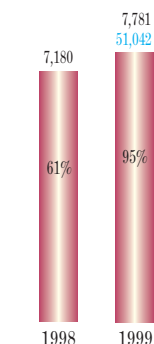
A dividend of EUR 3.40 per share (EUR 5.10 including "Avoir fiscal" tax credit) will be proposed at the Annual General Meeting of May 17, 2000. Reflecting the June 1999 one-for-ten bonus share distribution, this represents an increase of 10% over the prior year, and a payout ratio of 46%, higher than the average of prior years.

Cash flow from operations
and capital expenditures
(EUR million) (FRF million)



Pursuant to the Group's strategy of integrating and controlling its distribution, LVMH pursued an active investment program, totaling EUR 623 million in 1999. Investments primarily targeted the expansion of Sephora's European and American networks, as well as the Louis Vuitton "global stores" network.

Stockholders' equity *
and debt-to-equity ratio * (in %)
(EUR million) (FRF million)



* including minority interests

The Group has a sound balance sheet. After deducting the book value of Diageo and Gucci investments, the debt-to-equity ratio would fall to 54%.

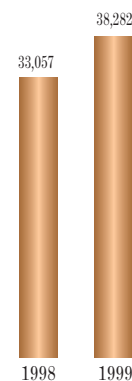
Capital employed

	1998	1999
(EUR million)	8,774	10,768
(FRF million)	57,560	70,638

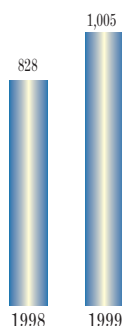
ROCE (in %)	1998	1999
	13.5%	14.4%

Return on capital employed (ROCE) is the income from operations on capital employed ratio; the capital employed includes intangible assets and goodwill.

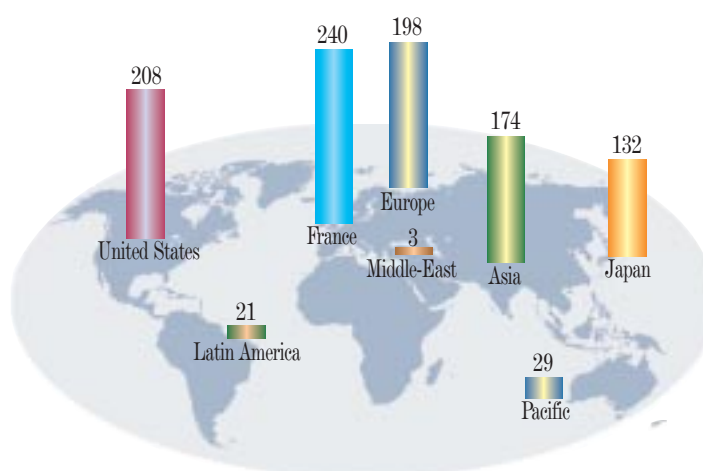
Average number of employees



Number of stores



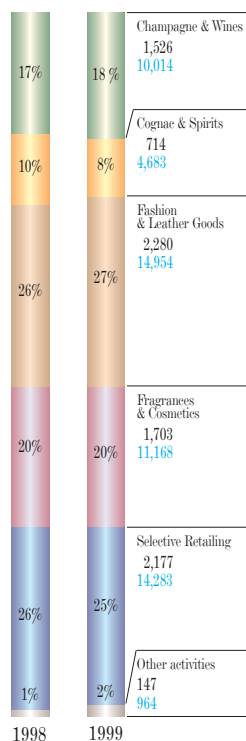
Store network at 1999 year end



The retail network was considerably expanded in 1999. At year end, LVMH owns over 1,000 retail outlets, including 261 Louis Vuitton stores and 304 Sephora stores. Sephora has 50 stores in the United States and one in Japan. The network of Louis Vuitton "global stores" numbers 15 by year end.

Net sales by business group

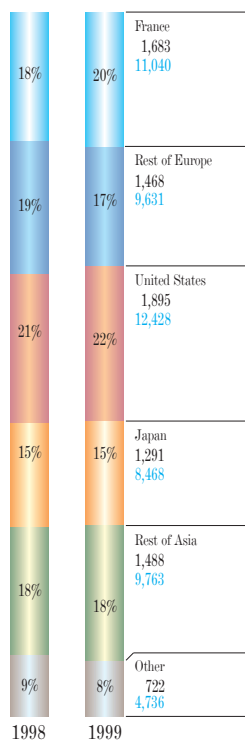
(in %)
(EUR million / FRF million)



The breakdown of sales by business group remains unchanged. The new Watches and Jewelry business group will be consolidated in 2000.

Net sales by geographical region

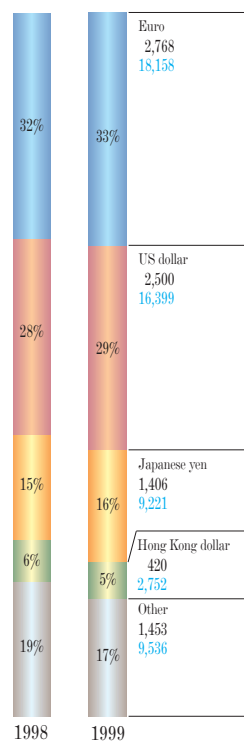
(in %)
(EUR million / FRF million)



By region, the weight of Asia continues to diminish. The increase in the French contribution is chiefly due to the acquisitions of 1998 and 1999 (Le Bon Marché, Marie-Jeanne Godard).

Net sales by currency

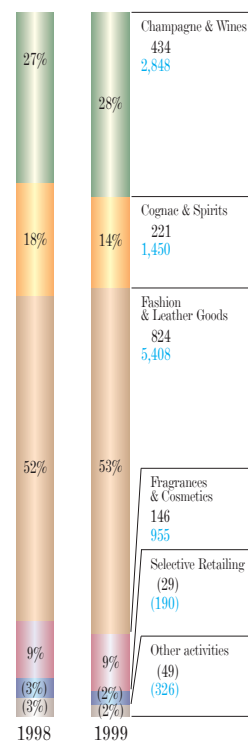
(in %)
(EUR million / FRF million)



By currency, the share of the euro increases steadily. The euro has now become the first billing currency of the Group, before the dollar and yen.

Income from operations* by business group

(EUR million / FRF million)



The Fashion and Leather Goods group accounts for 53% of income from operations. Thanks to the strong performance of champagne in 1999, this business group now represents 28% of the Group's income from operations.

* Income from current operations before financial income and expenses.

<i>in millions except per share and employee data</i>	<i>1999 FRF</i>	<i>1999 EUR</i>	<i>1998 EUR</i>	<i>1997 EUR</i>	<i>1996 EUR</i>	<i>1995 EUR</i>
Net sales by business group:						
Champagne & Wines	10,014	1,526	1,254	1,134	977	890
Cognac & Spirits	4,683	714	665	762	745	804
Fashion & Leather Goods	14,954	2,280	1,829	1,837	1,591	1,339
Fragrances & Cosmetics	11,168	1,703	1,369	1,406	1,366	1,414
Selective Retailing	14,283	2,177	1,799	2,170	–	–
Other Activities	964	147	20	14	69	92
Total	56,066	8,547	6,936	7,323	4,748	4,539
Percentage outside France	80 %	80 %	81 %	87 %	84 %	83 %
Income from operations	10,145	1,547	1,184	1,269	1,070	1,111
Net income before amortization of goodwill and unusual items	4,839	738	525	742	679	640
Net income	4,543	693	267	690	561	617
Per share data*:						
Net income before amortization of goodwill and unusual items	50.08	7.63	5.43	7.76	7.13	6.71
Gross dividend	33.45	5.10	5.10	5.10	4.67	4.40
Total assets	136,005	20,734	16,294	15,212	12,195	9,731
Average number of employees		38,282	33,057	32,348	20,644	19,517

* EUR, FRF

H I G H L I G H T S

WATCHES AND JEWELRY – A FIFTH BUSINESS GROUP FOR LVMH

In late 1999, TAG Heuer, Ebel, Chaumet and Zenith joined the LVMH Group, in that order. With these acquisitions, the Group has become the owner of an ensemble of well-known brands, active at all levels of the watchmaking industry, from production to global distribution. LVMH instantly became the third largest player in the world's luxury watch industry, a fast-growing sector.

The creation of the Watches and Jewelry business group, which includes Fred Joaillier, already owned by LVMH, reinforces the Group's leadership, now in all segments of the luxury goods market. Its organization will enable the new business group to maximize the expertise of the various houses and exploit considerable synergies across the brands it brings together.

Pro forma annual sales of the new business group amount to Euro 561 million.

LVMH, PRADA AND FENDI – A STRATEGIC ALLIANCE

In October 1999, the Fendi family, the Italian Prada group, and LVMH entered into an agreement, pursuant to which an interest of at least 51% in Fendi was sold to a 50/50 joint-venture between LVMH and Prada.

Fendi, a family business established in Rome in 1925, now ranks among the most prominent Italian brands, renowned for the leather and fur products created in its workshops.

With this strategic alliance, LVMH considerably strengthens its presence in the Italian market, while Fendi, a group with considerable growth potential, gains access to significant resources to accelerate its development.

LVMH JOINS FORCES WITH THE PUCCI FAMILY

On February 17, 2000, LVMH signed an agreement with members of the Pucci family, owners of the celebrated Florentine fashion brand. Pursuant to this agreement, LVMH acquired a 67% interest in Emilio Pucci SRL.

The integration of Pucci within the Fashion and Leather Goods business group will allow the Italian house to reach its full potential, thanks to the development of new lines in all segments of the fashion industry, from ready-to-wear to accessories.

LVMH INAUGURATES ITS NEW NORTH AMERICAN HEADQUARTERS

The new head office of LVMH North America, designed by architect Christian de Portzamparc, was inaugurated on December 8, 1999 in the heart of Manhattan. The building, a 23-floor glass tower with a façade of alternating transparent and translucent glass panels, houses a new Christian Dior boutique at ground level, as well as the North



American headquarters of LVMH and a number of subsidiaries, including Louis Vuitton, Parfums Christian Dior, Guerlain, Céline and Loewe.

This highly praised tower underscores LVMH's ambitions in the United States, which – though the largest market in the world – represent a considerable opportunity for future growth.

CHAMPAGNE AND WINES LVMH EXPANDS ITS PRESTIGE BRAND PORTFOLIO

Two flagship wine producers joined LVMH in 1999 – Krug, world-renowned for the unique quality and style of its champagne, specializing exclusively in premium cuvées; and Château d'Yquem, the maker of the world's most prestigious Sauternes white wine.

These two acquisitions are consistent with LVMH's wines and spirits strategy, focusing primarily on the development of high value-added cuvées.

FRAGRANCES AND COSMETICS NEW HIGH-POTENTIAL BRANDS

Bliss, Hard Candy, BeneFit and Urban Decay, four highly innovative, fast-growing US-based cosmetics startups, joined the LVMH Fragrances and Cosmetics business group. These acquisitions underscore LVMH's strategic ambitions to look beyond French brands to support its development and to establish a new segment to tap the large American cosmetics market.

In late 1999, LVMH took yet another step in cosmetics with the acquisition of Make Up For Ever, a professional makeup brand, thereby gaining access to an additional, rapidly growing market segment.

SELECTIVE RETAILING A HOST OF DEVELOPMENTS

Supporting Sephora's rapid expansion in the US market, the company opened a flagship store – the largest fragrances and cosmetics retail space in the world – in New York's Rockefeller Center in October 1999.

At the same time and also in the US market, the Selective Retailing group launched its sephora.com internet site, whose ambition is to become the world leader in online per-

fumes and beauty products retailing.

In late 1999, Sephora took its first steps in the Japanese market – where its concept is unprecedented – with the opening of its first Tokyo store, in the heart of the Ginza district.

In January 2000, LVMH acquired Miami Cruiseline Services, the world leader in duty-free sales of luxury goods on cruise ships.

With annual sales of over \$300 million, Miami Cruiseline Services supplies services to over 100 ships belonging to 26 different companies. Miami Cruiseline Services' market segment is currently experiencing rapid growth.

This acquisition represents a major expansion of LVMH's international travel retail activities and strengthens its global leadership in luxury goods distribution. The operations of the new company fit particularly well with those of DFS, which will bring its logistical, managerial and marketing expertise to this new venture.

LV CAPITAL

In its first year of activity, LV Capital – the development capital arm of the LVMH Group – invested in eight companies active in the luxury universe and complementing the Group's existing activities.

A few of the transactions completed during the year:

- acquisition of Phillips, the world's third largest auction house;
- acquisition of Thomas Pink, a UK specialist in top-of-the-line men's shirts and accessories;
- acquisition of a 34% interest in Regina Rubens, an innovative fashion house; and
- acquisition of a 20% interest in Inter Parfums, a developer of fragrances under license, and LVMH's partner for the recent launch of Christian Lacroix's latest women's fragrance.

LVMH ACQUIRES ETUDE TAJAN

On February 18, 2000, LVMH entered into an agreement with the Tajan family to acquire Etude Tajan.

Etude Tajan is the leading French fine arts auction house. Its activities perfectly complement those of Phillips, the world's third largest auction house and a member of the LVMH Group since 1999. Together, the two houses enjoy tremendous growth potential.

CORPORATE GOVERNANCE

BOARD OF DIRECTORS

The Board of Directors of LVMH held six meetings in 1999. The Board approved the annual and semi-annual financial statements, and reviewed the Group's broad strategic orientations, and in particular major acquisitions under consideration.

In 1999, LVMH paid a total of EUR 310,000 in Director fees to members of its Board.

The Charter for the Board of Directors specifies that Directors and Advisors must hold at least 100 LVMH shares in registered form.

The Charter for the Board of Directors specifies that at least three of its members must be outside directors with no business ties to the Group, and that no more than three Directors may be drawn from non-Group companies on whose board a Director and/or Executive Officer of LVMH sits.

Eight out of thirteen members of the Board are outside Directors.

Each Director is committed to attending Board meetings and Shareholder Meetings on a regular basis. Repeated absenteeism without cause may, upon proposal by the Nominating Committee, lead to the termination of a Director's mandate. All Directors must inform the Chairman of the Board of any potential conflict of interest, and must abstain from voting on any matter in which they directly or indirectly have a personal interest.

AUDIT COMMITTEE

Michel FRANCOIS-PONCET *, Chairman
Nicholas CLIVE WORMS *
Gilles HENNESSY

No Executive Officer of LVMH may be a member of the Audit Committee. No Director may be appointed to the Audit Committee if any other Director and/or Executive Officer of LVMH is a member of a comparable committee in a company in which that Director is an Executive Officer.

The duties of the Audit Committee are:

- to ensure the aptness and consistency of the accounting principles applied by the Company,
- to supervise the existence, adequacy and implementation of all internal procedures, as well as the Group's internal audit function,
- to review the parent company and consolidated financial statements of the Company before they are submitted to the Board, and
- to ensure the quality of the information provided to the Company's shareholders.

The Audit Committee must meet at least twice each year, without any Executive Officer of the Company present, eight days prior to the Board of Directors meeting called to review the Company's annual and semi-annual parent company and consolidated financial statements.

The Audit Committee has access to any financial or accounting documents it deems necessary to fulfill its mission. It may meet with any Company manager responsible for internal controls or the preparation of the Company's financial statements, as well as with the Company's Statutory Auditors,



in either case without any Executive Officer of the Company present.

The Audit Committee held four meetings in 1999.

The Audit Committee assessed the Group's Y2K compliance. The Committee also analyzed changes in the Group's scope of consolidation (investments and disposals), its indebtedness, and its foreign exchange hedging policy.

COMPENSATION COMMITTEE

Antoine BERNHEIM *, Chairman

Albert FRERE *

Kilian HENNESSY

No Director who is an Executive Officer or employee of LVMH or an LVMH subsidiary may be a member of the Compensation Committee. No Director may be appointed to the Compensation Committee if any other Director and /or Executive Officer of LVMH is a member of a comparable committee in a company in which that Director is an Executive Officer.

The Compensation Committee is responsible for issuing proposals regarding:

- the payment of Directors fees,
- the remuneration, benefits and stock options granted to the Company's Executive Officers.

The Compensation Committee may also be consulted regarding:

- the remuneration, benefits and stock options granted to the Company's Directors and members of the council of Advisors by LVMH subsidiaries,
- the compensation and incentive systems established for LVMH managers.

NOMINATING COMMITTEE

Lord POWELL of BAYSWATER *, Chairman

Jean ARNAULT

Nicholas CLIVE WORMS *

The Nominating Committee consists of three Directors or members of the Council of Advisors. No Director or member of the Council of Advisors may be appointed to the Nominating Committee if a Director and/or Executive Officer of LVMH is a member of a

comparable committee in a company in which that Director or Advisor is an Executive Officer.

The Nominating Committee, in coordination with the Chairman of the Board of Directors, is responsible for advising on candidates for the positions of Director, member of the Council of Advisors, or Executive Officer of the Company, and to ensure that independent outside directors are represented on the Company's Board.

The Nominating Committee may also be asked by the Chairman of the Board of Directors to advise on candidates for management positions within the company or its major subsidiaries.

COUNCIL OF ADVISORS

The General Meeting of Shareholders can elect a maximum of nine Advisors proposed by the Board of Directors. The Advisors, drawn from shareholders based on individual competence, form a Council.

The Council of Advisors had six members at January 1, 1999.

Each Advisor is elected for a three-year term which ends immediately following approval of the prior year's accounts by the General Meeting of Shareholders in the relevant year.

The Advisors are invited to attend Board of Directors' meetings and take part in the deliberations with a consultation vote, without their absence affecting the validity of the proceedings.

REMUNERATION POLICY

Remuneration paid to members of the Board of Directors, on one hand, and to members of the Executive Committee and key operating executives, on the other hand, representing a total of 19 individuals, with respect to their functions within the Group, amounted to EUR 247,000 and EUR 23 million, respectively.

Part of the remuneration paid to members of the Executive Committee and key operating executives is based on income from operations and return on capital employed of the business groups and companies headed by the respective executives as well as on their individual performance. The variable portion of these individual's remuneration accounts for one-third to one-half of their total remuneration.

** Independent directors*

DIRECTORS AND OFFICERS

BOARD OF DIRECTORS

Bernard Arnault
Chairman & Chief Executive Officer

Antoine Bernheim*
Vice-Chairman

Jean Arnault
Nicolas Bazire
Nicholas Clive Worms*
Michel François-Poncet*
Albert Frère*
Pierre Godé
Gilles Hennessy
Cornelis H. van der Hoeven*
Jean-Marie Messier*
Jean Peyrelevade*
Lord Powell of Bayswater*

COUNCIL OF ADVISORS

Brigitte Chandon-Moët
Gérald de Geoffre de Chabrignac
Kilian Hennessy
Alain de Pracomtal
Ghislain de Vogüé

AUDIT COMMITTEE

Michel François-Poncet*
President
Nicholas Clive Worms*
Gilles Hennessy

COMPENSATION COMMITTEE

Antoine Bernheim*
President
Albert Frère*
Kilian Hennessy

NOMINATING COMMITTEE

Lord Powell of Bayswater*
President
Jean Arnault
Nicholas Clive Worms*

EXECUTIVE COMMITTEE

Bernard Arnault
Chairman & Chief Executive Officer

Myron Ullman III
Group Managing Director

Nicolas Bazire
Development and Acquisitions

Yves Carcelle
Fashion & Leather Goods

Patrick Choël
Fragrances & Cosmetics

Pierre-Mathieu Duhamel
Corporate Secretary

Pierre Godé
Advisor to the Chairman and CEO

Patrick Houël
Finance

Concetta Lanciaux
Human Resources

Pierre Letzelter
Selective Retailing

Philippe Pascal
Wines & Spirits

Daniel Piette
LV Capital

Bernard Rolley
Operations

Christian Viros
Watches & Jewelry

OPERATING MANAGEMENT

Thierry Andretta
Céline

Dominique Bach
Chandon Estates

Philippe de Beauvoir
Le Bon Marché

Bernd Beetz
Parfums Christian Dior

Edward Brennan
DFS

Gianluca Brozzetti
Louis Vuitton Malletier

Ridgely Cinquegrana
Loewe

Jacques Gaillard
La Brosse et Dupont

Pierre Haquet
Chaumet/Ebel

Jim Kenney
Sephora.com

Henri Krug
Krug

Jean-Marie Laborde
Moët & Chandon

Fabrice Larue
Desfossés International

Jean-Marie Lefèvre
Pommery

Odile Lobadowsky
Parfums Kenzo

Alain Lorenzo
Parfums Givenchy

Alexandre de Lur-Saluces
Château d'Yquem

François Manfredini
Zenith

Hervé Martin
Kenzo Mode

Howard Meitiner
Sephora Americas / Asia Pacific

Christophe Navarre
Hennessy

Thibault Ponroy
Guerlain

Daniel Richard
Sephora

Michele Sofisti
Fred Joaillier

Des Swan
Thomas Pink

Marianne Tesler
Givenchy Couture

Christopher Thomson
Phillips

Fred Wilson
New Retail Concept

STATUTORY AUDITORS

COGERCO-FLIPO
represented by
Henri Lejetté

ERNST & YOUNG AUDIT
represented by
Gabriel Galet and
François Hilly

* Independent directors

SHAREHOLDER INFORMATION

LVMH provides full information on a timely basis to a large number of shareholders. The "LVMH in 1999" brochure and the interim reports are sent to over 50,000 shareholders. In 1999, LVMH was awarded the prize for Best 1998 Annual Report by AGEFI. The annual report also received a prize from Top Com 2000.

Results presentations and Annual General Meetings of Shareholders are now systematically broadcast on the internet. A special section dedicated to individual investors was recently created on the www.lvmh.com website.

Meetings organized in Lille and Lyons in November 1999 were each attended by over 1,000 shareholders. In addition, LVMH also participated in the Actionaria individual shareholder convention in Paris.

LVMH will intensify its communications efforts in 2000. Membership in the Shareholders Club has grown significantly, to over 18,000 individuals. The Apartés magazine has been specifically developed for Club members.

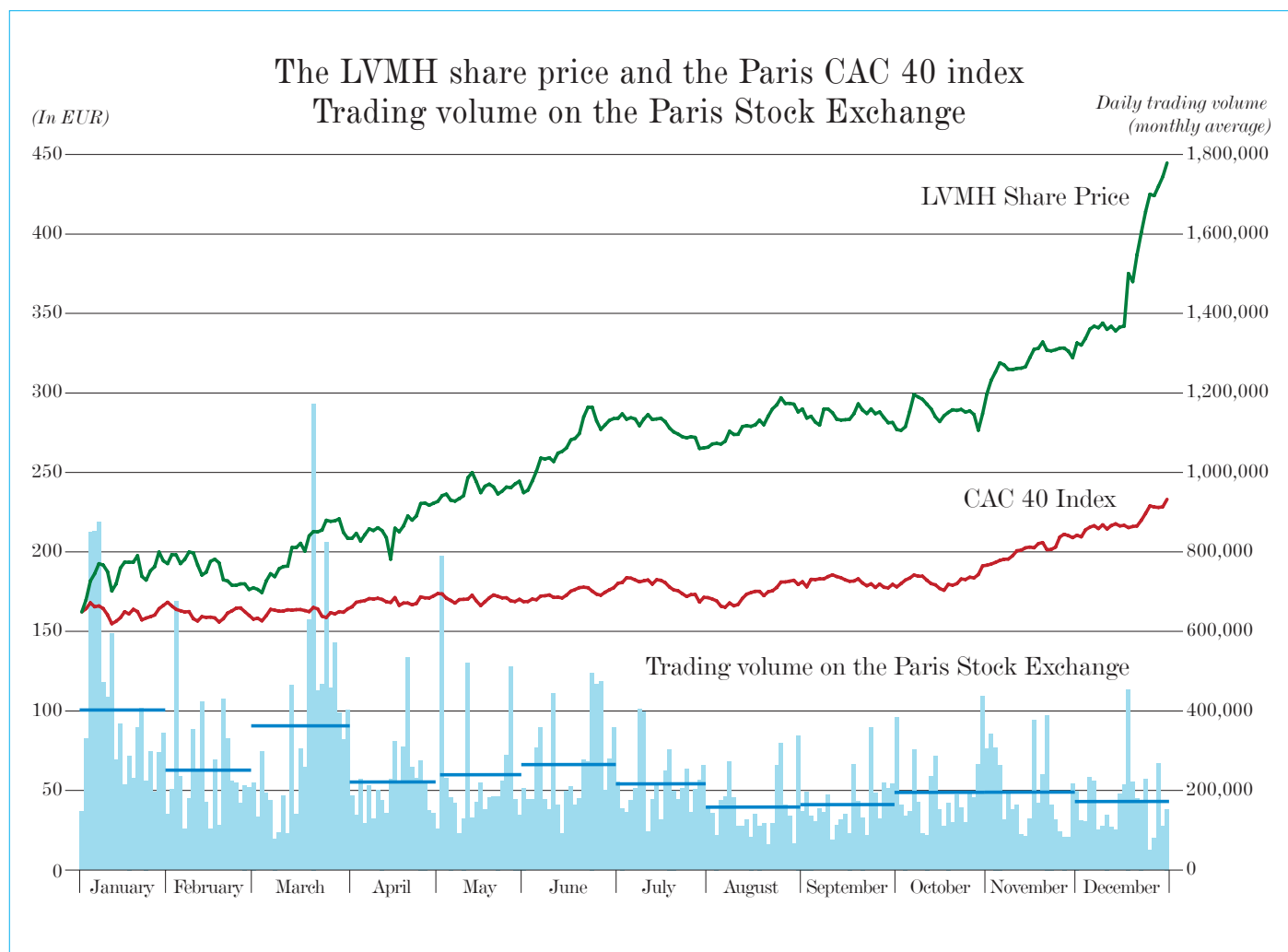
The Annual General Meeting of Shareholders will be held on May 17, 2000 at 10:30 AM at the Carrousel du Louvre, 99 rue de Rivoli in Paris.

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Fax: +33 1 44 13 21 19
www.lvmh.com(www.lvmh.fr)

Apartés



THE LVMH SHARE



Key markets

- Règlement Mensuel de la Bourse de Paris
(Reuters : LVMH.PA, Bloomberg: MC FR)
- Nasdaq NMS, in the form of ADSs, 1 ORD: 5 ADS
(LVMHY)
- Negotiable options on LVMH shares trade on the Money
in Paris.

An outstanding stock market performance

The LVMH share posted an outstanding performance in 1999. The share reached an all-time high on December 31 at EUR 444.7, representing an increase of 190.1%* since January 1, 1999. At year end, with a market capitalization of EUR 43.6 billion, LVMH was the tenth largest company on the Paris Stock Exchange.

The LVMH share is a component of the main French and European indices: CAC 40, DJ Euro Stoxx 50, and MSCI European and Pan-European Index.

** restated for June 21, 1999 bonus share distribution.*

Dividend and payout ratio

EUR	1999	1998	1997	1996	1995
Net dividend	3.40*	3.40	3.40	3.11	2.93
Gross dividend (incl. "Avoir fiscal" tax credit)	5.10	5.10	5.10	4.67	4.40
Payout ratio (as a % of net income before goodwill amortization and unusual items)	46%	58%	40%	40%	40%

* proposed to the May 17, 2000 Annual General Meeting

Reflecting the June 21, 1999 one-for-ten bonus share distribution, the unchanged dividend for 1999 represents a 10% increase over the prior year level.

Total shareholder return

A EUR 1,000 investment in LVMH shares made on January 1, 1997, assuming systematic dividend reinvestment and taking into account the June 1999 one-for-ten bonus share distribution, would have been worth EUR 2,330 as of December 31, 1999. The initial investment would thus have grown by an average of 32.6% a year over the period.

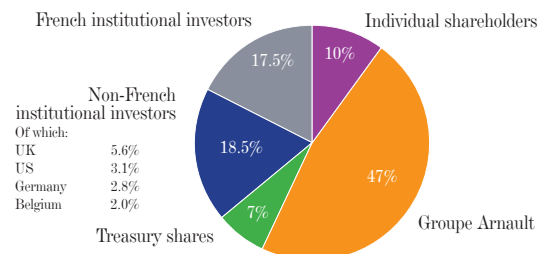
Share data

EUR	1999	1998	1997	1996	1995
Number of shares outstanding	97,957,650	88,983,072	87,596,460	87,389,712	87,237,320
Market capitalization (EUR million)	43,562	15,003	13,341	19,304	13,565
Closing share price (*)					
• High	457.40	191.12	230.06	204.7	142.05
• Low	154.27	94.38	121.13	141.36	107.68
• Last	444.70	153.28	138.45	200.82	141.36
Average daily trading volume	257,027	255,321	273,572	198,354	201,687
Average daily trading value (EUR million)	65.0	39.5	49.2	33.1	25.4

(*) Adjusted for June 21, 1999 one-for-ten bonus share distribution

Capital structure

(Sicovam survey, December 1, 1999)



Major shareholders and voting rights

Shareholders	Number of shares	Number of voting rights	% of share capital	% of voting rights
Financière Jean Goujon (1)	39,896,450	79,726,900	40.73%	58.82%
Others (2)	58,061,200	55,828,440	59.27%	41.18%
Total	97,957,650	135,555,340	100.00%	100.00%

(1) At December 31, 1999, the Groupe Arnault held 47.12% of LVMH's share capital, including the 40.73% held by Financière Jean Goujon.

(2) At December 31, 1999, there were 5,865,372 treasury shares outstanding. These shares do not hold voting rights.

At 1999 year end, LVMH had approximately 106,000 shareholders, including 100,000 individual shareholders.

Within the framework of the share buyback program detailed in the Information Memorandum approved by the Commission des Opérations de Bourse under n° 99-467 dated April 23, 1999 and approved by the Annual General Meeting of Shareholders on May 12, 1999, LVMH repurchased 3,549,547 LVMH shares (net of sales).

BUILDING GLOBAL BRANDS

The globalization of commerce and the exponential growth of our target demographic base have created outstanding growth opportunities for luxury brands. But luxury should not lose its soul as it expands its reach. Luxury brands must anticipate new aspirations, seduce consumers in regions with varying cultures, become more accessible, and at the same time retain their power as a fount of dreams and continue to nurture creativity and perfection. To manage this paradox in a coherent manner requires a specialized “savoir-faire”. The success of the LVMH Group rests on this know-how and its expertise in developing world brands.

Over the past decade, the growth rate of the luxury goods market – which is expected to top the Euro 55 billion mark in 2000 – far exceeded that of the world economy, and it continues to offer remarkable opportunities for continued development.

In this dynamic market, not all competitors perform evenly. Facing heightening competition and increasingly demanding consumers, only the strongest, best-managed brands are able to widen their competitive edge and gain market share.

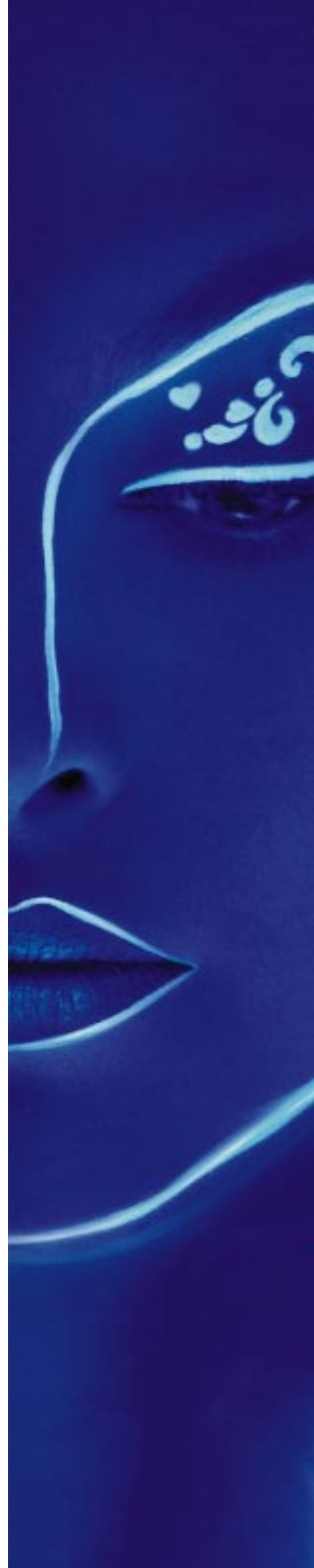
As the uncontested leader, present in all areas of the luxury world, with over 250 subsidiaries throughout the world, LVMH enjoys a unique position, a deeply rooted entrepreneurial culture, and a proven track record in developing its brands and retail networks on a global scale.

LVMH's brand portfolio is exceptional. Certain houses, such as Dom Pérignon, Moët & Chandon, Hennessy, Louis Vuitton and Christian Dior, are clear market leaders and benchmarks in their category. Ownership of these flagship luxury brands is the Group's greatest strength.

LVMH also owns younger or recently acquired brands, each of which enjoys tremendous growth potential and the ability to reach the top spot in its market segment. Backed by the Group's expertise, these brands are well positioned to expand their reach and contribute to LVMH's future growth and reinforced market leadership.

BRAND MANAGEMENT

Respect for brand autonomy and a distinctive identity is a fundamental tenet of LVMH's management philosophy. Each house is free to adopt the marketing and retailing strategies best suited to its needs, to capitalize on its distinctive positioning, to shape and broaden its own universe. But all Group houses share certain basic values – creativity, product and service excellence, absolute respect for brand image, and entrepreneurial spirit.



The strategies implemented by Group companies are designed to meet the new challenges faced by the luxury goods industry – growing attraction to quality and creativity; emergence of new local clienteles and new consumer segments; interest of younger generations; globalization of brands; success of new retailing formulas at expanding their potential markets...

To gain market share, luxury brands must extend the franchise of their best-selling products, broaden their product lines, target new consumers, notably among the younger generations, open new retail outlets around the world, and diversify their activities, coherently and cautiously, in areas related to their core businesses. Hennessy has captured the US market, where it is far and away the cognac leader, by positioning itself as a young, festive drink. Louis Vuitton has successfully leveraged its image of authenticity and as an outstanding leather goods brand to develop its ready-to-wear lines and become a global brand. Céline, Loewe and Kenzo are pursuing similar goals.

With the Group's considerable financial resources to bolster internal growth, LVMH brands are able to achieve global market leadership by making the significant investments – notably in advertising, promotion and distribution – that an isolated brand without critical mass could not afford.

Thanks to LVMH's organization along major business lines, Group companies can coordinate their strategies, share structures and core competencies, and seize synergistic opportunities. Krug, which has been part of the Group since January 1999, has already strengthened its positions in several world markets by joining the Veuve Clicquot distribution network. Sephora's spectacular development in the US has been initiated with the support of DFS's teams.

TWO KEY STRATEGIC PRIORITIES: BRAND COMMUNICATIONS AND DISTRIBUTION

For LVMH companies, brand image is an irreplaceable asset, which needs to be constantly enriched. The Group's investments in advertising and promotion are massive, representing 11% of sales. These investments are instrumental in keeping brand image up to date and supporting new product launches on a global basis. Advertising and promotion efforts are complemented by high-profile communications initiatives. With these operations, each of the Group's houses is able to cultivate its exceptional image with various international audiences, and to benefit from significant media coverage. Louis Vuitton's association with the 1999 America's Cup, one of the most extensively covered sporting events in the world, is a perfect illustra-

tion of this strategy.

Control over retail distribution is the key to the success of luxury brands. It enables them to capture retail distribution margins, and to ensure that their brand image and the environment in which their products are sold are of the highest quality. Controlled distribution guarantees that our customers receive the irreproachable service and attention they deserve, and that our companies, ever closer to the end consumers, are able to better understand – and even anticipate – their needs.

LVMH has built the world's leading luxury goods distribution network, with 1,005 stores as of the end of 1999, up from 828 one year earlier. The quality and scope of this network represent a considerable competitive advantage for the Group. The LVMH network encompasses the exclusive boutiques and global stores of the fashion and leather goods houses, the DFS luxury goods stores, the Sephora perfumes and cosmetics stores, as well as Le Bon Marché, which is positioned as the most exclusive department store in Paris. The Group will actively continue to expand its retail network in coming years in all of its core and high-potential markets.

STRUGGLE AGAINST COUNTERFEITING

Luxury goods are a favorite target of counterfeiters, who, by taking advantage of the prestige of premium brands, threaten the identity and image of those brands.

By coordinating its anti-counterfeiting initiatives at Group level, LVMH can maximize their effectiveness, in terms of both the relationships with the authorities of the countries concerned and the direct struggle against counterfeiters.

Twenty staffers, at different levels of responsibility, work full-time on anti-counterfeiting matters, in close conjunction with a network of specialized investigators and lawyers.

Thanks to this well-structured organization, the Group is able to react rapidly. In 1999, several attempts to distribute counterfeit champagne from Italy and Latin America were stopped almost as soon as they surfaced. Asian plants producing copies of Group fragrances were closed, and huge quantities of counterfeit products were seized and destroyed. Louis Vuitton, whose efforts are particularly active, achieves excellent results and has been able to dismantle a number of counterfeiting networks producing or distributing imitation products.

An action plan is currently being developed by all members of the newly established Watches and Jewelry business group and will be aggressively implemented starting in 2000.

CREATING A BETTER FUTURE

Creating long-term value is central to the LVMH culture. Our development strategy aims for qualitative growth, creating sustainable gains for our shareholders, employees and clients. Our primary growth driver is innovation, which is key to the Group's competitiveness and to the continued success of our brands. We also believe that financial success goes hand in hand with good corporate citizenship and a positive image wherever we do business. Protection of the environment, preservation of craftsmanship and the vitality of our artistic and cultural heritage, our commitment to future generations, all require our full attention. Creating a better future is not only our responsibility, it is also part of our vision.

The Group's drive and economic success would not be as significant as it is without the strong human dimension underpinning our values. These principles inspire our teams throughout the world and instill a will to constantly surpass themselves in all Group activities. In its strategic choices and all its activities, LVMH is ambitious and aggressive, but also acknowledges its accountability to the community and its future. We continually seek excellence for our shareholders, clients, and employees: our brands, our products, our social, industrial and commercial practices must all embody the highest level of quality and integrity.

RESEARCH AND DEVELOPMENT

All Group activities have their roots in the highest traditions of craftsmanship – an asset of immeasurable value. Research, therefore, is instrumental in ensuring their legacy and continually improving the quality and creativity of the Group's products. Within the Group, 200 people are involved in research and development activities.

LVMH viticulture research plays an active role in the international struggle against vine diseases. These efforts focus on the protection of the environment and on ensuring the highest standards of fine wine production for the next decades.

In oenology, the improvement in organoleptic quality of champagne is a priority, and is part of a broad program that benefits from the "French Technological Leap" label. Research also contributes to general interest issues, focusing on nutrition and health.

LVMH VALUES

THE MISSION OF THE LVMH GROUP IS TO REPRESENT AROUND THE WORLD THE MOST REFINED QUALITIES OF WESTERN "ART DE VIVRE". OUR PRODUCTS, AND THE CULTURAL VALUES THEY EMBODY, BLEND TRADITION AND INNOVATION WHILE EVOKING DREAMS AND FANTASY. FIVE FUNDAMENTAL OBJECTIVES UNDERPIN THE ACTION-ORIENTED STRATEGY SHARED BY ALL GROUP EMPLOYEES:

- CREATE AND INNOVATE
- AIM FOR PRODUCT AND SERVICE EXCELLENCE
- BOLSTER THE IMAGE OF OUR BRANDS
- BE ENTREPRENEURIAL
- BE THE BEST

1999 INNOVATIONS A SAMPLER

- MOËT & CHANDON :
ESPRIT DU SIÈCLE
- RUINART : L'EXCLUSIVE
- POMMERY : POP
- CHANDON ESTATES : TERRAZAS
- HENNESSY :
CLASSIQUE, TIMELESS
- LOUIS VUITTON :
LIGNE LV CUP
- CHRISTIAN LACROIX :
PARFUM CHRISTIAN LACROIX,
CHRISTIAN LACROIX FRAGRANCE
- PARFUMS CHRISTIAN DIOR :
J'ADORE, BODYLIGHT, VITALMINE,
PHENOMEN A
- GUERLAIN : AQUA ALLEGORIA,
GUET-APENS,
ISSIMA BLUE VOYAGE
- PARFUMS GIVENCHY :
ORGANZA INDÉCENCE,
ROUGE MIROIR, FIRM PROFILE
- PARFUMS KENZO :
TIME FOR PEACE
- SEPHORA :
À NE PAS AVALER, SEPHORA.COM

Cosmetics research focuses on current trends in skin-care, such as protection of the skin against exposure, hydration, anti-aging, etc.

In 1999, the previously separate research teams were combined at a single site. By bringing together core competencies, the Group's R&D activities now benefit from laboratories large enough to attract the best talent and establish successful partnerships with universities, research centers and suppliers. The newly merged research teams have developed new products and innovative concepts on behalf of the Group's French companies as well as the recently acquired American cosmetics start-ups. Significant breakthroughs should reach the markets in 2000 and 2001.

INNOVATION – THE TOP PRIORITY

To spark an idea and produce a best-seller; to marry traditional excellence and bold modernity; to enrich the offering of our houses and expand the reach of our brands; to pioneer new retailing concepts; to breathe and live today's trends, anticipate desire, earn and retain customer loyalty... Creation and innovation are absolute priorities for all LVMH business groups. They are the principal sources of added value for our brands and our customers: luxury does not get along well with banality.

In the past several years, LVMH has considerably strengthened its creative teams, and continues to attract the best talent by offering an environment ideally suited to nurturing creativity. But it is really on a broader scope, throughout the entire organization, that the creativity of each employee is encouraged, whatever his or her specialty: innovation, at LVMH, belongs to everyone.

Today, new products launched in the past two years account for nearly 30% of LVMH Fragrances and Cosmetics sales. Fashion, by its very nature, constantly seeks to renew itself: each year, with each new season, the new collections that will later appear in our boutiques walk down the runway. In 1999, sales of newly launched Leather Goods increased by 30%. The new Monogram Vernis line accounts for over 10% of Louis Vuitton's sales

one year only after its launching. Last year, sales of new champagne cuvées jumped 69%; by 2005, our goal is to generate 10% of the sales of the Group's champagne houses through new cuvées. In the last three years, Hennessy has launched a dozen new products. The Selective Retailing business group is constantly on the lookout for innovative products and assortments, developing new concepts with the potential to become "category leaders" and expanding its presence in e-commerce, the virtual cornerstone of the new economy.

AN INTERNET PIONEER

With over 30 sites, LVMH is far and away the best-positioned luxury goods group to successfully capitalize on the spectacular opportunity afforded by the internet. The Group's portfolio of more than 40 prestigious brands constitutes a formidable barrier to entry, which will be just as effective in the virtual world as it is in the real world. The Group's ambition benefits from its unique strengths – its preferred relationships with over 20 million clients around the globe, its network of more than 1000 stores worldwide, its proven track record in logistics and supply chain management, and the technological partnerships which can be established with other companies, such as [Europ@web](#).

In addition, by taking direct control of the distribution of its products on the internet, LVMH ensures that the two fundamental elements of its controlled distribution strategy – pricing and selling environment – meet its exacting standards.

Growth of the Group's online sales should have no impact on its investments in store networks – the internet is an additional channel facilitating access to LVMH products and an ideal conduit to attract new generations of customers to the world of luxury. Through [sephora.com](#), launched in the United States in October 1999, Sephora is able to draw a large customer base without opening retail stores in smaller towns and cities.

SPONSORSHIP FOR CULTURE, YOUTH AND HUMANITARIAN INITIATIVES

LVMH's success has enabled it to develop over the past ten years an innovative and ambitious corporate sponsorship strategy. The Group supports a wide array of public interest initiatives, which reflect and nurture the core values that have driven the long-term success of our brands.

The first facet of the Group's sponsorship effort is cultural, aimed at the revitalization and promotion of our artistic heritage. Our approach embraces a dynamic and contemporary interpretation of this heritage: restoring major cultural sites, helping people to understand and rediscover key periods in the history of art. LVMH contributed to the restoration of seven rooms in the Palace of Versailles' North Wing and, since 1991, has sponsored a host of exhibits and retrospectives. In 1999, LVMH lent assistance to two major exhibitions held in Paris: Chardin at the Grand-Palais, and *Le fauvisme ou l'épreuve du feu*, at the Musée d'Art Moderne de la Ville de Paris.

The second effort is educational, and as such is dedicated to fostering the cultural instincts of younger generations, particularly in fine arts and music. Created in 1994, the "LVMH Young Artists Award", organized during the exhibitions sponsored by LVMH, provides financial aid to art students around the world. For elementary school students, another program was created in 1997: the LVMH "Discovery and Education" classes.

In music, the "1000 seats for young people" project has awarded 14,000 concert seats over the last eight years to young musicians training in Paris conservatories. LVMH also supports young virtuosos by lending them Stradivariuses from its collection and by organizing concerts to promote young talent.

Finally, LVMH's sponsorship initiatives include a humanitarian dimension, focused on public health, the environment and research. LVMH has chosen to support several foundations and scientific teams, and also to incorporate social or humanitarian causes in all its cultural projects.

6 *André Derain : Boats in the port of Collioure.*
© Musée d'Art Moderne de la Ville de Paris



6 *Vassili Kandinsky : Murnau - Landscape with rainbow*
© Musée d'Art Moderne de la Ville de Paris



ENVIRONMENT

For a Group whose activities are closely tied to nature, respect for the environment is not only a duty, but also an investment. The individual efforts of all LVMH associates are coordinated and monitored at the central level, spearheaded by an inter-business group environmental commission that meets on a quarterly basis. In addition, the Group is involved in a number of other environmental projects, both at the French and European levels.

Eager to adhere to best practices globally, the Group draws on a wide spectrum of resources: close monitoring of the evolution of international regulation, the development of specialized databases, training modules adapted to all levels of the organization, an internal newsletter, publication of an “environmental technical guide” available to all site managers. Working groups meet on a regular basis to analyze environmental impacts, to set improvement targets and to draft appropriate action plans. Crisis management

groups have been set up at all LVMH production sites to handle environmental risks.

Other tools are in the works, in particular a summary of key environmental indices and a guide to environmental audits to be conducted before the purchase or sale of a site.

In 1999, Hennessy, Pommery, Guerlain and Givenchy focused specifically on reducing their packaging content. Their findings will be extended to benefit other Group companies. LVMH is also focused on reducing the environmental impact of transport and logistics: pollution and greenhouse gasses are major issues for the coming years.

Hennessy and Pommery have become the first two production sites in the world's wines and spirits industry to receive certification for their environmental management. Hennessy obtained the ISO 14001 certification in May 1998. Pommery was awarded a double certification in October 1998: ISO 14001 for environment and ISO 9001 for quality.



HUMAN RESOURCES

In 1999, LVMH strengthened its organizational structure with the establishment of the Fashion & Leather Goods business group and the creation of the Watches & Jewelry, around the TAG Heuer, Ebel, Zenith, Fred, Benetton and Chaumet brands. This new activity, combined with the other international acquisitions of 1999, have considerably expanded the Group's global dimension and cultural diversity. To support LVMH's increasingly international stature and ensure management continuity, Group companies set up recruitment and staff development programs to significantly increase international recruitment, foster internal mobility, strengthen communications across business lines, and restructure employee training programs. In addition, to bolster these policies and fully enter the era of the "new economy," Group companies increased their use of new information technologies.

EXPANDING RECRUITMENT OF INTERNATIONAL ENTRY-LEVEL MANAGERS: A KEY CHALLENGE

Launched in 1999 to support Group expansion and the development of new subsidiaries around the world, the Futura program has stepped up the hiring of high potential entry-level managers with four to eight years of professional experience, including several years at the international level, and a solid university background (in particular MBAs). LVMH offers these young managers positions that enable them to confront operational challenges immediately. They run profit centers or corporate level departments in international subsidiaries. The aim of the Futura program is to accelerate the emergence and in-house training of future Group executives.

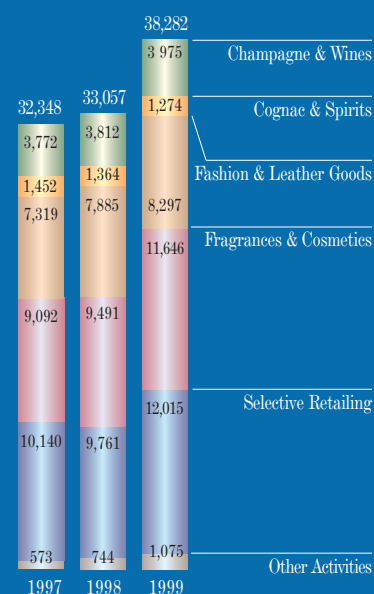
The "Jeunes Diplômés Internationaux" (Young International Graduates) program launched five years ago has already supplied LVMH with a pool of 550 young managers from different countries, with degrees in business and engineering. In recruiting these young managers with international backgrounds, the Group leverages relationships established several years ago with top academic institutions in Europe, North America and Asia. In 1999, this network of multi-cultural partnerships was strengthened by the addition of partnerships with the best MBA programs in Latin America. The recruitment of entry-level managers has increased by 20%, and one of the top priorities in 2000 is to raise the number of international recruits over the 1999 level.

The Global Leadership Program launched in 1999 rounds out the offer targeting young managers, and seeks to step up the professional development of the most promising future executives. This group of talented young managers is invited to participate in daylong discussions on risk-taking and innovation moderated by business group leaders and the CEO's of Group companies.

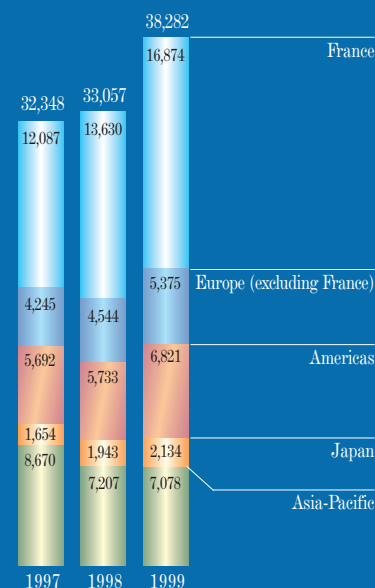
EVER HIGHER STANDARDS: INTERNAL MOBILITY

Overall, 420 management-level employees were transferred to new positions within the Group in 1999, a number that has tripled in three years. Internal mobility can take many forms, including a new job or an assignment abroad. In 1999, more than 100 managers completed an international assignment. To facilitate inter-company transfers that affected 100 managers in 1999 (an increase of 34% over

Average number of employees
by business group



Average number of employees
by geographical region



At the March 1999 LVMH 2000 Conference, Group executives focused on the need to encourage leadership qualities and individual development of their associates, so as to ensure management continuity and support LVMH's internationalisation. 6

1998), new resources have been mobilized. These include "special assignments," which enable employees to work for a defined period in a company other than their own. In 2000, increasing internal mobility, and inter-company transfers in particular, remains a top priority. This is an extremely effective instrument for broadening career mobility prospects, building skills and multiplying exchanges within the Group across business lines.

STRENGTHENING COMMUNICATIONS ACROSS GROUP COMPANIES

In 1999, numerous initiatives were undertaken throughout the Group to promote the exchange of resources and best practices among employees. Several companies and business groups held workshops and conventions, in the spirit of the "LVMH Innovation and Growth 2000 Conference" held in March 1999.

In 1999, new inter-company networking structures were set up through Internal Communications committee meetings held every quarter. In addition, internal publications such as Messages & Convergences, the Group's managerial publication, encouraged discussion and lateral projects as well as the exchange of information and best practices. Effective Internal Communication facilitates better understanding of the international operating environment, functional and organizational logics, strategies, challenges and objectives. It also contributes to creating a sense of community around core values that underpin the common corporate culture shared by all companies in the LVMH Group.

RESTRUCTURED AND REINFORCED TRAINING OPPORTUNITIES

The Group seeks to offer its employees high-caliber training and development seminars designed to promote professional growth. To enhance its offer, the Group restructured its training program in 1999.

In addition to the seminars offered in each Group company, the new LVMH Training Center in Paris and the regional centers in New York, Hong Kong and Tokyo offer inter-company training focused on three key areas: development of personnel, management, and integration within LVMH. In 1999, 1,550 upper-level managers participated in these Group training programs, of which 30% were outside the France-European region. They especially dealt with the quality of recruitment carried out by line managers, as well as the opening to innovation and to new information technologies.

To complete this training offer, LVMH House opened its doors in London at the end of 1999. This development and innovation center receives executives and high-potential young managers of the Group from all countries. LVMH House will make it possible to multiply exchanges of "best practices" and will serve as a place of access to the



most global issues, notably around the themes of leadership and innovation. LVMH House will promote learning by action consisting of project groups designed by consultants and recognized professionals as well as by the Group senior managers.

NEW INFORMATION TECHNOLOGIES: EFFICIENT TOOLS FOR DEVELOPING THE GROUP AND ITS PEOPLE.

In 1999, the companies concentrated their efforts on developing or redesigning their Internet and Intranet sites, efficient information tools for recruitment, mobility, and training. Continually updated, the Group site (lvmh.fr/lvmh.com) saw the average number of hits increase three-fold in just one year. At the same time, the extranet site lvmhcareer.com, which acquaints upper-level managers with their prospects of evolution at LVMH and promotes communication within the Group (notably through "Executives on line", a platform designed to encourage exchanges between managers and executives), was considerably rejuvenated, in terms of content, graphics, and functionality. The VIP/Very Important Potentials project was also established in 1999. This database of electronic résumés shared by all Group companies constitutes a vital recruitment tool. Finally, the professional software PeopleSoft SIRH, which facilitates the mobility process and contributes to the efficient reinforcement of the management of people, will be deployed in all companies in 2000. The philosophy of LVMH is to make each individual a motor of change. The sites, tools, and software adopted by the Group companies are the new information technology responses to this dynamic.

Strategy and objectives



The LVMH Group is strengthening its position as world leader in cognac and champagne in all markets around the world. In 1999, Hennessy achieved a marked recovery despite continued decline of cognac demand in Japan, and all of our champagne houses posted spectacular performances, despite limiting sales, at the same time they enhanced their product mix and avoided speculative price hikes, enabling them to enter the post-millennium in a strong position.

Also in 1999, the Chandon brand – which includes sparkling wines from the United States, Argentina, Australia, Brazil, and elsewhere – was successfully relaunched. Finally, our distribution joint-ventures with UDV/Diageo were established and strengthened in France and Japan. Results from this reorganization will be fully visible in 2000.

Moët-Hennessy will capitalize on its unique expertise in developing international brands and creating value, as well as on its powerful distribution network, to establish other leading premium wines and spirits brands.

Control over distribution, and our ability to attract new consumers and retain the loyalty of the most demanding connoisseurs, are key competitive strengths.

The success of our strategy is contingent upon several major principles, applied consistently and rigorously: ongoing mix improvement thanks to the development of high-quality, high value-added product offerings; worldwide harmonization of our prices; differentiated high-profile brand communications focusing on the most promising market/product combinations; and cost control.

Our ambition is to exceed Euro 1 billion in income from operations within five years. With an increase of over 20% in 1999, we will focus this year on reinforcing our positions, without benefit from the millennium effect, as well as reinforcing our positions in the growth markets of the future and optimizing our ROCE, which is now nearly 20%.

Philippe Pascal

LVMH'S WINES AND SPIRITS ACTIVITIES ARE GROUPED WITHIN MOËT HENNESSY. THIS BUSINESS GROUP ENJOYS A PEERLESS HERITAGE AND UNIQUE BRANDS.

LVMH IS THE WORLD LEADER IN CHAMPAGNE WITH A 19% SHARE OF THE TOTAL MARKET AND A 46% SHARE OF THE PREMIUM QUALITY SEGMENT (RETAIL PRICE EXCEEDING EURO 15 PER BOTTLE).

IN 1999, LVMH ACQUIRED KRUG CHAMPAGNE AND CHÂTEAU D'YQUEM, TWO HIGHLY PRESTIGIOUS HOUSES, AND SOLD SIMI WINES IN THE UNITED STATES, ROZÈS PORT AND PELLISSON BRANDY.

OUTSIDE OF THE CHAMPAGNE REGION, LVMH DEVELOPS PREMIUM SPARKLING AND STILL WINES IN SEVERAL REGIONS OF THE WORLD SELECTED FOR THE QUALITY OF THEIR VINEYARDS. THE REPUTATION OF THESE WINES IS GROWING YEAR AFTER YEAR.

LVMH IS ALSO THE WORLD LEADER IN COGNAC, WITH A 34% MARKET SHARE.

THE LARGEST OF THE REGION'S TOP HOUSES, HENNESSY HAS BUILT ITS BRAND INTO THE UNDISPUTED GLOBAL BENCHMARK.

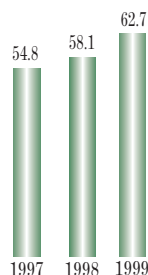


CHAMPAGNE & WINES

Sales by the Champagne and Wines division amounted to Euro 1,526 million (FRF 10,014 million), up 22% over the 1998 level

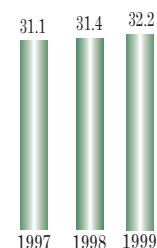
Income from operations rose by 34% to Euro 434 million (FRF 2,848 million).

Champagne sales volume
(in millions of bottles)



CHAMPAGNE KEY MARKETS									
(in millions of bottles)	1997 shipments			1998 shipments			1999 shipments		
	Industry	LVMH	LVMH market share	Industry	LVMH	LVMH market share	Industry	LVMH	LVMH market share
Germany	19.5	5.4	28%	19.4	5.3	27%	17.5	5.7	33%
United Kingdom	22.3	4.8	22%	24.2	5.1	21%	32.3	6.2	19%
United States	15.5	8.8	57%	16.9	10.1	60%	23.7	12.0	51%
Italy	6.7	4.4	66%	8.2	5.1	63%	9.4	4.9	52%
France	165.1	17.1	10%	179.0	17.2	10%	190.5	15.9	8%

Still and sparkling wines sales volume
(in millions of bottles)



GEOGRAPHICAL BREAKDOWN OF LVMH CHAMPAGNE SALES

(as a % of total LVMH champagne sales)	1997	1998	1999
United States	16%	17%	19%
Germany	9%	9%	9%
United Kingdom	8%	9%	10%
Italy	9%	8%	8%
Switzerland	4%	4%	4%
Rest of the world	23%	23%	25%
Total exports	69%	70%	75%
France	31%	30%	25%
Total	100%	100%	100%

Thanks to exceptional harvests in the past several years and to qualitative stockpiling of a portion of recent harvests, the Champagne region was fully prepared to ship over 300 million bottles in 1999 in the best conditions of quality and aging.

The region's 1999 shipments totaled 327 million bottles, an increase of 12% over the 1998 level. With 1999 sales of over FRF 22 billion, nearly half of which exports to Europe and the rest of the world, Champagne is far and away France's leading wine-producing region.

The 1999 harvest was exceptional in terms of quality and quantity, allowing LVMH champagne houses to bring in volumes in line with expected 2000 shipments, thereby replenishing inventories and putting Group companies in a strong position to meet post-millennium demand.

The Champagne region prepares to enter the third millennium with plans to further develop the key success drivers of the past several years: optimal quality thanks to rigorous management of inventories and qualitative stockpiling of part of its wines; multi-year contracts to strengthen partnerships between wine-growers and the Champagne houses; and controlled grape prices that will yield adequate revenues for wine-growers while guaranteeing a stabilized cost-base for champagne producers.

The renewal of supply contracts, regulated by inter-professional agreements between Champagne houses and wine-growers, is scheduled to be finalized in Spring 2000 and cover the next four harvests.

These favorable conditions allow LVMH's Champagne houses to reinforce their profitability, invest in new market penetration, and create sustainable value.

The value creation strategy implemented by each of LVMH's Champagne houses is a key factor of success for the Group and benefits the Champagne region as a whole.

Moët & Chandon

The world leader in champagne, in 1999, Moët & Chandon once again posted sharp increases in activity and results. Keeping supply under tight control throughout the year, Moët & Chandon was able to maintain the quality of its wines and position itself for the future growth of its sales.

MARKETING CLOUT

In its three key markets – the United States, Japan, and France – Moët & Chandon put particular stress on expanding its joint-ventures with UDV/Diageo, whose sales forces were strengthened. Alongside this intensified marketing effort, new merchandising materials directly targeting customers at points of sale were developed.



In the United States, the success of Nectar Impérial, introduced in 1998, should ensure continued significant growth in the future

In addition, the house developed its commercial efforts in growth markets, notably in Asia, where sales increased by nearly 50%. Concurrently, Moët & Chandon abandoned or reduced its presence in certain countries and distribution channels whose image and returns did not meet the house's standards.

Moët & Chandon pursued a policy of moderate price increases and harmonization of retail prices, particularly in Europe, where the introduction of the Euro provided the impetus to eliminate pricing differences across markets.

ACTIVE BRAND COMMUNICATIONS

Complementing its commercial harmonization efforts, Moët & Chandon sought to enhance the coherence of its global communications initiatives through the development of worldwide advertising and promotional campaigns.

In all its markets, Moët & Chandon has successfully established itself as the preferred partner of the fashion world after two years of targeted public relations investments.

Finally, the world's leading champagne house had a duty to come up with a project out of the ordinary to greet the new millennium. *LEsprit du Siècle*, a unique blend of eleven of the 20th century's greatest vintages, produced in a limited series of 323 magnums, represents a sublime homage to the heritage and oenological expertise of the house as well as an exquisite testimony of its commitment to the future.

DOM PÉRIGNON – A CULT BRAND

Even more so than usual with the coming of the new millennium, demand for the Dom Pérignon prestige cuvée greatly exceeded available quantities in 1999. The cult brand status of this exceptional product was furthered through advertising for which several great contemporary artists and photographers have lent Dom Pérignon their unique expressions and vision.

Mercier

Mercier remains the best-selling champagne brand in France, reflecting its longstanding ties with consumers in its home market, supported and strengthened by major advertising and promotions efforts.

In 1999, Mercier pursued its repositioning through a significant increase in retail prices, extensive redesign of its product packaging – available in stores since early 2000 – and aggressive communications efforts focusing in particular on the *Eugène Mercier* prestige cuvée, which achieved a further increase in sales.

The house will pursue its value creation program in 2000, promoting the brand's strong roots and authenticity as well as the quality of its products. This will be accompanied by a slight reduction in volumes available for shipment.

Ruinart

In order to guarantee the uncompromising quality that connoisseurs and wine-stewards have come to expect from the brand, Ruinart once again limited its shipments, which rose by just 7.5% despite particularly intense demand.

Ruinart's top-of-the-line qualities – *Dom Ruinart* Blanc and Rosé, *R de Ruinart* vintage and *R de Ruinart Rosé* – experienced spectacular growth.

R de Ruinart Rosé, launched in 1997, was in particularly strong demand, with sales volume nearly doubling from the 1998 level. In line with the house's international expansion strategy, export volume rose by nearly 30% last year.

L'Exclusive, a unique blend of five Chardonnay grands crus with a retail price of Euro 1,000 per magnum, exceeded expectations in 32 countries. This exceptional magnum, hailed by the media and consumers alike, once again demonstrates Ruinart's oenological expertise and bolsters the house's prestige.

In 2000, Ruinart plans to further reinforce the notoriety of its prestige cuvées and expand sales outside of France.

Veuve Clicquot Ponsardin

The world's second largest champagne house, Veuve Clicquot pursued its international expansion in 1999, with shipment growth limited to 10%, below the rise in demand, so as to preserve the quality of its inventories.

Veuve Clicquot turnover rose by more than 35%, reflecting moderate price increases combined strong improvement in product mix. The geographical breakdown of sales also improved, with sharp growth in the United States (the

brand's first market) Brazil, Japan and the rest of Asia, Switzerland and duty-free networks.

VALUE CREATION

The *La Grande Dame* prestige cuvée posted sharp increase in sales in 1999, strengthening its position among the world's top three premium cuvées.

Thanks to the excellent quality of the 1990 vintage, marketed on the occasion of the millennium, *La Grande Dame* was able to take its place among the greatest wines of the turn of the century. *La Grande Dame*'s visibility was enhanced by special packaging developed to mark the new century. A millennium dinner given at the Palace of Versailles put *La Grande Dame* on stage before the house's 600 best clients worldwide.

Sales of the Clicquot *Vintages* also rose sharply, while volume growth of the celebrated *Brut Carte Jaune*, whose positioning at the top of its category was reinforced by a moderate increase in retail price, was limited by available inventories.

THE POST-MILLENNIUM ERA

In 2000, Veuve Clicquot shipments should remain unchanged, but the house expects to pursue the improvement of its product mix and its deployment in future growth markets, an initiative launched two years ago, particularly in Asia and Latin America.

Control over distribution and expansion of the global network should result in cautious growth, while the house will continue to adjust its retail pricing strategy with the aim of achieving worldwide harmonization.

Krug

World-renowned for the quality and uniqueness of its wines, the Krug house joined the LVMH Group in January 1999. In March, the Veuve Clicquot network took over the international distribution of Krug products.

Led by members of the Krug family, who are solely responsible for the composition of its cuvées, the house of Krug, recognized as the absolute leader in super-premium champagne wines, has found within LVMH the resources needed to strengthen its personality, maintain its unique style, and initiate a cautious development strategy, supported by qualitative investments. Krug retains complete autonomy with regard to the blending, aging and conditioning of its wines. The house also controls its marketing strategy and brand communications, focusing on the distinctiveness of its cuvées.

The launch of the 1988 vintage, after the 1989, received unanimous acclaim from the media and connoisseurs around the world.

INTERNATIONAL PRESTIGE

Krug's association with Veuve Clicquot since it joined LVMH has allowed the house to harmonize its global positioning and reinforce its presence in the United States, United Kingdom, Germany, Switzerland and Japan. In Italy, where Krug is represented by Antinori, the brand's position was also strengthened. Krug also made a successful first foray into Brazil.

In 2000, Krug will pursue a well-balanced worldwide growth strategy while maintaining the selectivity of its distribution. Substantial investments in brand communications and production facilities have been budgeted so as to provide the house with the resources it requires to sustain its development and high level of excellence.

Canard-Duchêne

A premium European brand, Canard-Duchêne pursued its rigorous repositioning strategy initiated three years ago.

Against a slight drop in France, Canard-Duchêne's sales volume rose by nearly 40% in the rest of Europe, while its average retail price increased by 7%.

Shipments of the *Grande Cuvée Charles VII*, now available in Brut, Rosé and Blanc de Noirs varieties and appreciated for its competitive value, rose by 60%, contributing to the improved product mix.

Thanks to this value creation strategy – supported by an innovative advertising campaign and public relations efforts targeting top universities and professional schools – Canard-Duchêne enters the new millennium with a strengthened European position and very contemporary image.

Pommery

Pursuing its value creation strategy, Pommery's sales increased by 25% in 1999, fueled in part by prudent retail price increases and sharp growth in sales of premium cuvées and new products.

Export sales rose sharply, accounting for 72% of the total in 1999.

The sharpest increases were achieved in the United Kingdom, the United States, and Japan.

Marketing investments in the markets where Pommery seeks to establish its presence proved particularly effective, and were acclaimed by the media and trade alike. Sales of

recently launched products (*Summertime*, *Wintertime*, *Apanage*) turned in sharp increases, reflecting their success in restaurant circuits.

Pommery strengthened its advertising communications, focusing on the specificity of its wines distinctive positioning among premium champagne houses.

Pommery's strategy of moderate price increases and greater distribution selectivity laid the ground for further growth in the post-millennium period and sustainable strengthening of the house's competitive positions.

In 2000, Pommery will pursue its strategy, stressing development in key markets and the growth of high value-added cuvées, the brand's main growth drivers.

Chandon Estates

In a highly competitive world market, with dynamic global players and strong and aggressive startups, particularly in the United States and Australia, Chandon Estates – the division encompassing Moët-Hennessy's main activities in still and sparkling wines – had an excellent year in 1999.

Bodegas Chandon strengthened its leadership in Argentina, despite the difficult economic climate, while the division's sales and profit benefited from particularly strong performances in the United States, Brazil and Australia.

The relaunch of the Chandon brand of sparkling wines, whose positioning and strategy were redefined, is a key success driver. Supported by considerable advertising and promotion efforts in key markets, the brand's profitable development complements that of Moët & Chandon.

In the United States, the *Fresco* brut from Argentina rounds out the range of California sparkling wines produced by Domaine Chandon in Napa Valley. Initial results in the states where it was market tested were highly promising.

In Brazil, Chandon successfully introduced its *Passion* brut, developed locally and using particularly aromatic grapes.

Chandon Estates also undertook its first large-scale initiative in the still wine segment with the launch of *Terrazas*, a collection of fine varietal wines produced in Argentina, whose distribution should soon be expanded beyond its home market, particularly to the United States, Japan and United Kingdom.

In 2000, Chandon Estates will continue investing in established as well as emerging markets equally, and further improve its profitability.

Cloudy Bay – Cape Mentelle

Thanks to an excellent year in 1999, the reputation of *Cloudy Bay* (New Zealand) and *Cape Mentelle* (Australia) is continuing to climb among connoisseurs of great New World wines. Reflecting the rapid expansion of growing areas in the past several years, now gradually coming into production, sales volume is expected to grow by a steady 10 to 20% per year in the near future.

Famous for its sauvignon blanc, Cloudy Bay sold a limited quantity of pinot noir in 1999 with highly promising results. Cape Mentelle completed the planting of an additional 60 hectares, chiefly in cabernet sauvignon and syrah varieties.

Sales of *Pacific Echo*, a sparkling wine developed in California by Scharffenberger Cellars, rose by over 40% in the United States, while maintaining a positioning at the top end of its category.

Château d'Yquem

The Yquem vineyard and its Sauternes white wine owe their international prestige to the meticulous care given throughout the year to this exceptional estate and to the precious barrels kept in its aging cellars.

The fame of Château d'Yquem also stems from the estate's singular microclimate, conducive to a particular phenomenon – known as “noble rot” – which transforms the grape just before it is harvested.

To take advantage of this fickle phenomenon, the grapes grown at Château d'Yquem – of the sémillon and sauvignon varieties – must frequently be harvested one at a time. This strenuous method is in large part responsible for the complexity of the wine's flavor, the richness of its aroma and, maybe, the miracle of its exceptional longevity.

Thanks to prudent but ongoing improvements to the vineyard and winery over the past thirty years, Château d'Yquem has achieved worldwide fame among connoisseurs. Because of particularly strict selection – each vine produces the equivalent of just one glass of wine per year – the estate's 113 hectares of vineyards yields just 110,000 bottles annually.

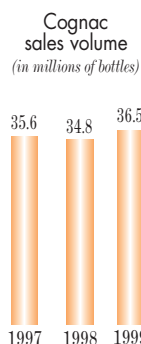
Château d'Yquem wines are never sold before at least three and a half years of aging in oak barrels. In 1999, for example, the 1994 vintage was offered to wine connoisseurs. The outstanding 1995 vintage will be brought to the market in 2000. The 1999 vintage – which should reach the market around 2006 – is the latest in a succession of particularly bountiful years, making up for the absence of the 1992 vintage, whose quality was deemed insufficient to bear the Château d'Yquem name.



COGNAC & SPIRITS

Sales of the Cognac and Spirits division amounted to Euro 714 million (FRF 4,683 million), up 7% over the 1998 level.

Income from operations rose by 5% to Euro 221 million (FRF 1,450 million).



COGNAC KEY MARKETS (EXCLUDING BULK)									
(in millions of bottles)	1997 shipments			1998 shipments			1999 shipments		
	Industry	LVMH	LVMH market share	Industry	LVMH	LVMH market share	Industry	LVMH	LVMH market share
United States	30,2	15.0	49.7 %	34.2	18.2	53.2 %	35.7	17.3	48.5
Japan	9,6	5.0	52.1 %	7.4	4.3	58.5 %	6.4	3.8	59.4%
Germany	6,2	1.3	21.0 %	4.5	1.2	26.2 %	5.0	1.3	26.0%
France	5,8	0.4	6.9 %	5.7	0.4	6.6 %	5.7	0.4	7.0%

In 1999, following several years of decline, total cognac industry shipments rose by 3%, to the equivalent of 102 million bottles.

STRONG GROWTH IN THE US MARKET

The industry's rebound is largely due to strong cognac sales in North America, up 4% to 35% of total shipments. Recovery in certain Asian markets – which, excluding Japan, rose by 20% to account for 15% of total shipments – and in the duty-free networks also contributed to this growth.

The situation remains difficult in other markets. In Japan, cognac sales continue to drop, while sales in Europe were affected by the Russian crisis and the abolition of intra-European duty-free sales.

NECESSARY RESTRUCTURING OF THE VINEYARDS

The 1999 harvest was good, yielding potential capacity far in excess of the region's requirements. In order to provide solutions to the region's structural oversupply and assist its reconversion, a government-subsidized two-year program aimed at reducing cognac vineyard acreage was adopted in late 1998. As only 2,000 hectares out of a total of 80,000

were converted during the program's first year, there is ground to fear that the commitment of the region's grape-growers will not be sufficient to tackle its problems.

With distillation volume of the 1998 harvest nearly 20% lower than in the prior year and close to 25% lower than shipments during the period, a certain rebalancing is clearly taking place, and should continue in 2000. Nevertheless, more drastic measures are necessary for the region to pull itself out of its structural crisis.

GROWTH AND COST CONTROL

Thanks to their strong presence in the most buoyant markets – the United States and Asia – Hennessy and Hine, LVMH's cognac houses, further widened the gap with their competitors. Revenues of the two houses rose by 7.5%, far above the increase in sales volume. Income from operations grew by 5% bolstered by higher sales and continued cost control.

Hennessy is working on an ambitious industrial restructuring plan aimed at combining all production facilities onto a single site. This project led to a sizeable reduction in total headcount. Savings on overhead and improved efficiency will enable Hennessy to strengthen the brand's advertising and promotion. Hine also initiated a reorganization program aimed at improving the efficiency of its Jarnac production site.

During 1999, LVMH sold Pellisson, a brandy maker.

Hennessy

In a competitive environment exacerbated by intense price competition and efforts by low-price producers, Hennessy reinforced its leadership thanks to an aggressive strategy of innovation and value creation.

With sales volume up 5%, Hennessy retained its 35% share of the world cognac market. Hennessy also strengthened its positions in most world markets while maintaining its price positioning.

Sales of Hennessy VS continued to outperform the market, fueled by growth in the United States. Good results were also achieved by VSOP in the United States and Asia, while sales of XO increased slightly, helped in particular by the Asian duty-free market.

This strong performance in a difficult environment is largely due to Hennessy's intensification of its advertising and promotion efforts aimed at highlighting the brand's traditional values – authenticity, luxury, modernity and sensuality.

In the past several years, Hennessy has pursued an aggressive strategy to attract new categories of consumers, younger and with more modern lifestyles. These efforts, vigorously pursued in 1999, have contributed to rejuvenating Hennessy's brand image through promotion of new modes of consumption as well as through the launch of new, higher value-added products.

Promotion of Hennessy as a mixer or served "on the rocks" was pursued in all markets, notably through public relations campaigns conducted in bars and night clubs. In addition, the brand's fundamentals are being revitalized, setting the stage for renewed advertising and promotional efforts in 2000.

SUCCESS OF NEW PRODUCTS

A number of new products, developed to attract younger consumers and reinforce the brand's prestigious heritage, were introduced in all key markets in 1999, garnering significant media coverage. Hennessy *Pure White*, a young cognac presented in an unconventional flask, was launched in late 1998 and is now available in a dozen markets, including France, Germany, Spain, Colombia, Hong Kong, Taiwan, Malaysia, Singapore, China and Japan.

To celebrate the millennium with an exceptional product that symbolizes its tradition and know-how, Hennessy launched its *Timeless* carafe, a masterful blend of the 20th century's eleven best eaux-de-vie. Presented in a Baccarat crystal flask, this limited-edition series of 2,000 bottles, with a \$3,000 retail price, was the focus of prestigious public relations events in France and internationally at the time of its launch towards year end.

GROWTH IN KEY MARKETS

In 1999, Hennessy further strengthened its positions in all its key markets.

In the **United States**, the largest market in the world for cognac and for Hennessy, sales of VS recorded another sharp increase. The brand launched a high-profile nationwide advertising and public relations campaign to attract new consumers outside of its traditional targets. Hennessy now ranks among the top spirits brands in terms of US advertising spend.

The VSOP development program also yielded excellent results, and efforts to appeal to new consumers will be continued in 2000.

In **Japan**, Hennessy once again gained market share despite the continuous drop in cognac demand. To reinforce its number one position in the Japanese market, Hennessy intensified its efforts in new sales circuits while continuing to strengthen its presence in traditional clubs. The introduction of Hennessy *Classique* – a more accessible cognac, whose early performance exceeds expectations and shows great potential – illustrates the brand's marketing momentum. In addition, Hennessy introduced *Pure White* in Tokyo to attract the younger clientele of trendy bars and restaurants, a rapidly growing market. Sales of *Hennessy Na-Geanna*, a top-of-the-line Irish whiskey introduced in 1998, rose sharply in Japanese nightclubs. Hennessy will pursue its investments in brand promotion in 2000, especially through a new advertising campaign.

In **Asia**, Hennessy has come out of the financial crisis in an even stronger position, with higher sales in all key markets, particularly China and Taiwan. Reflecting its efforts to promote VSOP, Hennessy has become the region's premium spirits brand in terms of sales.

Hennessy's modernization program aimed at younger consumers is bearing fruit. The launch of *Pure White* at year end should make Hennessy more accessible to young Asian consumers. XO and VSOP still enjoy considerable growth potential, notably in the modern distribution circuits, which are emerging in these markets, as well as during traditional holidays.

In 2000, with the Asian economies firmly on track, these trends are expected to accelerate. Hennessy intends to take advantage of this renewed confidence to re-energize demand for its higher quality products, XO and beyond. In the longer term China's entry into the WTO should have a favorable impact on growth.

In **Europe**, the drop in cognac demand primarily reflects the abolition of intra-European duty-free sales. Nevertheless, Hennessy shipments were unchanged, reflecting further growth in Ireland, its largest European market, as well as recovery in Eastern Europe in the fourth quarter.

The launch of Hennessy *Pure White* in key European markets piqued the interest of consumers, seduced by its “cognacly incorrect” positioning and by promotional events organized in trendy clubs and bars to celebrate its introduction. *Pure White’s* development will be accelerated in 2000, supported by major advertising and promotional efforts.

The *Single Distillery Cognacs*, highly individualized varieties with a comparable positioning to that of single malt whiskies, will soon be launched in selected European bars, restaurants and clubs.

In 2000, important initiatives will be undertaken to boost the sales and market share of Hennessy’s older quality cognacs.

PROMISING DEVELOPMENTS

While strengthening its positions in traditional markets, Hennessy continues to make significant inroads into high-potential markets, thus preparing its future growth. In certain secondary Asian markets – such as Indochina and South Korea – Hennessy has established a solid presence.

Hennessy sales have declined in Latin America, reflecting sharp price increases to make up for the devaluation of local currencies, as well as discontinued sales to unauthorized distributors.

Hine

As announced, Hine considerably expanded the distribution of its products in 1999, implementing a strategy focused on product promotion and the launch of a new VSOP quality in the Far East.

In line with its super-premium positioning and the uncompromising quality for which the house is world-renowned, Hine was able to enter new markets and broaden its customer base, notably by joining the Veuve Clicquot distribution network.

Despite the penalizing abolition of intra-European duty-free sales, Hine was able to strengthen its financial performance in 1999.

In 2000, Hine will secure additional financial resources to accelerate the implementation of its growth strategy. In addition, the house will step up the marketing, advertising and promotional initiatives aimed at developing sales of its vintage cognacs, a specialty of Thomas Hine & Co.



Hennessy
Timeless

Hennessy
Timeless

FASHION & LEATHER GOODS

Strategy and Objectives



In 1999, LVMH combined all its fashion and leather goods brands to form a single business group.

The decision to establish a single group was a logical move, as the two types of activities has become increasingly complementary.

In joining these activities, we also sought to improve our competitiveness in the face of fundamental changes in the world's luxury goods market: rapid consolidation in recent years; adoption of similar strategies by the brands vying for global status; intense competition for the best retail locations as well as for media coverage... In this new environment, fashion and leather goods brands run the risk of confusing their customers and diluting the distinctiveness of their products.

Our ambition is to grow faster than our peers. The sheer size of our group, the talent of its people, and the exceptional images of our brands and products are the best guarantees of our success.

Our goal is twofold. First, we aim to bring together our competencies and our technical and financial resources so that each house may concentrate on its core activity: design and marketing strategies that promote the style and identity of each brand.

Our second objective is to carry out a coherent acquisition strategy, focused on strong, complementary targets. Our alliance with Fendi in late 1999, in partnership with the Prada group, as well as the acquisition of a 67% interest in Pucci in February 2000, are a perfect illustration of this strategy.

Yves Carcelle

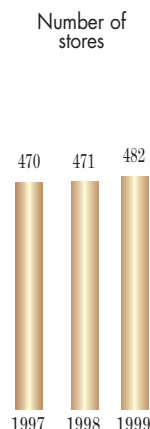
SINCE SEPTEMBER 1999, THE FASHION AND LEATHER GOODS BUSINESS GROUP COMBINES UNDER A SINGLE MANAGEMENT UMBRELLA LOUIS VUITTON, THE WORLD'S LEADING LUXURY BRAND, LOEWE, CÉLINE, BERLUTI, KENZO, GIVENCHY AND CHRISTIAN LACROIX. THE BUSINESS GROUP ALSO HOLDS INTERESTS IN THE MARC JACOBS AND MICHAEL KORS FASHION HOUSES.

THE FASHION AND LEATHER GOODS BUSINESS GROUP – WHICH EMPLOYS 8,500 PEOPLE – HAS 15 PRODUCTION FACILITIES AND NEARLY 500 STORES ACROSS THE WORLD.

THE GROUP EXPLOITS SYNERGIES IN A NUMBER OF AREAS, INCLUDING SHARED REGIONAL ORGANIZATIONS, JOINT BACK OFFICES AND SUPPORT SERVICES, RATIONALIZATION OF PRODUCTION FACILITIES AND LOGISTICS CENTERS, AND LOWER PURCHASING COSTS THROUGH ECONOMIES OF SCALE.



**Sales of the Fashion and Leather Goods business group
amounted to Euro 2,280 million (FRF 14,954 million), up 25% over 1998.**
Income from operations rose by 33% to Euro 824 million (FRF 5,408 million).



GEOGRAPHICAL BREAKDOWN OF FASHION & LEATHER GOODS SALES

(in millions of euros)	1997	%	1998	%	1999	MFRF 1999	%
France	223	12%	249	14%	272	1,786	12%
Europe (excluding France)	249	14%	258	14%	288	1,889	13%
Americas	322	17%	296	16%	380	2,491	17%
Japan	637	35%	667	36%	851	5,579	37%
Asia (excluding Japan)	344	19%	302	17%	440	2,886	19%
Pacific Rim	37	2%	34	2%	42	275	2%
Rest of the world	25	1%	23	1%	7	48	0%
Total	1,837	100%	1,829	100%	2,280	14,954	100%

Louis Vuitton Malletier

In 1999, sales of Louis Vuitton Malletier products to European, American and Asian customers posted further growth, while Japanese tourism recorded a sharp rebound. As a result, Louis Vuitton sales rose significantly in all markets, both in value and volume terms.

KEY DEVELOPMENTS

The globalization strategy initiated by Louis Vuitton in 1998 has yielded spectacular success – the house's two ready-to-wear collections generated intensive media coverage; 11 new "global stores", carrying the brand's full product lines, were inaugurated; and the ready-to-wear and footwear collections were expanded to 19 and 66 stores, respectively.

To support these developments, Louis Vuitton has launched a host of innovative products and considerably broadened its product portfolio.

The new *Monogram Vernis* line designed by Marc Jacobs has achieved exceptional success, generating sales of over FRF1 billion. The creation of the new *Epi Noir* series has energized the entire Epi leather line. At year end, Louis Vuitton launched the *LV Cup* line, which includes ready-to-wear, leather goods, footwear and accessories. Sales of this special line will continue through the first half of 2000. Finally, Louis Vuitton has continued to aggressively expand its other lines, *Monogram*, *Damier* and *Taïga*, with the launch of an array of new products.

Sales of ready-to-wear and footwear exceeded the company's targets.

SUSTAINED BRAND COMMUNICATIONS

Louis Vuitton sales benefited from considerable communications efforts throughout the year. Four advertising campaigns for the *Monogram Vernis*, *Cuir Epi*, footwear and *LV Cup* lines were well received. Louis Vuitton also extended its association with the world of vintage automobiles. Finally, the company operated a media center in Auckland, New Zealand, during the Louis Vuitton Cup, garnering considerable coverage around the world.

EXPANSION OF THE RETAIL NETWORK

At year end, Louis Vuitton's branded retail network encompassed 261 directly operated stores and 26 corners. The house opened its first stores in Ireland and Saudi Arabia. During the year, seventeen stores were opened, including six in the United States and Latin America, three in Japan, one in Taiwan, one in Korea, two in France (including one in Saint Tropez on the French Riviera), and four in Europe. Sixty stores were relocated, expanded or renovated, notably the Avenue Montaigne store in Paris.

The Louis Vuitton network now comprises 15 full-line global stores, following openings in Hong Kong (Landmark), Fukuoka, Nagoya and Tokyo (Ginza), Frankfurt, Paris (Avenue Montaigne), Waikiki (Honolulu), Sydney, Taipei, Los Angeles (Rodeo Drive) and Sao Paulo.



OUTLOOK

To support its planned rapid expansion – reinforced global brand status and higher sales volume – Louis Vuitton focused on upgrading its organization in 1999. The company's French and international teams were strengthened, with particular emphasis on expanding its sales forces. Louis Vuitton also built up its production infrastructure, as the Sainte Florence unit in Vendée reached full capacity. Efforts were undertaken to improve productivity and workshop flexibility, particularly to meet growing demand for new products.

In 2000, Louis Vuitton will pursue the opening of global stores, enter two new markets, and begin construction of a second manufacturing facility in Sainte Florence.

Loewe

Loewe, the Spanish fashion and leather goods house, benefited from the restructuring and expansion initiatives undertaken since it joined the LVMH Group. Key 1999 developments included a significant recovery in sales volume and a sharp increase in revenues.

The new collections designed by Narciso Rodriguez met with continued success, and new advertising campaigns were instrumental in raising brand awareness.

Last year, Loewe made sizable investments in the development of its retail network. Seven new stores were opened, notably in Japan, Taiwan, Spain, Latin America and, in Paris, at the Group's Le Bon Marché department store. All told, the Loewe network comprised 94 stores at 1999 year end, up from 87 one year earlier. In addition, twelve stores were renovated according to the new design concept introduced in 1998.

Loewe manufacturing facilities in Madrid and Barcelona were upgraded to match the Group's productivity standards.

In 2000, Loewe will focus on energizing its fragrance activities. The company will also step up its brand communications efforts, as well as the renovation and expansion of its retail network, with ten new stores scheduled to open during the year.

Céline

In 1999, Céline concentrated on tightening its control over the distribution of its products around the world. Deliberate efforts to increase the selectivity of its distribution led to a slight drop in sales, but should contribute to higher profitability and brand prestige in coming years.

Michael Kors, who joined Céline as head designer of women's ready-to-wear collections in late 1997, was appointed Artistic Director in February 1999. His responsibilities have been broadened to include leather goods. The elegant simplicity of Michael Kors' style is a perfect fit for Céline's contemporary flair, and the success of his collections have boosted the brand's ambitions.

Céline has taken dramatic steps to overhaul its retail network. In 1999, eighteen stores were extensively redesigned in accordance with the new concept inaugurated in the prior year. In addition, Céline assumed direct control of its distribution in Korea, Taiwan and Thailand, previously handled by franchisees.

Capitalizing on the synergies developed within the Fashion and Leather Goods business group, Céline now relies on its state-of-the-art ready-to-wear logistics center, located in Montbazou.

Céline will continue to invest heavily in upgrading its retail network in 2000. The Milan and Beverly Hills boutiques will be expanded, the New York store will be relocated to Madison Avenue, and 26 stores will be adapted to the brand's new concept. Céline will also strengthen its presence in the United States and further develop the activities conducted jointly with DFS.

Berluti

Known for its unique style, creative designs and unusual shades, as well as for the exceptional aesthetic and comfort of its products, Berluti ranks among the top makers of made-to-measure and ready-to-wear luxury footwear.

Berluti achieved an outstanding sales performance in 1999. The house opened its third store, in Tokyo, after Paris and London, which were inaugurated in 1998.

Berluti renovated its ready-to-wear production facility in Ferrara, Italy, and is due to open a fourth store, in Milan, in the first half of 2000.

Kenzo

In 1999, on the occasion of the retirement of founder and head designer Kenzo Takada after 30 years at the helm, the house of Kenzo organized a highly successful gala event. A partnership of designers will carry on the spirit of freedom and fantasy that has been the house's hallmark under its founder.

Gilles Rosier, who worked with Kenzo for the past several seasons, heads women's ready-to-wear design, while men's



ready-to-wear is the responsibility of Roy Krejberg, who has worked as stylist of the men's collections since 1998.

Other highlights of 1999 include the sharp growth in sales of the Jeans ready-to-wear line and considerable marketing efforts in favor of the Kenzo Homme line. A directly operated boutique was opened in London, while several franchises were developed in Europe.

Kami, Kenzo's production and logistics center in Montbazou, was also expanded to serve all of LVMH's ready-to-wear activities, particularly for Céline and Christian Lacroix.

In 2000, Kenzo will pursue its development in the United States and Europe and reinforce its presence in Japan. In addition, development of the accessories lines, an area with high growth potential, will be intensified.

Givenchy Couture

Applying his creativity to amplify Givenchy's fundamental values, the designer Alexander McQueen has given new momentum to the brand. His eye-catching designs for Givenchy, notable for their pure, modern lines, have attracted new customers while retaining the loyalty of the house's traditional clientele.

In 1999, Givenchy opened a new flagship store in Hong Kong and a boutique in Warsaw, Poland. The house also signed a joint-venture agreement for the opening of 23 men's ready-to-wear boutiques in China.

Another major development of the year was the spectacular growth of Givenchy's accessories sales, which far exceeded expectations. Its collaboration with DFS, operational since 1998, yielded excellent results.

Givenchy's new sunglasses and golf licenses also recorded good progress, while the recently developed lingerie license made a promising start.

Givenchy has a number of projects in the works for 2000. Moving beyond China, activities will be developed in the rest of Asia, through reinforcement of local structures, and particular efforts will be made to energize the company's activity in Japan. The New York boutique will be relocated and redesigned to reflect the brand's new concept. Finally, the development of Givenchy's accessories lines will be intensified and the ready-to-wear collections given a new impulsion, beginning with the fall-winter 2000 collection.

Christian Lacroix

In 1999, Christian Lacroix refocused its investments on its core activities and on the European market, where the brand still has room to grow.

As part of this strategy, the company closed its Japanese subsidiary and redirected its retail activities towards less capital-intensive formulas, such as licensing.

A highlight of the year was the promising launch of a new fragrance in France.

In 2000, production of the house's ready-to-wear lines will be transferred to the business group's manufacturing and logistics center, and new licenses will be developed. In addition, the new Christian Lacroix fragrance will be launched internationally.

Marc Jacobs

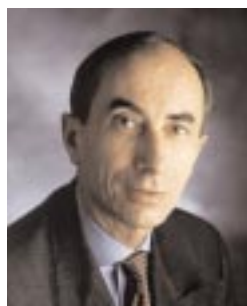
The Marc Jacobs ready-to-wear line has performed strongly in the brand's SoHo boutique and in American department stores.

A second line is planned for 2000.



FRAGRANCES & COSMETICS

Strategy and objectives



In 1999, the growth at LVMH's Fragrances and Cosmetics business group – even if the year's acquisitions are excluded – greatly outpaced that of the world market.

Once the impact of the Asian crisis was dissipated and we completed the elimination of unauthorized distribution tarnishing our image, the sharp rebound we had anticipated materialized. This recovery was bolstered by

the growing success of our new products, with particularly strong growth in the second half. For the year as a whole, new products accounted for over 17% of sales at our fragrances houses. In addition, our efforts to improve margins by integrating supply chains and consolidating back-offices in certain regions outside of France yielded significant gains. These gains, partly reinvested into the key drivers of our businesses, fueled the growth of our operating profitability, which grew faster than our sales.

Underlining our commitment to playing a leading role in the development of our industry and looking outside of France for future growth drivers, we made five acquisitions in 1999, including three promising US startups: Bliss, Hard Candy and BeneFit. In addition, we took control of the Laflachère group, which provides us with dominant positions in the hygiene and beauty sector and access to a strong, efficient salesforce targeting mass retailers. Finally, in November 1999, we acquired a professional makeup company, Make Up for Ever, thereby gaining access to a new market segment.

Our strategy for 2000 and beyond will focus on aggressively increasing sales – poised to grow by about 10% a year – and improving our operating margin, which should exceed 10% in 2001.

Based on strong 1999 results, we are confident that these ambitions are achievable.

Patrick Choël

THE FRAGRANCES AND COSMETICS BUSINESS GROUP IS BASED AROUND PARFUMS CHRISTIAN DIOR, GUERLAIN, PARFUMS GIVENCHY AND PARFUMS KENZO. THESE FOUR GREAT HOUSES, WITH FRENCH ROOTS, HAVE DEVELOPED WELL-DEFINED BRAND TERRITORIES, DISTINCTIVE AND YET COMPLEMENTARY.

ALONGSIDE THESE WELL-ESTABLISHED BRANDS WITH PROVEN INTERNATIONAL TRACK RECORDS, THE FRAGRANCES AND COSMETICS BUSINESS GROUP TOOK CONTROL IN 1999 OF SEVERAL INNOVATIVE STARTUPS, TARGETING A YOUNGER CLIENTELE, WHICH WILL PROVIDE THE GROUP WITH FUTURE GROWTH DRIVERS AND A UNIQUE WINDOW INTO EMERGING COSMETICS AND MAKEUP TRENDS. THREE US COMPANIES – BLISS, HARD CANDY AND BENEFIT – JOINED LVMH, FOLLOWED AT YEAR END BY MAKE UP FOR EVER, A MAKER OF PROFESSIONAL MAKEUP. THE LAFLACHÈRE GROUP, SPECIALIZING IN HYGIENE AND BEAUTY PRODUCTS, ALSO JOINED LVMH IN 1999.

THE HARMONIZATION OF LVMH'S FRAGRANCES AND COSMETICS ACTIVITIES WITHIN AN INTEGRATED BUSINESS GROUP, ESTABLISHED IN LATE 1997, HAS ALLOWED ITS COMPANIES TO SHARE A GREAT NUMBER OF FUNCTIONS – R&D, PURCHASING, LOGISTICS, PRODUCTION, ETC. – AS WELL AS THE INTERNATIONAL NETWORKS OF THE RESPECTIVE HOUSES. THESE INITIATIVES HAVE BEGUN TO YIELD CONSIDERABLE SYNERGIES, AND SHOULD RESULT IN SIGNIFICANT IMPROVEMENTS OF THE BUSINESS GROUP'S OVERALL PROFITABILITY.



Sales of the Fragrances and Cosmetics business group amounted to Euro 1,703 million (FRF 11,168 million), up 24% over 1998.

Income from operations rose by 33% to Euro 146 million (FRF 955 million).

GEOGRAPHICAL BREAKDOWN OF FRAGRANCES & COSMETICS SALES*						
(in millions of euros)	1997	%	1998	%	1999	MFRF 1999
France	258	19%	277	20%	443	2,905
Europe (excluding France)	492	35%	499	36%	542	3,555
Americas	297	21%	307	22%	364	2,390
Japan	130	9%	119	9%	141	922
Asia (excluding Japan)	138	10%	91	7%	126	829
Pacific Rim	29	2%	23	2%	28	183
Rest of the world	62	4%	53	4%	59	384
Total	1,406	100%	1,369	100%	1,703	11,168

* Including each region's duty-free sales

Parfums Christian Dior

In 1999, Parfums Christian Dior achieved strong growth in sales and income from operations. No longer penalized by the Asian crisis and unauthorized sales, the company successfully restructured its production and logistical capabilities and focussed its efforts on the development and launches of new products.

As in prior years, new products were major contributors to the growth of Parfums Christian Dior sales.

J'adore, a major new women's scent, launched in Europe in September, was well received by retailers and consumers alike and yielded spectacular results. In its first three months – and without any contribution from the North American market where it will not be available until April 2000 – *J'adore* sales were near Euro 60million (nearly FRF 400 million).

Sales of the brand's skincare lines were boosted by the introduction of *Phenomen A*, whose technological benefits have ensured it immediate success.

Finally, makeup sales also rose sharply in 1999, thanks to bold innovation and the recovery of Asian markets.

As anticipated, Parfums Christian Dior rapidly benefited from the reorganization of its distribution in the United States, where the brand's sales rose by more than 20% last year.

Sales by Parfums Christian Dior in Southeast Asia were energized by the recovery of most of the region's economies – notably South Korea and Taiwan – and the sharp increase in Japanese tourism.

Finally, in Latin America, particularly in Argentina and Brazil, Parfums Christian Dior posted satisfactory increases despite the region's economic difficulties.

Parfums Christian Dior introduced a new, particularly elegant merchandising design for its department store

counters. Successfully tested in Paris at Galeries Lafayette and Le Bon Marché, this new concept will be gradually extended to all locations worldwide.

Parfums Christian Dior continued to make substantial strategic investments in the improvement of its infrastructure. The installation of a new, integrated SAP IT system should yield significant savings throughout the supply chain, from purchasing to distribution.

In 2000, Parfums Christian Dior will pursue its innovation and cost reduction strategy. With the launch of *J'adore* in North America in particular, the house should record another significant increase in sales and income from operations.

Guerlain

In 1999, Guerlain confirmed its return to growth in sales and profitability, focusing its strategy on the great classic fragrances and skincare products for which the house is famous around the world.

The *Samsara* women's fragrance was relaunched towards year end, while considerable advertising support was given to *Shalimar*, Guerlain's flagship fragrance, to ensure its continued worldwide development.

Similarly, the *Issima* skincare line, another Guerlain classic, recorded growth of over 20% last year.

Guerlain launched a host of new products. The new *Aqua Allegoria* line of five eaux de toilette, launched in May 1999, was particularly successful, largely exceeding expectations. At year end, the *Issima* skincare line was expanded through the addition of several new products, including *Hydramythic*, *Matiday*, *Success Lift* and *Issima Blue Voyage*.



Guerlain opened three new exclusive retail outlets in Paris during the year, two corners in the Bon Marché and Galeries Lafayette department stores, and a new boutique designed by architect Peter Marino on rue du Faubourg Saint-Honoré. The new interior decoration developed for this store will be gradually extended to all Guerlain retail outlets in coming years.

In 1999, Guerlain outsourced the distribution of its products, and the company is now better positioned to focus its resources on the advertising and promotion of its products.

In 2000, Guerlain will continue to invest substantially in the relaunch and advertising of its flagship lines, the renovation of its boutiques, and new product launches.

Parfums Givenchy

For the third consecutive year, Parfums Givenchy recorded double-digit growth in sales and higher income from operations.

This performance was due, in particular, to the successful launch of the women's fragrance *Organza Indécence*, the continued success of the men's cologne *π*, and the highly promising debut of the new *Rouge Miroir* makeup line. For *Rouge Miroir*, Parfums Givenchy inaugurated a bold new packaging designed by Argentine sculptor Pablo Reinoso.

Parfums Givenchy achieved spectacular growth in the United States and Japan. Its North American subsidiary is the most dynamic and profitable of all LVMH Fragrances and Cosmetics business group units. In Japan, the men's cologne *Insensé Ultramarine* continues to rank as the undisputed number one imported fragrance.

The company further developed its international infrastructure with the opening of twelve subsidiaries, chiefly in Asia and Latin America. This strategy provides Parfums Givenchy with better control over distribution and greater marketing potential.

These continued efforts, combined with new product launches, should allow Parfums Givenchy to record higher sales and profitability in 2000.

Parfums Kenzo

Continuing to benefit from the reorganization of its distribution and a bold new product launch strategy, Parfums Kenzo recorded a sharp increase in sales in 1999.

In the latter part of the year, Parfums Kenzo successfully launched *Time for Peace*, a new fragrance available in men's and women's versions. This launch coincided with the retirement of the brand's designer, who was awarded a prestigious prize in the United States recognizing his efforts in favor of world peace.

Kenzo is implementing a strategy to gradually take over the international distribution of its products, particularly in Asia and Latin America, where new subsidiaries were established in 1999.

With the support of its reinforced international infrastructure, Kenzo should pursue its growth in 2000.

US Startups

In 1999, the Fragrances and Cosmetics business group expanded its reach, adding to its four major French houses three US startups, whose originality and creativity attract a clientele of young fashionable women. With the support of the group's expertise, the new companies posted excellent early performances and are expected to contribute to future growth in this sector. Operating margins at the new startups are already in excess of 10%, and should further improve with the jump in sales expected for 2000.

Based in New York and headed by its founder Marcia Kilgore, **Bliss** is experiencing stellar growth thanks to the success of the SoHo-based health and beauty spa and relaxation center from which the company originated. In late 1999, Bliss opened a second spa in New York, in the new, high-profile LVMH Tower on 57th Street. Bliss produces and retails – under the Bliss and Remede brands – the products developed for its beauty centers. Bliss' retailing activities are also experiencing outstanding growth. Bliss and other branded products are also available through its catalogue, BlissOut, and its internet site. In 1999, mail-order sales rose sevenfold over the year prior.

In May 1999, LVMH took a majority stake in **Hard Candy**, a young California cosmetics startup, noted for its unconventional product names, colors and packaging. Founded in 1995 by Dineh Mohajer and Ben Einstein, who remain in charge of artistic direction, Hard Candy was an instant success with young consumers in Hollywood and elsewhere. Today, Hard Candy products are sold in 21 countries, including the United States, France and Japan. With LVMH's support, Hard Candy enjoys huge growth potential.

Hard Candy will be consolidated from January 1, 2000.

BeneFit – which was acquired towards year end and will not be consolidated until 2000 – is a San Francisco-based



cosmetics company, founded by twin sisters, Jane Ford and Jean Ford Danielson. Remarkably well managed, BeneFit is experiencing spectacular growth, both in its exclusive boutiques and through the sales of its beauty product line, well regarded in the US market. This line, marrying unique concepts and formulations with a real sense of pleasure and joy, is available in over 100 retail outlets, as well as through the BeneFit catalogue. Taking advantage of Sephora's first opening in Japan, BeneFit just entered this new market, where it immediately gained a leadership position in its category. BeneFit should grow rapidly in coming years, while maintaining a high level of profitability.

Laflachère group

The French leader in hygiene and beauty products, the Laflachère group is present in mass-retailing circuits where it enjoys unique expertise and know-how. Acquired by LVMH in December 1998, the Laflachère Group was consolidated within the Fragrances and Cosmetics business group in 1999. Sales growth in 1999 was far superior to that of its market, while Laflachère's operating margin is in line with that of the Fragrances and Cosmetics business group.

Make Up For Ever

In November 1999, LVMH acquired a majority interest in Make Up for Ever, a French specialist in professional makeup products. The company ranks among the top French "makeup artists", with a Paris boutique initially reserved for makeup professionals. Make Up for Ever developed a wide palette of products, textures and colors with unusual formulas, which are distributed selectively in France, the United States, Canada, Japan, South Korea and thirty other countries around the world. In addition to professionals, Make Up for Ever – which will be consolidated in 2000 – attracts a growing clientele of sophisticated women. LVMH's support will allow the company to step up the pace of its international development.



WATCHES & JEWELRY

On a proforma basis, 1999 net sales of the Watches and Jewelry business group amounted to EUR 561 million (FRF 3,682 million).

Strategy and objectives



With the creation of the Watches and Jewelry business group in 1999, LVMH has clearly shown its determination to play a leading role, on a worldwide basis, in one of the fastest-growing segments of the luxury goods industry. LVMH will thus be able to act as consolidator in a fragmented sector, enabling the brands it owns, and those that will join it, to benefit from the clout of a major international group. As a result, the new business group should meet its ambi-

tious growth targets, in terms of sales as well as operating margin, expected to reach about 20 % in the near future.

Together, TAG Heuer, Ebel, Zenith, Chaumet and Fred will be able to achieve considerable synergies in the areas of development, procurement, production and distribution, without harming the individual positioning and image of each of the brands. They should be joined by other houses with complementary strategies, whose growth will be accelerated with the support of the Group's expertise. In addition, if this appears beneficial, the reach of these brands will gradually be expanded beyond the products on which they have assured their success with a demanding international clientele.

Thanks to the new business group, each of the houses will partake in the resources and values of the Group, while preserving the essential entrepreneurial autonomy and creativity on which they have based their success for decades, and that will guarantee their future growth.

Christian Viros

Christian Viros

THE NEWEST OF THE LVMH BUSINESS GROUPS, THE WATCHES AND JEWELRY GROUP WAS ESTABLISHED IN 1999 THROUGH A SERIES OF ACQUISITIONS OF COMPLEMENTARY BRANDS, ALL BELONGING TO THE PRESTIGE WATCHMAKING UNIVERSE. TAG HEUER, A SWISS COMPANY WHOSE ROOTS GO BACK TO 1860 AND TODAY RECOGNIZED AS THE UNCONTESTED WORLD LEADER IN PRESTIGE SPORTS WATCHES, JOINED THE LVMH GROUP IN THE THIRD QUARTER OF THE YEAR. THE ACQUISITION OF TAG HEUER WAS RAPIDLY FOLLOWED BY THAT OF EBEL, ANOTHER SWISS WATCHMAKER, FOUNDED IN 1911, KNOWN AROUND THE WORLD FOR THE BEAUTY AND HARMONY OF ITS PRODUCTS. FINALLY, THE GROUP ACQUIRED CHAUMET, ONE OF THE LEADING FRENCH JEWELERS, AND ZENITH, A SWISS MAKER OF MECHANICAL MOVEMENTS AND HIGH-QUALITY WATCHES. ALONGSIDE FRED JOAILLIER – WHICH JOINED LVMH IN 1995 – AND BENEDOM, ACQUIRED EARLIER LAST YEAR, THE NEWLY ACQUIRED COMPANIES FORM A COHERENT ENTITY OF STRONG, DIFFERENTIATED AND WELL-MANAGED BRANDS EXERCISING TIGHT CONTROL OVER THE DISTRIBUTION OF THEIR PRODUCTS.

APART FROM TAG HEUER, CONSOLIDATED WITHIN THE OTHER ACTIVITIES OF THE LVMH GROUP SINCE OCTOBER 1, 1999, AND FRED JOAILLIER, ALSO CONSOLIDATED WITHIN OTHER ACTIVITIES IN 1999, THE WATCHES AND JEWELRY COMPANIES WILL BE INTEGRATED IN LVMH'S FINANCIAL STATEMENTS BEGINNING JANUARY 1, 2000.



TAG Heuer

TAG Heuer, which joined the LVMH Group in the third quarter of 1999, is one of Switzerland's leading upscale watchmaking groups, renowned across the world for its prestige sports watches. Its products enjoy a worldwide reputation for their original, instantly recognizable design, and for their irreproachable accuracy. In the past several years, TAG Heuer has focused its efforts on the rationalization of its product lines around several major high value-added series, as well as on control over its international wholesale distribution.

The company, which had suffered from the impact of the Asian crisis in 1998, achieved outstanding performances last year, posting an increase in sales of over 5%.

A YEAR OF IMPORTANT INNOVATION

In 1999, TAG Heuer reached a major step in its strategy with the mid-year launch of a series exclusively targeted at women, thereby striking a better balance with men's models. In the second half, TAG Heuer also introduced the Links series, which replaces and modernizes its traditional S/el line while retaining the spirit and distinctive characteristics of its predecessor. In addition, the company pursued its strategy of issuing replicas of best-sellers from the house's catalogue, with the launch of new models of its Monaco and Carrera series initially introduced in the 1960's.

Finally, TAG Heuer took an important step towards diversifying its product offering with the signing of a licensing agreement for eyeglass frames sold under the TAG Heuer name, which should be introduced in early 2001. TAG Heuer is considering other licensing projects, while retaining tight control over the design, image and distribution of products sold under its brandname.

DISTRIBUTION — A CONTROLLED, HIGH-QUALITY NETWORK

With the establishment of a subsidiary in Canada, TAG Heuer tightened its control over the international wholesale distribution of its products. Following this transaction, over 90% of the company's sales to retailers are handled by directly operated units.

After Tokyo, Singapore and Kuala Lumpur, TAG Heuer opened a fourth exclusive boutique in Sydney in early 2000. Other store openings are under consideration, in major metropolitan areas — New York, London, Paris, Hong Kong and Osaka.

In 2000, TAG Heuer should benefit from the continued economic recovery in its key markets, from the expanded international availability of its new product lines, and from the launch of a new advertising campaign.

Ebel

Ebel, a Swiss company founded in 1911, was acquired by LVMH in October 1999. The house's signature — The Architects of Time — is a perfect reflection of Ebel's distinctive values — beauty of the materials, balanced proportions, and expression of a flawless harmony.

Two watch series — Sport Classic and Beluga — account for more of the house's sales. In April 1999, Ebel launched a new line, Type E, available in gold and steel-gold models for men and women. Ebel also rounded out its Signature series with the introduction of a new women's model, Satya, strengthening its gold and jewelry segment.

Ebel devotes considerable investment to the promotion of its products, in advertising as well as public relations. Its advertising campaign launched in 1998 — Portraits of Hands — was expanded through the introduction of new visuals last year, allowing Ebel to raise its profile and notoriety around the world.

The company's sales were virtually unchanged in 1999. Strong growth in the United States, the brand's largest market, and progress in Singapore, were offset by slightly lower sales in Europe.

Zenith

Zenith, founded in 1865, is one of the last remaining Swiss watchmakers producing its own mechanical movements in its own facilities. Zenith joined the LVMH Watches and Jewelry business group in November 1999. The movements developed and manufactured by Zenith propel the watches sold by a number of other upscale brands. In addition, Zenith also produces high-quality watches sold under its own brand. Zenith's two flagship movements — the automatic chronograph El Primero and the ultra-thin automatic movement Elite — are universally known as the absolute reference in Swiss precision timekeeping.

Zenith's manufacturing activities — watches and mechanical movements designed and produced by the company — rose by 19% last year and now account for three-quarters of the company's sales.

In 1999, Zenith's sales rose by 5%, thanks to a doubling of sales in Asia, more than offsetting a drop in Europe.

In 2000, Zenith should record a further increase, boosted by high demand for luxury watches – and in particular for Swiss mechanical chronographs – as well as by the synergies and expertise of the new LVMH business group.

Fred Joaillier

In 1999, with the opening of its new Paris boutique on the Place Vendôme – the mythical world capital of prestige jewelry – Fred Joaillier entered a new phase in its history. Designed by American architect Peter Marino, the new store is in perfect harmony with the house's image and innovative products – contemporary and refined, convivial yet exclusive.

The relocation of the house's flagship store symbolizes the successful deployment of the strategy initiated by Fred Joaillier three years ago. This year, the new store's design concept will be used for the renovation of the Beverly Hills boutique, underscoring Fred's ambitious plans in the US market.

In 2000, Fred Joaillier will also introduce a new watch model, which – like the Chrono 36 and Cut models it complements – will be built by Benetton, a longtime partner and, since April 1999, an LVMH subsidiary. Fred will also introduce new jewelry lines, with pure, geometrical styles, to round out its existing collections – including the Mouvementée series, symbol of the house's modernity and the house's best-selling line just three years after its launch.

Chaumet

Established in 1780, Chaumet is one of the oldest and most prestigious Parisian jewelers. In 1907, Joseph Chaumet – who then gave his name to the house – was the first jeweler to settle Place Vendôme, on the site where the boutique still stands.

Today, the Chaumet style blends classicism and modernity – products with pure, harmonious lines and uncluttered space. This spirit is reflected in all of the house's creations – from prestige made-to-order pieces crafted in the Place Vendôme workshops to its jewelry (Liens, Fidélité...) and watch (Khésis, Style...) lines, whose shapes, though simple, are always innovative and surprising.

Chaumet creations are sold around the world through a network of over 350 jewelry and timepiece retailers, as well

as in directly operated stores, including the newest boutique, opened in Monte Carlo in July 1999.

In 1999, sales of Chaumet were impacted by the reorganization of the company's Japanese unit, but increased by 20% in the rest of the world.



SELECTIVE RETAILING

Strategy and objectives



LVMH Selective Retailing business group's mission is to be the best partner for luxury goods manufacturers and to provide them the most appropriate environment to sell their products. To succeed, the business group can rely on its tremendous human resources - quality people, highly motivated and having an amazingly broad range of culture and experience.

All Selective retailing stores have a large assortment of prestige brands to offer consumers, with high-quality service. We seek to ensure that in all our stores, our consumers have a unique, original and successful shopping experience.

Our perspective for growth are very attractive: not only we can ensure benefit from the dynamism of the markets we serve, but we also have unique competitive advantages. In our markets, no other retailer enjoys the same global reach as the LVMH Selective Retailing business group and it is thanks to this global reach that we are able to cross-fertilize the experience we accumulate in Europe, in America or in Asia. We also have a unique ability to combine the traditional retail format with distribution on the web.

The strength of the concepts we have developed is now proven. For instance, there is no doubt that Sephora, with the emphasis it places on consumer freedom, is able to attract different clients all around the world.

Achieving an operating margin of 10% in three years and improving our return on capital employed remain our top priorities. All our business units should contribute to these objectives.

DFS should fully benefit from the strong growth we anticipate thanks to the strength of its highly productive structure. Sephora will improve its profitability, its fast growth generating more and more significant economies of scale, and its accumulated international experience should make new openings more and more successful. Still ahead of its competition, Le Bon Marché should see its profits growing even faster than its sales.

Pierre Letzelter

DFS, SEPHORA, SEPHORA.COM, SPECIALTY RETAIL AND LE BON MARCHÉ FORM THE SELECTIVE RETAILING BUSINESS GROUP. THESE SELECTIVE RETAILERS AIM TO OFFER MAJOR PRESTIGE BRANDS, NATURALLY PROTECTIVE OF THEIR IMAGE, A SUITABLE AND PRODUCTIVE RETAILING ENVIRONMENT, AND PROVIDE DEMANDING CLIENTS WITH PRODUCTS AND SERVICES OF THE UTMOST QUALITY.

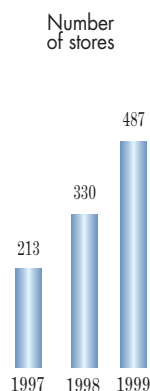
DFS IS THE WORLD LEADER IN RETAILING TO INTERNATIONAL TRAVELERS. SEPHORA, EUROPE'S LEADING PERFUMERY CHAIN, HAS EXPANDED RAPIDLY SINCE JOINING LVMH, AND NOW REACHES WELL BEYOND FRANCE. THE SEPHORA.COM WEBSITE, LAUNCHED LAST OCTOBER IN THE US, AIMS TO BECOME THE WORLD'S PREMIER ON-LINE BEAUTY RETAILER. THE GROUP HAS ALSO PURSUED THE DEVELOPMENT OF NEW SPECIALIZED RETAILING FORMULAS. TWO NEW CONCEPT STORES, SOLSTICE FOR FASHION SUNGLASSES, AND SYNCHRONY FOR FASHION WATCHES, OPENED IN THE UNITED STATES IN NOVEMBER 1999. LE BON MARCHÉ, THE MOST EXCLUSIVE DEPARTMENT STORE IN PARIS, OPERATES FROM TWO LOCATIONS: ONE ON THE LEFT BANK, BEARING ITS OWN NAME, AND THE OTHER ON THE RIGHT BANK UNDER THE FRANCK ET FILS NAME.

FINALLY, IN JANUARY 2000, LVMH ACQUIRED THE US-BASED MIAMI CRUISELINE SERVICES, THE WORLD LEADER IN DUTY-FREE LUXURY GOODS ON CRUISE SHIPS.



Sales by the Selective Retailing business group amounted to Euro 2,177 million (FRF 14,283 million), up 21 % over the 1998 level.

Loss from operations totaled Euro 29 million (FRF 190 million), as compared to a loss of Euro 34 million in 1998.



GEOGRAPHICAL BREAKDOWN OF SELECTIVE RETAILING SALES

(in millions of euros)	1997	%	1998	%	1999	MFRF 1999	%
France	123	6 %	435	24 %	611	4,010	28 %
Europe (excluding France)	1	0 %	16	1 %	53	348	3 %
United States	705	32 %	520	29 %	654	4,288	30 %
Asia (excluding Japan)	1,204	56 %	709	39 %	727	4,772	33 %
Pacific Rim	137	6 %	111	6 %	130	856	6 %
Rest of the world	0	0 %	8	1 %	2	9	0 %
Total	2,170	100 %	1,799	100 %	2,177	14,283	100 %

DFS : the Waikiki Galleria in Hawaii will be expanded by early 2001. 4

In 1999, two business units have fueled the growth of the Selective Retailing business group. DFS has significantly increased its turnover thanks to the recovery of the Asian economy and can now benefit from the tremendous turnaround implemented during the crisis. Sephora is fast developing in Europe, the United States and Japan, through both organic growth and acquisitions. On the other hand, following its new strategy first implemented ten years ago, Le Bon Marché has also succeeded in growing its sales faster than any of its competitors.

In 2000, the same drive should allow DFS and Sephora to continue this growth pattern. The acquisition of Miami Cruiseline will speed up DFS's development in North America, with new consumer targets.

In addition, new concepts launched in 1999 will enter a development phase. This will be the case for Solstice and Synchrony (category killers specialized, respectively, in sunglasses and watches), and for sephora.com. The year 2000 will also be the occasion to test other high growth concepts like "Sephora Jeune" – for younger consumers.

DFS

Since its inception in 1961, the US-based DFS group has established itself as the world leader in retailing to international travelers.

DFS's success is founded on its in-depth knowledge of its clientele's needs, as well as its especially strong foothold in the Asia Pacific region.

1999 has been a year of contrasts for DFS. While the first half was characterized by the continuing slow recovery from the Asian crisis, the second half has recorded strong growth across all markets. DFS was well prepared to return to profitability due to the vigorous restructuring measures adopted at the outset of the crisis and strategic investments.

STRATEGIC INITIATIVES

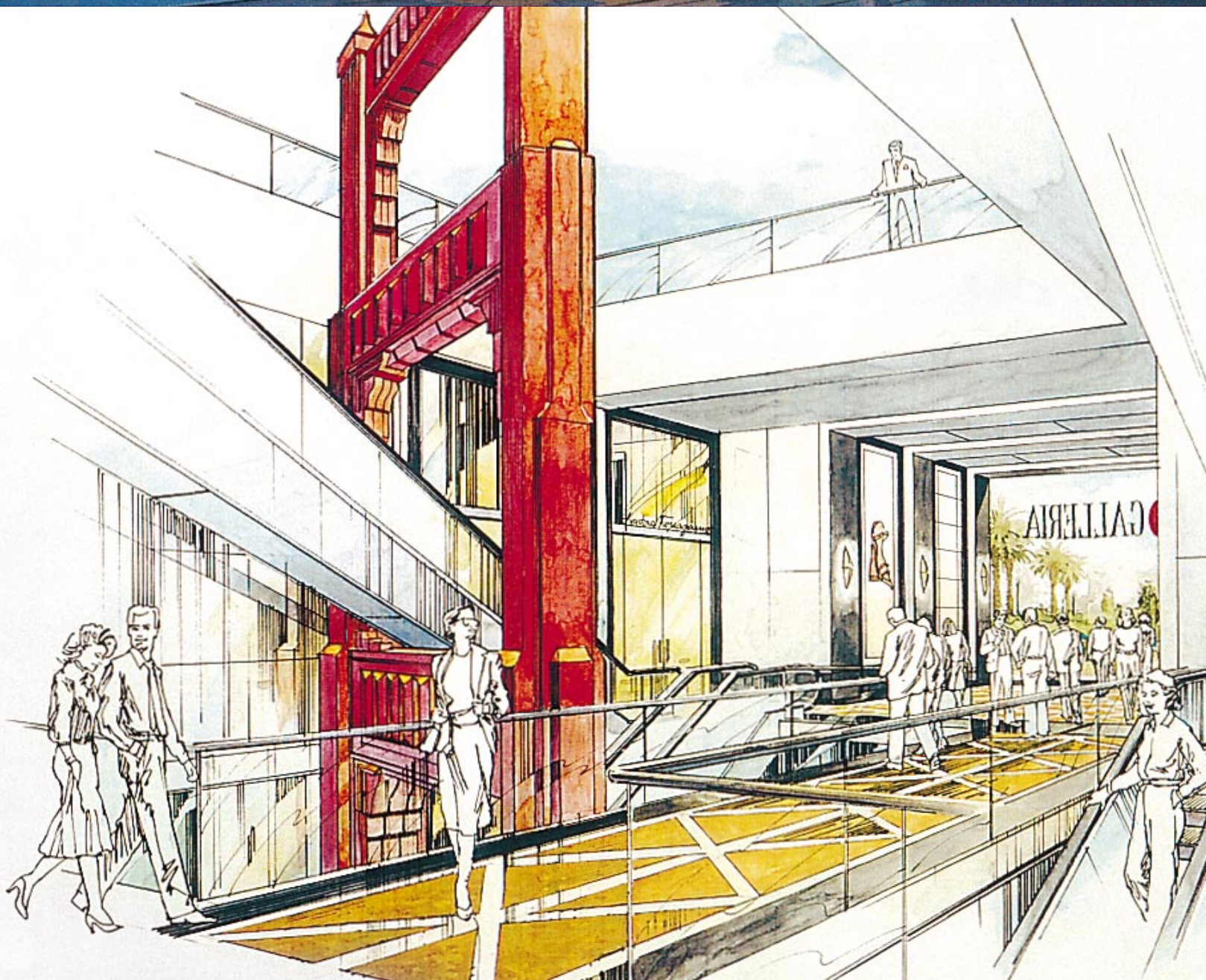
DFS's key initiatives since 1998 have focused both on continued investment in its downtown Galleria stores and on retaining key airport concessions which can be operated profitably.

In addition, DFS pursued the globalisation of its merchandising procurement and planning capabilities. A highly professional and skilled merchandising team has been located in the Group headquarters in San Francisco. The team is focused on development of compelling merchandise assortments to meet the needs of customers in diverse customer destinations. Merchandise planners focus on getting merchandise from the suppliers to stores in the shortest possible time and stay in constant contact with stores to react to consumer demand. Considerable investment in information technology has been an integral part of this process.

Each major Galleria store brings under one roof three specific retailing experiences – specialty assortments (fashion, leather goods, perfumes and cosmetics); prestige branded boutiques; and a souvenir, entertainment destination. DFS Galleries has become a headquarters for quality shopping for travellers on business or holiday.

In 1999, DFS modernized and expanded the "Rocks" Galleria in Sydney, Australia, the Millenia in Singapore, and Tumon Bay in Guam; the latter includes a major entertainment complex with state-of-the-art electronic games, a walk-through tunnel aquarium, and associated retail and food and beverage facilities. Investment is also proceeding for a new Union Square Galleria in downtown San Francisco, set to open in mid-2000. A significant expansion of the Waikiki, Hawaii Galleria is scheduled to open in early 2001.

While DFS remains focused on its core Japanese and Asian customers, there is a focus on developing assortments to attract younger customer and aims to grow the business with European and American consumers. The DFS global merchandising team is continually striving to introduce new and exciting products across all categories that will appeal to customers as they travel.



DFS remains a major player in international airport concessions, and will continue to take an aggressive stance where the economics justify the investment. In 1999, DFS successfully won the master concession at the new international terminal at the San Francisco airport for another ten years. The new international terminal, the largest in the United States, will open in late September 2000. DFS has also renegotiated the Singapore fashion concessions for a further three-year period, and won a one-year extension for the Los Angeles concession. In addition, specialty store concessions have been won at the Hong Kong and Taiwan airports. In December 1999, DFS was awarded the Terminal 4 concession at JFK airport in New York, a prestigious new development that will open early 2001.

WELL POSITIONED FOR FUTURE GROWTH

1999 has been a successful year for DFS, with management focused on improving the core travel-related business in the Asia/Pacific region, and on maintaining the Group's pre-eminent position as market leader. DFS is poised to reap the full benefits of the Asian recovery in 2000. The company's merchandising and planning organization provides a highly efficient centralized platform to drive the business in all key strategic locations and across all product segments. Asian tourism growth forecasts, combined with DFS's recognized expertise in these markets, will provide the impetus to regain profitability in line with its ambitions.

Sephora Group

Sephora, whose original retailing concept has proved widely successful with consumers and with top perfumes and cosmetics houses alike, enjoys strong creativity and unmatched growth potential within today's retailing universe.

In 1999, Sephora pursued its international development in Europe, the United States and Asia. At year end, the Sephora network comprised 253 stores in Europe and 50 in the United States, plus its first Asian location in Tokyo in the Ginza.

STRONG GROWTH IN EUROPE

Sephora's European sales improved by a wide margin, reflecting higher same-store sales, the opening of 52 additional outlets, and the acquisition of Laguna, which operates 48 perfumeries in Italy.

Already present in Spain, Portugal, Italy and Poland, Sephora recently opened three stores in Germany.

To carry out its development, Sephora strengthened its management teams and upgraded its supply-chain management and vendor relationships systems to match its growing European dimension.

Sephora is committed to strengthening its competitive edge and leadership through innovation and the ongoing development of new retailing and merchandising concepts. Consequently, in 1999, "Sephora Jeune", a new store prototype specifically geared to young consumers was opened in Montpellier, France.

RAPID INTERNATIONAL DEVELOPMENT

Begun in 1998, Sephora's development outside of Europe was vigorously pursued in 1999.

By year end, Sephora boasted a network of 50 stores in the United States, all in high-traffic downtown areas or major shopping malls. Its flagship three-level store, opened last October in New York's Rockefeller Center, is the world's largest fragrance and cosmetics retail space. The grand opening was timed to coincide with the US launch of the sephora.com website on October 14th.

The remarkable success of Sephora's concept with American consumers has already established the brand as the leader in its specialty for the quality and variety of its offerings, and the creativity of the advice and services provided to customers. Sephora in the United States is actively endorsed by many of the most prestigious brands, but also by new players developing the latest beauty care and makeup trends. Sephora thus offers a wide array of brands and unique products in the United States, whose breadth and draw are clearly illustrated by the New York flagship store.

In November 1999, Sephora made its first foray into the Japanese market with the opening of a store in the heart of Tokyo's Ginza district. The Sephora concept, ground-breaking for Japan, was remarkably well received by consumers.

Building on its 1999 success, Sephora will step up its strategy to gain market share in Europe and accelerate its development in its two priority markets outside of Europe, namely the United States and Japan. In 2000, a minimum of 25 additional stores are due to open in the United States and six in Japan.

Concurrently, Sephora will be exploring new opportunities in North America, Latin America and in the Asia Pacific region.



Le Bon Marché

The Bon Marché group, which includes Le Bon Marché Rive Gauche and Franck et Fils on the Right Bank, joined LVMH in 1998.

Le Bon Marché has established itself as the most exclusive department store in Paris thanks to its demanding strategy of offering wide product variety, meticulous attention to service, high-impact communications initiatives, and, in the past several years, the progressive and bold renovation of its state-of-the-art retail spaces.

Throughout 1999, Le Bon Marché has stepped up efforts to differentiate its

positioning. This was clearly illustrated by two major accomplishments last October. First, renovation of the main store's ground level was completed, expanding the fashion accessories offered and adding new luxury brands – including Loewe, Ferragamo – to the existing Louis Vuitton and Christian Dior boutiques. Second, the Grande Epicerie de Paris food hall of Le Bon Marché, was radically overhauled to offer unrivalled quality, comfort and aesthetics. The early successes achieved in these renovated retail spaces justify the considerable investments they entailed.

This coming year should confirm the effectiveness of these growth initiatives and significantly raise sales and income from operations, thanks in particular to productivity gains afforded by the adoption of improved management IT systems. In addition, the renovation of the Left Bank store's historic façade will now reflect outside the store the high quality products and services offered inside.

New retailing concepts

In order to broaden its client base, the Selective Retailing business group has embarked upon the creation and development of new specialized retail concepts with high growth potential.

In November 1999, two new concept stores, Solstice for sunglasses and Synchrony for watches, were opened, the former in Orlando, Florida, the latter in Glendale, California. This merchandising approach builds on Sephora's winning formula: a wide array of fashion brands and walk-in advice, all within a refined yet convivial setting. These two initiatives were well received by American consumers, and will allow new stores to open and optimize the draw of these brands in 2000.

Concurrently, the group will continue to formulate and test new concepts with the aim of developing those that offer

the best growth opportunities in major cities and the best commercial centers in the US.

Internet Developments

The launch of sephora.com is the first illustration of LVMH's strategy to become a major force in the development of selective luxury goods distribution on the internet. Sephora's website has rapidly established itself as the US benchmark for online beauty sales. Backed by the Sephora store networks, the site offers the largest selection of fragrances and cosmetics at retail prices identical to those available in the chain's US boutiques. A listing of sephora.com on NASDAQ in late 2000 or early 2001 is under consideration.

E.luxury, a transactional portal, will be launched in the United States in coming months. Most of the Group houses will be represented, alongside a number of non-Group luxury brands, such as Bulgari, Wolford, La Perla, Ferragamo... E.luxury will also offer a variety of services (leisure, forums, magazines...). LVMH's strengths will be tapped to successfully develop this high-potential activity, which is likely to be expanded into additional markets. LVMH should hold a 50% interest in this entity.

Thomas Pink, a leading British retailer of men's shirts and accessories recently acquired by LVMH, has achieved strong sales through its website.

None of the transactional sites operated by Group companies discount the products on offer. Consequently, these activities become structurally profitable as soon as the start-up investment phase is completed. LVMH is currently preparing additional initiatives to strengthen its leadership in this sector.

OTHER ACTIVITIES

In addition to its luxury goods and selective retailing activities, the LVMH Group is present in the media area, through the Desfossés International group of companies, as well as in development capital, through LV Capital.

Desfossés International

The Desfossés International media group is active in a complementary range of financial, business and market publications and services – the daily La Tribune, the Investir weekly, the monthly Investir magazine, as well as the multimedia services of Victoire Multimédia. This range was expanded in 1999 through the acquisition of Radio Classique and SID Editions and the launch of La Tribune Interactive, a satellite TV interactive service. Targeting a homogeneous clientele of decision-makers, executives and individual investors, Desfossés International entered a phase of major expansion in 1999, based on the internationalization of its services and growing reliance on new information technologies. In September 1999, Desfossés International acquired a 20% interest in Video Networks Limited, a UK company offering video-on-demand services and high-speed internet access, and in Oxygen Media, which develops one of the main women-oriented US website.

In print media, Desfossés International signed two partnership agreements with European counterparts, Class Editori in Italy, the publisher of Milano Finanza, as well as Handelsblatt and Wirtschaftswoche in Germany.

La Tribune has initiated an ambitious branding strategy, highlighting its distinctive identity in daily business media through the development of new regional supplements, growing coverage of European companies and securities, and the launch of a new internet site (www.latribune.fr). La Tribune's paid circulation posted further growth in 1999.

Investir, which primarily targets individual investors, benefited from the favorable stock market environment and pursued its diversification strategy, notably with the launch of guides, editorial supplements and special thematic issues.

Desfossés International entered the audiovisual world with the acquisition of Radio Classique, a radio station with a unique format combining classical music with business and financial news, as well as with the creation of La Tribune Interactive, a service channel available through the Canalsatellite satellite TV network.

With the acquisition of SID Editions, publisher of the Défis magazine, Desfossés International broadened its offering to include the organization of tradeshow, including Le Salon des Entrepreneurs.

Finally, in multimedia, Victoire Multimédia strengthened its leadership in the French electronic financial information

market, and initiated a major strategic move towards web-based applications.

In 2000, Desfossés International will further enrich the information content of its products and services, as well as increase its strategic focus on internationalization and new information technologies.

LV Capital

LV Capital is a development capital firm primarily investing in luxury-related activities complementing the LVMH Group's businesses. LV Capital invests in medium-sized companies, whose considerable growth and profitability potential may be intensified by tapping the Group's capital resources and network. The strategic investments – primarily of minority interests, alongside the founders and entrepreneurs managing these companies – made by LV Capital enable LVMH to participate in the growth of highly innovative businesses, whose ideas and products are at the core of tomorrow's luxury goods industry.

In 1999, its first year of activity, LV Capital acquired interests in Gant USA, an upscale sportswear specialist; Apache, a retailer of children's apparels and accessories; Prost Development and Prost Design, two companies set up to develop products sponsored by Formula 1 racecar champion Alain Prost; Thomas Pink, a UK maker of high-end men's shirts and accessories; Regina Rubens, a particularly innovative fashion house; Phillips, the world's third largest auctioneer; and Interparfums, Inc., a NASDAQ-listed company which develops fragrances under license (Burberry, ST Dupont, Paul Smith, Christian Lacroix...).

In early 2000, LV Capital took a minority interest in the Joseph fashion house, whose international growth should be considerably accelerated as a result of this investment.

In 2000, LV Capital will continue to scout the luxury world and provide support to innovative companies offering quality products, based on distinctive brand images and creative talent.

The activities of Fred Joaillier for the full year and TAG Heuer for the fourth quarter are consolidated within Other Activities in 1999. Reflecting the establishment of the new business group effective January 1, 2000, the operations of these companies are reviewed in the Watches and Jewelry chapter.

CONSOLIDATED FINANCIAL STATEMENTS

MANAGEMENT DISCUSSION AND ANALYSIS

In 1999, the Group's consolidated net sales totaled EUR 8,547 million (FRF 56,066 million), up 23% from the 1998 level. Excluding changes in the scope of consolidation, net sales would have increased by 15%.

Changes in the scope of consolidation affecting the activity and results of the LVMH Group in 1999 included:

- full-year consolidation of Krug, the Laflachère group and Bliss, and integration of minority interests acquired in the Southeast Asian subsidiaries of Louis Vuitton and Loewe;
- consolidation of Radio Classique, Benedom and Château d'Yquem from July 1, 1999;
- consolidation of TAG Heuer, SID Editions and Thomas Pink from October 1, 1999.

Simi Winery, Pellisson and Porto Rozès, three companies of the Wines and Spirits business group, were sold during the year.

In 1998, changes in the scope of consolidation had resulted from the full consolidation of Le Bon Marché from June 1 and of Marie-Jeanne Godard from July 1, while equity accounting of the investment in Diageo was discontinued as from July 1, 1998.

Foreign currency fluctuations had a positive impact on the reported growth in net sales; on a constant currency basis, consolidated net sales would have increased by 18%.

The Group's breakdown of net sales by major billing currency was as follows in 1999: the euro accounted for 33% of the total; the US dollar for 29%; the Japanese yen for 16%; the Hong Kong dollar for 5%; and other currencies for 17%. As compared to 1998, the relative weight of the euro increased, reflecting the full-year consolidation of Le Bon Marché and Marie-Jeanne Godard, as well as the consolidation of the Laflachère group starting January 1, 1999. The relative weights of the US dollar and Japanese yen rose slightly, at the expense of the Hong Kong dollar and other currencies.

Gross margin totaled EUR 5,415 million, up 23% from the 1998 level. The gross margin ratio was unchanged from the 1998 level.

Marketing and selling expenses totaled EUR 2,964 million, up 22% from 1998. On a comparable structural and currency basis, marketing and selling expenses rose by 11%, reflecting the expansion of the retailing network, notably at Sephora and Louis Vuitton.

General and administrative expenses totaled EUR 904 million, up 17% over the 1998 level, and up 8% on a comparable structural and currency basis.

Income from operations amounted to EUR 1,547 million (FRF 10,145 million), up 31% from 1998, or 24% on a comparable structural basis. The increase is chiefly due to the Champagne and Wines, Fashion and Leather Goods, and Fragrances and Cosmetics activities.

Cognac activities returned to growth, with income from operations up 5%. The Selective Retailing business group posted a loss from operations of EUR 29 million, as compared to a loss from operations of EUR 34 million in 1998 – the development of Sephora in the US and Japan as well as the startup of the Sephora.com site weighed on the business group's performance. DFS recorded positive income from operations, reflecting sharp net sales growth in the second half of the year.

Net financial expense totaled EUR 227 million in 1999, as compared to EUR 174 million in the prior year, reflecting changes in the Group's scope of consolidation.

In 1999, dividends from unconsolidated equity investments include EUR 87 million in dividends received from Diageo. In the first half of 1998, the Group's investment in Diageo was accounted for by the equity method.

The 1999 income tax rate is lower than the rate recorded in the prior year. The increase in income tax rate in 1998 reflected the loss recorded at DFS, which cannot be included in the tax Group consolidations.

Income from investments accounted for using the equity method amounted to a EUR 6 million loss in 1999, as compared to income of EUR 62 million in 1998, including EUR 61 million related to Diageo. In 1999, dividends received from Diageo were substituted to the equity method accounting previously used to account for this investment.

Minority interests in net income excluding unusual items totaled EUR 137 million, as compared to EUR 84 million in 1998. The increase in minority interests reflects the turnaround at DFS and the sharp increase in the performance of Moët Hennessy.

The Group share in net income before amortization of goodwill and unusual items totaled EUR 738 million (FRF 4,839 million), up 40% from the 1998 level.

Amortization of goodwill totaled EUR 102 million, as against EUR 97 million in 1998, reflecting above-mentioned changes in the scope of consolidation.

Net unusual items represented income of EUR 57 million, primarily reflecting the EUR 315 million net income realized in April as a result of the Diageo share buyback program, to which LVMH tendered 143 million shares. This was partly offset by indirect acquisition costs of shareholdings; by a provision taken on the residual interest in Diageo; by reorganization costs of the Fashion business group and other logistics reorganization costs; and by asset impairment, primarily related to intangible assets.

Net income after unusual items totaled EUR 693 million (FRF 4,543 million) in 1999.

Wines and Spirits business group

In 1999, net sales of the Wines and Spirits business group totaled EUR 2,240 million (FRF 14,697 million), up 17% from 1998. Income from operations totaled EUR 655 million (FRF 4,298 million), a 22% increase over 1998.

This business group encompasses Champagne Krug since January 1, 1999 and Château d'Yquem since July 1, 1999. Conversely, Simi Winery, a California-based producer of red wines, Porto Rozès and Pellisson, a brandy maker, have been excluded from the scope of consolidation as of July 1, 1999, following the disposal of these activities. Altogether, changes in the scope of consolidation contributed 2.2 percentage points to the year's net sales increase.

CHAMPAGNE AND WINES

Net sales of the Champagne and Wines segment totaled EUR 1,526 million (FRF 10,014 million), up 22% over 1998, and 19% on a constant currency basis.

Income from operations of the Champagne and Wines segment increased by 34% to EUR 434 million (FRF 2,848 million), reflecting further volume growth and moderate price increases.

A total of 327 million bottles, up 12% over 1998, were shipped by the Champagne region's producers. Exports rose by 20% while shipments in France increased by 6%.

The rise in sales volumes at LVMH Champagne houses was limited to 8% in 1999 – below the performance of the region as a whole – in order to meet demand in 2000. LVMH houses also pursued their strategy, focusing on sales of their higher value-added products in the most profitable markets.

By market, the sharpest increases in sales volume were achieved in Japan (+25%), the United States (+22%), and the United Kingdom (+20%), while sales in France dropped by 8% in volume terms.

Much as in the previous year, the 1999 harvest was outstanding, in terms of both grape quality and yield. The 1999 statutory yield was set at 13,000 kilograms per hectare, of which 1,000 kilograms were stockpiled, and with an indicative price per kilogram of top-quality grapes of FRF 25.50, an increase of 2% over the prior year.

Still and sparkling Wines

Key events of the year included the launch in the US market of sparkling wines from Argentina as well as the development and introduction of a line of red wines from Argentina, sold in their domestic market under the Terrazas name.

Sales volume of LVMH Still and Sparkling Wines – which now include Château d'Yquem – totaled 32.2 million bottles, a 2.5% increase over the prior year. On a comparable structural basis, excluding Simi Winery and Porto Rozès sold in 1999 and excluding Château d'Yquem, volume and net sales would have increased by 8% and 21.4% over 1998, respectively.

COGNAC AND SPIRITS

Net sales of the Cognac and Spirits segment totaled EUR 714 million (FRF 4,683 million), up 7% from the prior year. Net sales were stable on a constant currency basis.

In 1999, total Cognac industry shipments increased by 3% from the 1998 level, while shipments of LVMH brands dropped by 3%.

The year saw a further 8% drop in sales volume to Japan, which was partly offset by a 12% increase in the rest of Asia, while US sales continued to rise by 10%. Overall, LVMH sales volume increased by 5%.

Income from operations totaled EUR 221 million (FRF 1,450 million), an increase of 5% over the prior year. The rise in income from operations was bolstered by the increase in net sales, supported by higher advertising and promotional investments, as well as by further cost-reduction initiatives.

Fashion and Leather Goods business group

Net sales of the Fashion and Leather Goods business group totaled EUR 2,280 million (FRF 14,954 million), up 25% from the 1998 level. On a constant currency basis, net sales increased by 17%.

The 1999 net sales of Louis Vuitton Malletier rose by an impressive 36%.

Recovery from the Asian crisis, began in late 1998, continued in the first half of 1999 and picked up speed in the second half. Louis Vuitton's significant performance reflects its continued focus on new product development, renovation and expansion of its distribution network, and effective advertising and promotion. With the addition of 17 new boutiques last year, the Louis Vuitton distribution network encompassed 261 directly operated stores, including 15 global stores, at the end of 1999.

Bolstered by new product lines and the renovation of several of its boutiques, net sales of the Loewe brand grew in 1999, notably in the latter part of the year. The Loewe distribution network comprised 94 outlets at 1999 year end. Loewe's fragrance activity posted satisfactory growth, particularly through export sales.

Fueled by the success of its collections, Céline furthered restructured its distribution network, buying back franchisees in Asia and enforcing greater selectivity in its retail outlets. This strategy engendered a slight drop in sales. At the end of 1999, Céline's network comprised 83 directly operated stores.

Kenzo net sales continued to grow in 1999. With the addition of a new Parisian boutique on the Place de la Madeleine, the Kenzo network encompassed 26 directly operated stores at 1999 year end.

Christian Lacroix pursued the restructuring of its activities in 1999, resulting in considerably lower losses.

Higher licensing revenues and sales of its men's collection lifted Givenchy net sales in 1999. Haute Couture net sales were stable compared to 1998.

Income from operations of the Fashion and Leather Goods business group totaled EUR 824 million (FRF 5,408 million), up 33% from the 1998 level.

Fragrances and Cosmetics business group

Net sales of the Fragrances and Cosmetics business group totaled EUR 1,703 million (FRF 11,168 million), up 24% from the 1998 level. On a constant currency basis, net sales increased by 22%.

On a comparable scope of consolidation, net sales would have increased by about 10%.

Since January 1, 1999, the Fragrances and Cosmetics business group comprises the US startup Bliss and the Laflachère group. Other acquisitions completed in the latter part of the year – Hard Candy, BeneFit and Make Up For Ever – will be consolidated beginning January 1, 2000.

Net sales growth at all four Fragrance houses was bolstered by successful new product launches and sales recovery in Asia, notably in the duty-free circuit. Net sales also rose sharply in the United States (+16%) and Japan (+19%), while increasing only moderately in Europe (+4%).

Net sales of new fragrances launched in 1999 – notably Christian Dior's J'Adore, Indécence and Pi by Givenchy, Guerlain's Aqua Allegoria, and Kenzo's Time For Peace – exceeded expectations.

The business group pursued the establishment of joint back office centers shared by international subsidiaries, as well as the rationalization of its manufacturing and logistical infrastructure.

Income from operations of the Fragrances and Cosmetics business group totaled EUR 146 million (FRF 955 million), up 33% from the 1998 level.

Selective Retailing business group

Net sales of the Selective Retailing business group totaled EUR 2,177 million (FRF 14,283 million), up 21% over 1998.

The Selective Retailing business group comprises Le Bon Marché since June 1, 1998, as well as the Marie-Jeanne Godard perfumery chain since July 1, 1998.

In 1999, Thomas Pink, a manufacturer and distributor of high-end men's shirts and accessories, acquired by LV Capital, was consolidated within the Selective Retailing business group beginning on October 1.

After suffering a sharp drop precipitated by the Asian economic crisis in 1998, DFS net sales improved in 1999, thanks to the more favorable yen/dollar exchange rate – which boosted the purchasing power of Japanese tourists – and to the rapid rebound of many of the region's economies.

DFS pursued the development and renovation of its stores, notably in Singapore, and Guam where the establishment of a new entertainment center across from the Galleria has attracted scores of tourists.

In 1999, DFS net sales totaled EUR 1,432 million, up 6% over 1998. Income from operations amounted to EUR 38 million, against a loss of EUR 69 million in 1998.

Sephora – which encompasses Marie-Jeanne Godard since the second half of 1998 – acquired in November 1999 the Italian company Laguna, which will be consolidated beginning on January 1, 2000.

The Sephora network is expanding at a rapid pace: in the United States, 36 new boutiques were added to reach a total of 50 by the end of 1999; in Europe, 91 additional boutiques were opened to reach a grand total of 253 – including 48 Laguna boutiques – by the end of 1999; finally, Sephora inaugurated its first Japanese boutique in Tokyo, at year end.

In France, additional Marie-Jeanne Godard stores were converted to the Sephora brand format, while 20 new boutiques were opened, bringing the French network to a total of 164 outlets. With the investment in Laguna, Sephora operated 57 boutiques in Italy at year end, and has become the market leader in this country. Development in Poland was accelerated with a network of 14 boutiques by the end of 1999. Sephora opened additional stores in Spain and Portugal, and its first stores in Germany.

In the United States, in addition to the continued development of the Sephora chain, the sephora.com transactional website was launched in October 1999.

Le Bon Marché, integrated within the LVMH Group since June 1, 1998, pursued the renovation of its selling areas, and notably of its La Grande Epicerie foodhall, whose success bolstered sales in the latter part of the year.

Two new retailing concepts were launched in the United States – Solstice for sunglasses and Synchrony for watches – with the opening of two boutiques at the end of 1999.

The Selective Retailing business group recorded an operating loss of EUR 29 million (FRF 190 million), compared to a loss of EUR 34 million in 1998. The 1999 loss was caused by the development of the Sephora network in the United States and the launch of the Sephora.com website.

Other activities

In 1999, other activities encompassed, in addition to media activities combined within Desfossés International, Fred Joaillier, consolidated within the Fashion and Leather Goods business group in 1998, Benedom (the Dior watch licensee), consolidated since July 1, 1999, and TAG Heuer, consolidated since October 1, 1999.

The Desfossés International media group – which encompasses the Radio Classique station since July 1, 1999, and the SID Editions magazine publisher and tradeshow organizer since October 1, 1999 – achieved a 36% increase in net sales, reflecting higher circulation at La Tribune and Investir as well as a high level of advertising volume.

Income from operations of the media group rose sharply in 1999, with operating margins nearing the 10% level.

Desfossés International also acquired a 20% interest in Video Networks Ltd (Videonet), a provider of high-bandwidth video on demand and internet access.

Fred Joaillier pursued the development of its new product lines and the restructuring of its retail network, with the closure of its Rue Royale boutique in Paris, replaced by a flagship store Place Vendôme, and the renovation of its Beverly Hills boutique in Los Angeles.

TAG Heuer also achieved growth in line with expectations, notably due to the successful launch of its new Link series.

Fred Joaillier and TAG Heuer, as well as the recently acquired Ebel, Zenith and Chaumet, will be combined within the new Watches and Jewelry business group in 2000.

Other activities also comprise head office expenses as well as elimination of inter-company sales, notably sales to companies of the Selective Retailing business group.

Investments

The principal investments of 1999 included:

- in Wines and Spirits, acquisition of Krug and Château d'Yquem
- in Fashion and Leather Goods, acquisition of a 51% interest in

Fendi, in partnership with Prada through a 50/50 joint-venture between the two groups; buyout of minority interests in Louis Vuitton Malletier and Loewe subsidiaries in Southeast Asia;

- in Fragrances and Cosmetics, acquisition of US startups Bliss, Hard Candy and BeneFit Cosmetics, and of Make Up for Ever in France;

- in Selective Retailing, Sephora acquired an interest in Laguna, with a network of 48 boutiques in Italy;

- in Watches and Jewelry, acquisition of TAG Heuer, Ebel, Zenith, Chaumet and Benedom;

- in Media, acquisition by Desfossés International of Radio Classique and SID Editions and investment in Video Networks;

- purchase of a 5% interest in Oxygen Media in the United States;

- the LV Capital investment fund, established in December 1998 to invest in innovative medium-sized companies and startups, acquired a 70% interest in Thomas Pink, a maker and distributor of high-end men's shirts, and Phillips, the world's third largest auction house. In addition, LV Capital made the following investments: 24% of sportswear company Gant; 34% of Apache, inventor of a concept of leisure boutiques for children; 36% of Regina Rubens, a women's ready-to-wear specialist; 20% of Inter Parfums and 10% of Prost Développement.

At the beginning of 1999, LVMH increased its stake in Gucci through an additional investment of EUR 1.1 billion to 34.4%; this stake would be reduced to 20% if the capital increase decided by Gucci on March 19, 1999 were approved.

LVMH has undertaken legal actions concerning the validity of the two reserved capital increases, carried out on February 18 and March 19, 1999. Following decisions rendered March 22 and May 27, 1999 by the Commercial Section of the Amsterdam Court of Appeals, which confirmed the cancellation of the vote resulting from the reserved capital increase of February 18, 1999 and recognized the fault committed by Gucci and PPR (Pinault-Printemps-Redoute) at the expense of LVMH, LVMH filed suits before the Supreme Court of the Netherlands and the Amsterdam District Court. The primary purpose of those suits is to obtain the cancellation of the reserved capital increase decided by Gucci on March 19, 1999 and, in the event cancellation is not obtained by LVMH, compensation for its prejudice by the obligation for PPR to launch a takeover bid on Gucci.

Net operating investments totaled EUR 574 million, as compared to EUR 408 million in 1998. Further details regarding these transactions are provided under "Liquidity and Capital Resources" and in the Notes to the Consolidated Financial Statements.

Disposals primarily encompassed the tender by LVMH of 143 million Diageo shares as part of the British Group's share buyback program.

This transaction generated proceeds of EUR 1,560 million (FRF 10,234 million), reducing LVMH's interest in Diageo by 4% to 6.8%.

In addition, Simi Winery, Porto Rozès and Pellisson were sold during the year.

Impact of Asian crisis

As a percentage of the total, LVMH generated 33% of its 1999 net sales in Asia including Japan, 18% in Asia excluding Japan, and 9% in Asia excluding Japan and DFS.

In Japan, consumption trends of LVMH branded products were confirmed in 1999, with a further 13% decline in Cognac net sales in local currency terms from the 1998 level, and, conversely, continued sharp increases in net sales of Champagne, up 25%, and Louis Vuitton products, up 16%, in Japanese yen terms.

Altogether, LVMH net sales in Japan rose by 6% in local currency terms in 1999.

In Asia outside of Japan, LVMH net sales including DFS posted a sharp rebound in 1999. While net sales in the first quarter were down 3% from the comparable 1998 level, partly reflecting the closure of unprofitable boutiques, net sales rose by 10% in the second quarter and further accelerated in the last two quarters of the year, up 35% and 37%, respectively, from the 1998 levels.

This rebound was fueled by the rise in the exchange rate of the Japanese yen versus the US dollar, boosting the purchasing power of Japanese travelers, and by the rapid recovery of many of the region's economies.

Impact of Russian and Brazilian crises

Net sales of the LVMH Group in Russia accounted for only 0.2% of the total, and declined by 6% in 1999.

The Brazilian crisis also had a marginal impact, as LVMH net sales in Latin America account for only 3% of the total. In 1999, LVMH net sales in Latin America rose by 10% over the prior year level, as a drop in the first months of the year was followed by sharp recovery in the latter part.

Year 2000 compliance and transition to the Euro

Thanks to the work carried out by LVMH subsidiaries to ensure a smooth transition to the year 2000, the Group's IT systems experienced no material incidents which could have had an impact on activities in early January 2000.

Regarding the single European currency, changes in commercial and accounting software already completed or under development guarantee a swift transition to the euro for Group entities concerned, in compliance with deadlines mandated by governmental authorities.

Costs related to both Y2K and euro compliance are accounted for according to the accounting principles generally applied by the Group, e.g. either expensed or capitalized as incurred. Costs incurred in 1999 totaled EUR 8 million. Future costs are exclusively related to the transition to the euro, and have been provisioned; residual costs are not material.

Subsequent events

Since the beginning of 2000, the Group has made a number of investments aimed at completing its existing portfolio of brands.

Miami Cruiseline Services, the world leader in duty-free sales aboard cruise ships, with over USD 300 million in net sales, was acquired by LVMH and will strengthen its Selective Retailing activities.

The Group acquired 67% of Emilio Pucci SRL, joining the Fashion and Leather Goods business group.

Already owner of Phillips, the world's third largest auction house, LVMH signed an agreement for the acquisition of Etude Tajan, France's leading auction house.

Reinforcing its leadership in the Italian market, Sephora took control of Boïdi, owner of 19 perfumery stores in the Turin area.

Finally, LVMH took control of Urban Decay, a US startup specializing in makeup, based in Los Angeles, which will reinforce the Group's Fragrances and Cosmetics business group.

2000 outlook

LVMH expects favorable increases in net sales and profits in 2000.

The economic and monetary environment is highly favorable to LVMH's activity, and the investments completed in 1999 and early 2000 will contribute to the Group's results in 2000.

Net sales in the first two months of 2000 were up 41% over the same period in 1999, with particularly sharp growth at Louis Vuitton, underscoring this favorable environment.

Barring a deterioration of the current environment, LVMH aims to achieve a further significant increase in income from operations in 2000.

CONSOLIDATED STATEMENT OF INCOME

<i>(amounts in millions except EPS)</i>	1999 FRF	1999 EUR	1998 EUR	1997 EUR
Net sales	56,066	8,547	6,936	7,323
Cost of sales	(20,544)	(3,132)	(2 540)	(2,750)
Gross margin	35,522	5,415	4,396	4,573
Selling and marketing expenses	(19,450)	(2,964)	(2,438)	(2,532)
General and administrative expenses	(5,927)	(904)	(774)	(772)
Income from operations	10,145	1,547	1,184	1,269
Financial expense – net	(1,486)	(227)	(174)	(79)
Dividends from unconsolidated investments	635	97	2	3
Other income or expense – net	117	18	1	(7)
Income before income taxes	9,411	1,435	1,013	1,186
Income taxes	(3,631)	(554)	(466)	(405)
Income (loss) from investments accounted for using the equity method	(41)	(6)	62	100
Net income before amortization of goodwill, minority interests and unusual itmes	5,739	875	609	881
Amortization of goodwill	(667)	(102)	(97)	(80)
Minority interests	(900)	(137)	(84)	(139)
Unusual items	371	57	(161)	28
Net income	4,543	693	267	690
Net income before amortization of goodwill and unusual items	4,839	738	525	742
Earnings per share before amortization of goodwill and unusual items	50.08	7.63	5.43	7.76
Average number of common shares outstanding during the year ⁽¹⁾	96,631,429	96,631,429	96,669,685	95,688,348
Fully diluted earnings per share before amortization of goodwill and unusual items	50.05	7.63	5.42	7.74
Number of common shares and share equivalents after dilution ⁽¹⁾	96,689,056	96,689,056	96,800,078	95,888,090

(1) 1997 and 1998 figures have been adjusted to reflect the bonus share distribution of June 1999 (one new share for ten shares held on this date).

CONSOLIDATED BALANCE SHEET AT DECEMBER 31, 1999

ASSETS (amounts in millions)	1999 FRF	1999 EUR	1998 EUR	1997 EUR
Current assets				
Cash and cash equivalents	3,580	546	588	417
Short-term investments	1,203	183	217	356
Treasury shares	5,596	853	208	233
Trade accounts receivable - net	9,457	1,442	1,126	981
Deferred income taxes	1,792	273	205	130
Inventories - net	19,306	2,943	2,571	2,561
Prepaid expenses and other current assets	9,836	1,500	707	904
	50,770	7,740	5,622	5,582
Investments and other assets				
Investments accounted for using the equity method	69	10	7	1,145
Unconsolidated investments and other investments	25,962	3,959	3,616	2,173
Treasury shares	1,380	210	77	141
Other non-current assets	1,646	251	191	190
Property, plant and equipment - net	18,731	2,856	2,357	1,684
Brands & other intangible assets	16,582	2,527	1,451	1,428
Goodwill - net	20,865	3,181	2,973	2,869
	85,235	12,994	10,672	9,630
Total assets	136,005	20,734	16,294	15,212

LIABILITIES AND STOCKHOLDERS' EQUITY <i>(amounts in millions)</i>	1999 FRF	1999 EUR	<i>1998</i> EUR	<i>1997</i> EUR
Current liabilities				
Short-term borrowings	29,121	4,439	3,192	2,777
Accounts payable	7,132	1,087	913	739
Accrued expenses and other current liabilities	16,709	2,548	1,773	1,442
Income taxes	910	139	25	255
Current portion of long-term debt	1,056	161	130	27
	54,928	8,374	6,033	5,240
Net deferred incomes taxes	1,098	167	184	22
Long-term liabilities				
Long-term debt, less current portion	20,236	3,085	1,425	1,383
Other long-term liabilities	6,038	921	1,007	942
Repackaged notes	2,663	406	465	523
	28,937	4,412	2,897	2,848
Minority interests in subsidiaries	7,066	1,077	864	923
Stockholders' equity				
Common stock	964	147	136	134
Additional paid-in capital and retained earnings	43,814	6,679	6,330	6,187
Cumulative translation adjustment	(802)	(122)	(150)	(142)
	43,976	6,704	6,316	6,179
Total liabilities and stockholders' equity	136,005	20,734	16,294	15,212

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(EUR millions)	Number of shares	Capital	Additional paid in capital & reserves	Cumulative translation adjustment	Total
As of January 1, 1997	87,389,712	134	5,715	(363)	5,486
Final dividend paid on 1996 income			(189)		(189)
LVMH shares owned by subsidiaries			32		32
Conversion of debt					
Employee stock option plans	206,748		20		20
Net income			690		690
Interim dividend paid on 1997 income			(81)		(81)
Foreign currency translation			—	221	221
As of December 31, 1997	87,596,460	134	6,187	(142)	6,179
Final dividend paid on 1997 income			(207)		(207)
Shares issued in paiement of Le Bon Marché acquisition	1,343,150	2	257		259
LVMH shares owned by subsidiaries			(89)		(89)
Conversion of debt	2,277				
Employee stock option plans	41,185		4		4
Other changes, net			(8)		(8)
Net income			267		267
Interim dividend paid on 1998 income			(81)		(81)
Foreign currency translation				(8)	(8)
As of December 31, 1998	88,983,072	136	6,330	(150)	6,316
Final dividend paid on 1998 income			(209)		(209)
and related taxation			(72)		(72)
Long term investment in LVMH shares			34		34
Conversion of capital into euro		(2)	2		
Conversion of debt	211				
Employee stock option plans	73,413		7		7
Bonus share distribution	8,900,954	13	(13)		
Other changes, net			(1)		(1)
Net income			693		693
Interim dividend paid on 1999 income			(91)		(91)
Foreign currency translation				27	27
As of December 31, 1999	97,957,650	147	6,680	(123)	6,704

(FRF millions)	Number of shares	Capital	Additional paid in capital & reserves	Cumulative translation adjustment	Total
As of January 1, 1997	87,389,712	874	37,490	(2,380)	35,984
Final dividend paid on 1996 income			(1,242)		(1,242)
LVMH shares owned by subsidiaries			209		209
Conversion of debt					
Employee stock option plans	206,748	2	134		136
Net income			4,528		4,528
Interim dividend paid on 1997 income			(532)		(532)
Foreign currency translation				1,447	1,447
As of December 31, 1997	87,596,460	876	40,587	(933)	40,530
Final dividend paid on 1997 income			(1,360)		(1,360)
Shares issued in paiement of Le Bon Marché acquisition	1,343,150	13	1,687		1,700
LVMH shares owned by subsidiaries			(584)		(584)
Conversion of debt	2,277				
Employee stock option plans	41,185	1	24		25
Other changes, net			(52)		(52)
Net income			1,754		1,754
Interim dividend paid on 1998 income			(534)		(534)
Foreign currency translation				(48)	(48)
As of December 31, 1998	88,983,072	890	41,522	(981)	41,431
Final dividend paid on 1998 income			(1,368)	(1,368)	
and related taxation		(474)		(474)	
Long term investment in LVMH shares			223		223
Conversion of capital into euro		(14)	14		
Conversion of debt	211				
Employee stock option plans	73,413	1	45		46
Bonus share distribution	8,900,954	87	(87)		
Other changes, net			(5)		(5)
Net income			4,543		4,543
Interim dividend paid on 1999 income			(599)		(599)
Foreign currency translation				179	179
As of December 31, 1999	97,957,650	964	43,814	(802)	43,976

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(amounts in millions)</i>	1999 FRF	1999 EUR	1998 EUR	1997 EUR
I. Operating activities				
Net income	4,543	693	267	690
Minority interests	1,020	155	30	85
Equity interest in undistributed earnings of associated companies, less dividends received	48	7	28	14
Depreciation and amortization	2,846	434	343	345
Change in provisions	469	71	(65)	332
Change in deferred taxes	(604)	(92)	(44)	(146)
(Gain) loss on sale of fixed assets or treasury shares	(2,140)	(326)	12	(157)
Net cash provided by operating activities before changes in current assets and liabilities	6,182	942	571	1,163
Inventories	(843)	(129)	35	11
Trade accounts receivable	(628)	(96)	47	48
Accounts payable	431	66	121	44
Other current assets and liabilities	(649)	(99)	(108)	(134)
Net change in current assets and liabilities	(1,689)	(258)	95	(31)
Net cash provided by operating activities	4,493	684	666	1,132
II. Investing activities				
Purchases of brands and other intangible assets	(497)	(76)	(31)	(14)
Purchases of property, plant and equipment	(3 265)	(498)	(377)	(296)
Acquisition of other investments (see Note 8)	(11,316)	(1,725)	(255)	(2,076)
Proceeds from sale of fixed assets and other investments	1,035	158	29	24
Diageo shares buy back (1999) & capital repayment (1998) (see Note 7)	10,234	1,560	473	—
Change in other non-current assets	(791)	(121)	(58)	(15)
Net effect of acquisitions & disposals of consolidated companies (see Note 2)	(7,970)	(1,215)	(581)	752
Net cash used in investing activities	(12,570)	(1,917)	(800)	(1,625)
III. Financing activities				
Proceeds from issuances of common stock	338	52	46	24
Change in treasury shares	(4,713)	(718)	(3)	(139)
Dividends and interim dividends paid by the parent company (including related tax)	(2,441)	(372)	(289)	(270)
Dividends and interim dividends paid to minority interests of consolidated subsidiaries	(657)	(100)	(58)	(88)
Proceeds from short-term borrowings and long-term debt	23,115	3,524	1,099	1,072
Principal repayments on short-term borrowings and long-term debt	(7,155)	(1,091)	(838)	(347)
Net cash provided by (used in) financing activities	8,487	1,295	(43)	252
IV. Effect of exchange rate changes	(510)	(77)	(8)	(42)
Net decrease in cash and cash equivalents	(100)	(15)	(185)	(283)
Cash and cash equivalents at beginning of year (net of bank overdrafts)	3,203	488	673	956
Cash and cash equivalents at end of year (net of bank overdrafts)	3,103	473	488	673
Non-cash transactions:				
– increase of capital through conversion of debt		—	—	—
– lease financing operations	488	74	2	0

The change in cash and cash equivalents during the period includes the change in cash (including bank overdrafts) and short-term investments, net of provision.

L V M H
MOËT HENNESSY • LOUIS VUITTON

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C R E A T I V I T Y

P A S S I O N A T E A B O U T



L V M H

MOËT HENNESSY • LOUIS VUITTON

1999 FINANCIAL STATEMENTS

Consolidated financial statements and other financial data

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LIQUIDITY AND CAPITAL RESOURCES

The main priorities of the Group's financial strategy were as follows:

– The Group maintained a sound financial structure, taking into account the investments of the year, thanks to positive cash flow from operations. This is underscored by:

- the increasing level of stockholders' equity;
- the increase in the relative proportion of long-term financial debt, within a context of increasing financial indebtedness;
- the high level of cash, cash equivalent and marketable securities;
- the Group's improved financial flexibility, as it secured additional confirmed lines of credit for significant amounts; and
- potential liquidity through various listed investments.

– LVMH implemented a conservative currency risk and interest rate management strategy, primarily aimed at covering risks generated directly or indirectly by the Group's operations and investment strategy.

In foreign currency hedging, the Group continued to favor the use of options to cover its exports, enabling it to protect its position from downswings while preserving its upside potential. In market conditions characterized by the weakness of the European currency, its hedging strategy enabled the Group to benefit from exchange rates higher than the prior year's hedging rate and close to the 1999 averages in the case of the US dollar, Japanese yen and British pound.

– A controlled increase of the Group's financial expenses.

Net financial expenses increased moderately in 1999, to EUR 227 million (FRF 1,486 million), as against EUR 174 million in 1998. This amount should be compared to the EUR 97 million (FRF 635 million) in dividends further received from unconsolidated investments, primarily Diageo, Gucci, Fininfo... Net financial expenses remained at a satisfactory level, taking into account the increase in net financial debt from EUR 4,407 million (FRF 28,906 million) at 1998 year end to EUR 7,362 million (FRF 48,293 million) at 1999 year end.

– LVMH maintained an attractive dividend distribution policy for its shareholders:

- payment of a total 1999 dividend per share of EUR 3.40 (FRF 22.30), including a EUR 1 (FRF 6.56) interim dividend paid in December 1999, representing a 10% increase over the prior year level, taking into account the June 1999 one-for-ten bonus share distribution;
- a proposed 1999 dividend distribution of EUR 333 million (FRF 2,184 million), before impact of treasury shares;
- a significant increase in total dividends paid to minority shareholders of consolidated subsidiaries, reflecting the strong financial performance of Moët Hennessy.

Management of exposure to market risks

– Exposure to foreign currency risks.

A predominant portion of Group sales are denominated in currencies other than the euro, notably the US dollar, Japanese yen and British pound, while most of its production expenses are incurred in euros.

Foreign currency fluctuations between the euro and the major currencies in which the Group's sales are denominated therefore have the potential to materially impact the sales and income of the Group reported in euros, and to obscure comparisons of its performance from year to year.

The Group actively manages its exposure to foreign currency risks in order to reduce sensitivity to unfavorable currency fluctuations, through the use of hedges in the form of forward sales and options.

A significant part of the assets are denominated in foreign currency (primarily US dollar, British pound and Swiss franc). The resulting risks are managed by total or partial hedging of those assets through borrowings denominated in the same currency as the related asset.

– Exposure to interest rate risks.

Group results may also be affected by the world's economic environment, notably in Europe, Japan and North America.

The Group's exposure to interest rate risks may be assessed through the amount of its consolidated net debt, totaling EUR 7.4 billion (FRF 48.3 billion) at 1999 year end, of which 15% was fixed-rate debt and 85% variable-rate debt.

As Group debt is denominated in a variety of currencies, the Group is diversely exposed to fluctuations in interest rates in its principal currencies of indebtedness (primarily euro, US dollar, British pound, Swiss franc).

Interest rate risks are managed through the use of interest rate swaps and purchases of caps aimed at limiting the negative impact of unfavorable interest rate fluctuations.

– Exposure to equity market risks.

The Group's exposure to equity market risks is primarily related to its investments in Diageo and Gucci. The Group does not use hedging instruments to cover these risks. At 1999 year end, the Group's equity investments included significant unrealized capital gains.

– Foreign currency, interest rate and equity market risk management strategy.

The Group implements a centralized, non-speculative strategy to manage its foreign currency and interest rate risks, aimed at reducing the potential negative impact of currency and interest rate fluctuations on its activity and investments.

In particular, the Group's strategy relies on the following instruments:

- hedging through forward sales and/or options:

- of foreign currency risks related to sales of the current and following years;
- of local currency-denominated dividends to be received from foreign subsidiaries and, in certain occasions, of their local currency-denominated net assets;
- borrowings denominated in the currency of the assets or of the future cash flows to be derived from the investment;
- swap contracts or interest rate caps aimed at balancing the Group's debt structure (fixed-rate vs. variable-rate debt).

The Group has instituted stringent policies, management rules and procedures aimed at assessing, managing and controlling its market risks.

The organization of these activities is based on a strict separation of functions: risk assessment, hedging implementation (front office), administrative management (back office) and financial control.

This organization relies on an integrated information system allowing real-time monitoring and control of all hedging operations.

The Group's hedging policy is approved by the Audit Committee of the Board of Directors. Hedging decisions are made based on a clearly established set of procedures, and are fully documented.

Acceptable counterparts are selected based on minimum rating levels, and based on strict risk-diversification criteria.

Consolidated statements of cash flows

The consolidated statements of cash flows, included in the consolidated financial statements, details the various financial flows of the year.

Financing requirements, after operating and investing activities and payment of dividends, amounted to EUR 2,371 million (FRF 15,550 million). These requirements, as well as those arising from the redemption of financial debt and borrowings, were covered through new financial debt and borrowings, including a significant long-term element.

– Cash flow from operations totaled EUR 942 million (FRF 6,182 million), an increase of 65% over the 1998 level. This sharp improvement reflects the significant rise in Group net income and higher depreciation and amortization resulting from past Group's operating investments.

– Working capital requirements rose EUR 258 million (FRF 1,689 million). In particular, growth in inventories and trade receivables, reflecting the sharp increase in Group sales, resulted in working capital requirements of EUR 225 million (FRF 1,471 million). Inventories rose slightly in champagne and wines, continued to decline in cognac as well as fragrances and cosmetics, and rose in the Selective Retailing business group, reflecting growth in sales and expansion of the retail network.

All told, operating activities gave rise to a net cash inflow of EUR 684 million (FRF 4,493 million).

– Investing activities (acquisitions and operating investments, net of disposals) gave rise to a net cash outflow of EUR 1,917 million (FRF 12,570 million).

Group industrial and commercial capital expenditures totaled EUR 574 million (FRF 3,762 million), notably reflecting investments in distribution networks, particularly at Louis Vuitton and Sephora. Investments of the Fashion and Leather Goods and Selective Retailing business groups accounted for 70% of the LVMH total in 1999.

Acquisition of equity interests totaled EUR 2,940 million (FRF 19,286 million) in 1999. In particular, the impact on cash flow of the acquisition of TAG Heuer amounted to EUR 668 million (FRF 4,381 million); the acquisition of Krug EUR 154 million (FRF 1,009 million); the buyout of minority interests in Southeast Asian subsidiaries of Louis Vuitton and Loewe EUR 165 million (FRF 1,084 million); and the increase in the investment in Gucci EUR 1,098 million (FRF 7,204 million).

Conversely, sales of fixed assets, primarily in the first half of the year, generated proceeds of EUR 1,718 million (FRF 11,269 million). In addition to the disposal of Simi Winery, Etablissements Pellisson and Porto Rozès, LVMH tendered a 4% interest in Diageo on the occasion of the share buyback program implemented by this group, generating proceeds of EUR 1,560 million (FRF 10,234 million).

– The Group's net purchases of its own shares totaled EUR 718 million (FRF 4,713 million) in 1999.

– Capital increases by LVMH S.A., and capital increases by Group subsidiaries subscribed by third parties, generated proceeds of EUR 52 million (FRF 338 million).

– In 1999, dividend payments by LVMH S.A., excluding treasury shares, totaled EUR 300 million (FRF 1,967 million), including EUR 209 million paid in June 1999 as final 1998 dividend payment, and EUR 91 million paid in December as interim 1999 dividend. In addition, dividend payment to minority shareholders of consolidated subsidiaries totaled EUR 100 million (FRF 657 million).

– In 1999, the Group increased its financial debt and borrowings, either to fund new acquisitions or refinance borrowings having reached maturity.

Repayment of financial debt and borrowings amounted to EUR 1,091 million (FRF 7,155 million).

Issues of financial debt and borrowings generated proceeds of EUR 3,524 million (FRF 23,115 million). In particular, LVMH expanded its issuance of long-term financial debt and borrowings, and floated several issues of seven-year eurobonds for a total nominal amount of EUR 800 million (FRF 5,247 million). In addition, the Group's outstanding short-term financial debt rose, primarily through the issue of commercial paper, whose total outstanding amount rose by EUR 625 million (FRF 4,100 million) during the year.

Following these transactions, the Group's net cash position remained stable, as cash, cash equivalents and short-term investments remained at a high level at 1999 year end. Taking into account the year-end market value of LVMH shares held with a short-term horizon, as well as of Diageo and Gucci shares, the Group's cash and liquid investments exceeds EUR 5 billion.

Financial structure

Total assets amounted to EUR 20,734 million (FRF 136,005 million) at 1999 year end, an increase of over 27% from the 1998 year-end level.

– Non-current assets, including investments accounted for using the equity method, amounted to EUR 12,994 million (FRF 85,235 million) at December 31, 1999, representing 63% of total consolidated balance sheet, virtually unchanged as a percentage of the total.

Intangible assets totaled EUR 5,708 million (FRF 37,447 million), up from EUR 4,424 million at 1998 year end. This increase reflects the equity investments consolidated for the first time in 1999, notably TAG Heuer, Krug, Château d'Yquem, Laflachère, Thomas Pink, Radio Classique, and the buyout of minority interests in Louis Vuitton and Loewe subsidiaries in Southeast Asia. Brands and other intangible assets amounted to EUR 2,527 million (FRF 16,582 million), up from EUR 1,451 million at 1998 year end, primarily reflecting the acquisition of TAG Heuer, Château d'Yquem and Krug. Goodwill, net of amortization, remained stable at EUR 3,181 million (FRF 20,865 million).

Tangible assets, net of depreciation, amounted to EUR 2,856 million (FRF 18,731 million), up from EUR 2,357 million at 1998 year end, reflecting acquisitions and operating investments, notably in the Louis Vuitton and Sephora retail networks.

The increase to EUR 4,430 million (FRF 29,057 million) of financial fixed assets primarily reflects the increase in “unconsolidated subsidiaries and other investments”. This rise in this item reflects the increase in LVMH's investment in Gucci, offset by the Diageo share buyback program, through which LVMH tendered 143 million shares or approximately 4% of the Diageo share capital; this item also encompasses investments which will be consolidated in 2000, notably Ebel, Chaumet, Zenith, Fendi, Benefit Cosmetics, Hard Candy, Make Up For Ever, Philips, and the equity investments made by LV Capital.

Inventories totaled EUR 2,943 million (FRF 19,306 million), as compared to EUR 2,571 million at 1998 year end. This increase reflects the integration of recently acquired companies as well as growth in the Group's activities and expansion of its retail networks. Taking into account the considerable increase in Group sales, moderate growth in inventories reflects the effective control exercised by Group companies.

– Stockholders' equity grew slightly, from EUR 6,316 million at 1998 year end to EUR 6,704 million (FRF 43,976) million at 1999 year end, before allocation of income. The increase primarily reflects the growth in Group net income.

Minority interests – primarily Diageo's 34% interest in Moët Hennessy – rose to EUR 1,077 million (FRF 7,066 million) at 1999 year end, as compared to EUR 864 million one year earlier. This increase chiefly reflects LVMH's lower percentage interest in Moët Hennessy subsequent to the 4% decrease in LVMH's interest in Diageo, as well as the acquisition of Château d'Yquem and the improved results of DFS.

Including minority interests, stockholders' equity totaled EUR 7,781 million (FRF 51,042 million), representing 38% of total consolidated balance sheet.

– Long-term financial debt, including repackaged notes, rose to EUR 3,491 million (FRF 22,899 million), from EUR 1,890 million at 1998 year end. Long-term financial debt thus accounts for 47% of total net financial debt.

Short-term financial debt increased to EUR 4,600 million (FRF 30,177 million), from EUR 3,322 million at 1998 year end.

Cash, cash equivalents and short-term investments remained significant, totaling EUR 729 million (FRF 4,783 million). Including treasury shares held with a short-term horizon (i.e., not allocated to stock option plans), cash, cash equivalents and short-term investments amount to EUR 1,492 million (FRF 9,787 million).

Total short- and long-term financial debt, net of cash, cash equivalents and short-term investments (*stricto sensu*), amounted to EUR 7,362 million (FRF 48,293 million) at December 31, 1999, or EUR 6,599 million (FRF 43,289 million) if LVMH treasury shares (not allocated to the hedging of stock option plans) are taken into account. This represented 95% and 85% respectively of stockholders' equity and minority interests, as compared to 61% at 1998 year end. Deducting the net book value of the Diageo and Gucci shares held by LVMH, this ratio stands at 54%.

Confirmed lines of credit were raised to approximately EUR 5 billion and were largely unused at year end. They represent a reserve of available cash and coverage EUR 2,454 million (FRF 16,100 million) at 1999 year end.

– Financial expense net of interest income equaled EUR 227 million (FRF 1,486 million) in 1999, as compared to EUR 174 million in 1998. This increase reflects the financing of acquisitions made during the year as well as higher interest rates in the euro zone and the US. Dividends from unconsolidated investments, primarily Diageo, amounted to EUR 97 million (FRF 635 million), considerably lightening the Group's interest expense.

Net financial indebtedness, including repackaged notes, represents 7.8 years of cash flow.

– Income from operations and net income before amortization of goodwill and unusual items, including minority interests and excluding income from companies accounted for by the equity method, represented 18.2% and 10.1% of net sales, respectively, in 1999, up from 17.1% and 8.8%, respectively, in 1998.

To reach its target of improving return on capital employed, the Group intensified its efforts to enhance the efficiency of its activities and to combine the resources of its subsidiaries, notably in the areas of distribution and support functions (purchasing, logistics, accounting, administration). Significant improvements have already been achieved, notably by the Fragrances and Cosmetics and Fashion and Leather Goods business groups.

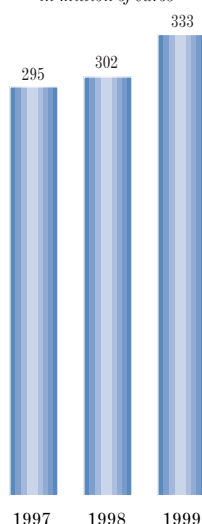
STOCK MARKET INFORMATION

A dividend of EUR 3.40 (FRF 22.30) per share will be proposed for 1999. Taking into account the June 21, 1999 one-for-ten bonus share distribution, this represents a 10% increase over the prior year dividend level.

Including the “Avoir fiscal” tax credit of EUR 1.70 per share, each of the 97,957,650 shares comprising the LVMH share will be entitled to payment of EUR 5.10.

Taking into account treasury shares, total 1999 dividend distribution will amount to EUR 333 million (FRF 2,185 million). The 1998 dividend distribution amounted to EUR 302 million (FRF 1,984 million).

PROPOSED DIVIDENDS
in million of euros



Number of shares outstanding

Number of LVMH shares outstanding at December 31, 1998	88,983,072
Conversion of convertible bonds	211
Exercise of stock options	73,413
Bonus share distribution	8,900,954
Number of LVMH shares outstanding at December 31, 1999	97,957,650

Outstanding notes

• 5.25% NOTES DUE 2002

Amount Issued: FRF 1,500,000,000

Par value: 20,000 notes at FRF 10,000 each; 11,000 notes at FRF 100,000 each; 200 notes at FRF 1,000,000 each

Issue price: 100.76 %

Redemption: at par

Issue date: November 14, 1996

Maturity date: November 14, 2002

Annual interest rate: 5.25%

Listing: Paris and Luxembourg

• 6.75% NOTES DUE 2000

Amount Issued: USD 200,000,000

Par value: 20,000 notes at USD 1,000 each; 8,000 notes at USD 10,000 each; 1,000 notes at USD 100,000 each

Issue price: 101.055%

Redemption: at par

Issue date: May 2, 1997

Maturity date: May 2, 2000

Annual interest rate: 6.75%

Listing: Luxembourg

• 1% INDEXED NOTES DUE 2005

Amount Issued: FRF 1,300,000,761

Par value: FRF 1,527 each

Issue price: 100%

Issue date: May 15, 1998

Maturity date: May 15, 2005

Annual interest rate: 1%

Redemption:

Either, at LVMH's option, between April 15, 2002 and May 14, 2002, at 150% of par value.

Or, at the holder's option, between May 15, 2002 and April 15, 2005, at the average price of the LVMH share during the ten trading days preceding the call for redemption (subject to certain adjustments as listed in the issuance prospectus).

Or, at maturity, at the highest of the average price of the LVMH share during the ten trading days preceding May 1, 2005 (subject to certain adjustments as listed in the issuance prospectus) or par value.

Listing: Paris and Luxembourg

• 5% NOTES DUE 2006

Amount Issued: EUR 800,000,000

Par value: 200,000 notes at EUR 1,000 each; 60,000 notes at EUR 10,000 each

Issue price:

– First tranche (EUR 500,000,000): 99.515%

– Second tranche (EUR 200,000,000): 97.395%

– Third tranche (EUR 100,000,000): 96.653%

Redemption: at par

Issue date: July 27, 1999

Maturity date: July 27, 2006

Annual interest rate: 5%

Listing: Paris and Luxembourg

• 3.75% NOTES DUE 2001

Amount Issued: EUR 150,000,000

Par value: EUR 100,000 (1,500 notes)

Issue price: 100%

Redemption: at par

Issue date: October 14, 1999

Maturity date: April 4, 2001

Annual interest rate: 3.75%

Listing: Luxembourg

Per share data

In EUR	1997	1998	1999
Fully diluted earnings per share	7.20	2.76	7.16
Net income from current operations	7.74	5.42	7.63
Gross dividend (including "Avoir fiscal" tax credit)	4.64	4.64	5.10
Change from prior year	9.3%	0%	10%
Share price: high	230.1	191.1	457.4
Share price: low	121.1	94.4	154.3
Share price: December 31	138.5	153.3	444.7
Change from prior year	- 31%	+ 11%	+ 190%

Market information

The Company's common shares trade on the Paris Stock Exchange ("Marché à Règlement Mensuel de la Bourse de Paris") and on the Brussels Stock Exchange ("Bourse de Bruxelles"). The common shares also trade in the United States on the NASDAQ National Market System in the form of American Depositary Shares (ADSs) under the symbol "LVMHY". Each ADS represents one-fifth of an LVMH common share. The Depositary for the ADSs is the Bank of New York. ADSs traded on the NASDAQ National Market System represent less than 1% of the Company's total share capital. In 1999, the average daily trading volume on NASDAQ was approximately 12,500 ADSs (equivalent to 2,500 common shares). The average daily trading volume on the Paris Stock Exchange was 257,000 shares.

The table below sets forth the number of shares traded and the trading value of the Company's shares on the Paris Stock Exchange in the past 18 months (adjusted for June 21, 1999 bonus share distribution; prices prior to January 4, 1999 were converted from French francs into euros for comparison purposes):

	Opening price EUR	Closing price EUR	High EUR	Low EUR	Trading volume	Trading value EUR million
Sep. 98	134.02	106.20	135.54	104.64	5,291,936	657
Oct. 98	105.05	142.75	145.52	94.38	5,979,454	726
Nov. 98	142.75	152.31	162.98	135.82	4,054,611	604
Dec. 98	147.18	153.28	153.42	136.93	3,665,169	528
Jan. 99	158.18	194.55	201.00	154.27	8,175,950	1,531
Feb. 99	191.82	176.36	206.82	173.36	5,181,887	985
Mar. 99	177.27	208.64	222.00	167.45	8,899,946	1,829
Apr. 99	206.45	230.73	231.73	195.45	4,568,012	987
May 99	235.27	244.55	251.82	226.55	5,105,660	1,208
Jun. 99	239.64	283.90	291.90	236.55	7,510,191	1,991
Jul. 99	285.00	265.50	290.70	257.00	5,158,344	1,433
Aug. 99	261.60	288.10	299.00	261.00	3,683,942	1,032
Sep. 99	287.70	281.50	296.00	275.20	3,865,172	1,096
Oct. 99	279.50	287.00	301.00	271.60	4,265,653	1,218
Nov. 99	284.00	322.20	339.50	281.50	4,358,683	1,391
Dec. 99	324.00	444.70	457.40	323.00	4,965,232	1,799
Jan. 00	458.90	411.00	474.00	370.10	5,160,522	2,167
Feb. 00	416.00	385.50	452.50	351.00	5,111,055	2,029

Dividend history*

Year	Net dividend (EUR)	"Avoir fiscal" tax credit (EUR)	Total dividend (EUR)
1999	3.40	1.70	5.10
1998	3.09	1.55	4.64
1997	3.09	1.55	4.64
1996	2.83	1.42	4.25
1995	2.67	1.33	4.00

* Adjusted for June 21, 1999 bonus share distribution.

Pursuant to French regulation, dividends and interim dividends uncollected within five years are paid to the French State.

CONSOLIDATED STATEMENT OF INCOME

<i>(amounts in millions except EPS)</i>	Notes	1999 FRF	1999 EUR	1998 EUR	1997 EUR
Net sales	19	56,066	8,547	6,936	7,323
Cost of sales		(20,544)	(3,132)	(2,540)	(2,750)
Gross margin		35,522	5,415	4,396	4,573
Selling and marketing expenses		(19,450)	(2,964)	(2,438)	(2,532)
General and administrative expenses		(5,927)	(904)	(774)	(772)
Income from operations	19	10,145	1,547	1,184	1,269
Financial expense – net	21	(1,486)	(227)	(174)	(79)
Dividends from unconsolidated investments	7	635	97	2	3
Other income or expense – net		117	18	1	(7)
Income before income taxes		9,411	1,435	1,013	1,186
Income taxes	22	(3,631)	(554)	(466)	(405)
Income (loss) from investments accounted for using the equity method	6	(41)	(6)	62	100
Net income before amortization of goodwill, minority interests and unusual items		5,739	875	609	881
Amortization of goodwill	23	(667)	(102)	(97)	(80)
Minority interests		(900)	(137)	(84)	(139)
Unusual items	24	371	57	(161)	28
Net income		4,543	693	267	690
Net income before amortization of goodwill and unusual items		4,839	738	525	742
Earnings per share before amortization of goodwill and unusual items		50.08	7.63	5.43	7.76
Average number of common shares outstanding during the year ⁽¹⁾		96,631,429	96,631,429	96,669,685	95,688,348
Fully diluted earnings per share before amortization of goodwill and unusual items		50.05	7.63	5.42	7.74
Number of common shares and share equivalents after dilution ⁽¹⁾		96,689,056	96,689,056	96,800,078	95,888,090

(1) 1997 and 1998 figures have been adjusted to reflect the bonus share distribution of June 1999 (one new share for ten shares held on this date).

The consolidated financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

ASSETS <i>(amounts in millions)</i>	Notes	1999 FRF	1999 EUR	1998 EUR	1997 EUR
Current assets					
Cash and cash equivalents	3	3,580	546	588	417
Short-term investments	3	1,203	183	217	356
Treasury shares	4	5,596	853	208	233
Trade accounts receivable - net	5	9,457	1,442	1,126	981
Deferred income taxes		1,792	273	205	130
Inventories - net	6	19,306	2,943	2,571	2,561
Prepaid expenses and other current assets		9,836	1,500	707	904
		50,770	7,740	5,622	5,582
Investments and other assets					
Investments accounted for using the equity method	7	69	10	7	1,145
Unconsolidated investments and other investments	8	25,962	3,959	3,616	2,173
Treasury shares	4	1,380	210	77	141
Other non-current assets		1,646	251	191	190
Property, plant and equipment - net	11	18,731	2,856	2,357	1,684
Brands & other intangible assets	10	16,582	2,527	1,451	1,428
Goodwill - net	9	20,865	3,181	2,973	2,869
		85,235	12,994	10,672	9,630
Total assets		136,005	20,734	16,294	15,212

The consolidated financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED BALANCE SHEET

LIABILITIES AND STOCKHOLDERS' EQUITY (amounts in millions)	Notes	1999 FRF	1999 EUR	1998 EUR	1997 EUR
Current liabilities					
Short-term borrowings	12	29,121	4,439	3,192	2,777
Accounts payable		7,132	1,087	913	739
Accrued expenses and other current liabilities		16,709	2,548	1,773	1,442
Income taxes		910	139	25	255
Current portion of long-term debt		1,056	161	130	27
		54,928	8,374	6,033	5,240
Net deferred incomes taxes		1,098	167	184	22
Long-term liabilities					
Long-term debt, less current portion	13	20,236	3,085	1,425	1,383
Other long-term liabilities	14	6,038	921	1,007	942
Repackaged notes	15	2,663	406	465	523
		28,937	4,412	2,897	2,848
Minority interests in subsidiaries	16	7,066	1,077	864	923
Stockholders' equity					
Common stock		964	147	136	134
Additional paid-in capital and retained earnings.		43,814	6,679	6,330	6,187
Cumulative translation adjustment		(802)	(122)	(150)	(142)
	17	43,976	6,704	6,316	6,179
Total liabilities and stockholders' equity		136,005	20,734	16,294	15,212

The consolidated financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

(EUR millions)	Number of shares	Capital	Additional paid in capital & reserves	Cumulative translation adjustment	Total
As of January 1, 1997	87,389,712	134	5,715	(363)	5,486
Final dividend paid on 1996 income			(189)		(189)
LVMH shares owned by subsidiaries			32		32
Conversion of debt					
Employee stock option plans	206,748		20		20
Net income			690		690
Interim dividend paid on 1997 income			(81)		(81)
Foreign currency translation			—	221	221
As of December 31, 1997	87,596,460	134	6,187	(142)	6,179
Final dividend paid on 1997 income			(207)		(207)
Shares issued in paiement of Le Bon Marché acquisition	1,343,150	2	257		259
LVMH shares owned by subsidiaries			(89)		(89)
Conversion of debt	2,277				
Employee stock option plans	41,185		4		4
Other changes, net			(8)		(8)
Net income			267		267
Interim dividend paid on 1998 income			(81)		(81)
Foreign currency translation				(8)	(8)
As of December 31, 1998	88,983,072	136	6,330	(150)	6,316
Final dividend paid on 1998 income			(209)		(209)
and related taxation			(72)		(72)
Long term investment in LVMH shares ⁽¹⁾			34		34
Conversion of capital into euro		(2)	2		
Conversion of debt	211				
Employee stock option plans	73,413		7		7
Bonus share distribution	8,900,954	13	(13)		
Other changes, net			(1)		(1)
Net income			693		693
Interim dividend paid on 1999 income			(91)		(91)
Foreign currency translation				27	27
As of December 31, 1999	97,957,650	147	6,680	(123)	6,704

(1) See accounting policies, Note 1-11.

The consolidated financial statements should be read in conjunction with the accompanying notes.

(FRF millions)	Number of shares	Capital	Additional paid in capital & reserves	Cumulative translation adjustment	Total
As of January 1, 1997	87,389 712	874	37,490	(2,380)	35,984
Final dividend paid on 1996 income			(1,242)		(1,242)
LVMH shares owned by subsidiaries			209		209
Conversion of debt					
Employee stock option plans	206,748	2	134		136
Net income			4 528		4,528
Interim dividend paid on 1997 income			(532)		(532)
Foreign currency translation				1 447	1,447
As of December 31, 1997	87,596,460	876	40,587	(933)	40,530
Final dividend paid on 1997 income			(1,360)		(1,360)
Shares issued in paiement of Le Bon Marché acquisition	1,343,150	13	1,687		1,700
LVMH shares owned by subsidiaries			(584)		(584)
Conversion of debt	2,277				
Employee stock option plans	41,185	1	24		25
Other changes, net			(52)		(52)
Net income			1,754		1,754
Interim dividend paid on 1998 income			(534)		(534)
Foreign currency translation				(48)	(48)
As of December 31, 1998	88,983,072	890	41,522	(981)	41,431
Final dividend paid on 1998 income			(1,368)	(1,368)	
and related taxation		(474)		(474)	
Long term investment in LVMH shares ⁽¹⁾			223		223
Conversion of capital into euro		(14)	14		
Conversion of debt	211				
Employee stock option plans	73,413	1	45		46
Bonus share distribution	8,900,954	87	(87)		
Other changes, net			(5)		(5)
Net income			4,543		4,543
Interim dividend paid on 1999 income			(599)		(599)
Foreign currency translation				179	179
As of December 31, 1999	97,957,650	964	43,814	(802)	43,976

(1) See accounting policies, Note 1-11.

The consolidated financial statements should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

<i>(amounts in millions)</i>	1999 FRF	1999 EUR	1998 EUR	1997 EUR
I. Operating activities				
Net income	4,543	693	267	690
Minority interests	1,020	155	30	85
Equity interest in undistributed earnings of associated companies, less dividends received	48	7	28	14
Depreciation and amortization	2,846	434	343	345
Change in provisions	469	71	(65)	332
Change in deferred taxes	(604)	(92)	(44)	(146)
(Gain) loss on sale of fixed assets or treasury shares	(2,140)	(326)	12	(157)
Net cash provided by operating activities before changes in current assets and liabilities	6,182	942	571	1,163
Inventories	(843)	(129)	35	11
Trade accounts receivable	(628)	(96)	47	48
Accounts payable	431	66	121	44
Other current assets and liabilities	(649)	(99)	(108)	(134)
Net change in current assets and liabilities	(1,689)	(258)	95	(31)
Net cash provided by operating activities	4,493	684	666	1,132
II. Investing activities				
Purchases of brands and other intangible assets	(497)	(76)	(31)	(14)
Purchases of property, plant and equipment	(3 265)	(498)	(377)	(296)
Acquisition of other investments (see Note 8)	(11,316)	(1,725)	(255)	(2,076)
Proceeds from sale of fixed assets and other investments	1,035	158	29	24
Diageo shares buy back (1999) & capital repayment (1998) (see Note 7)	10,234	1,560	473	–
Change in other non-current assets	(791)	(121)	(58)	(15)
Net effect of acquisitions & disposals of consolidated companies (see Note 2)	(7,970)	(1,215)	(581)	752
Net cash used in investing activities	(12,570)	(1,917)	(800)	(1,625)
III. Financing activities				
Proceeds from issuances of common stock	338	52	46	24
Change in treasury shares	(4,713)	(718)	(3)	(139)
Dividends and interim dividends paid by the parent company (including related tax)	(2,441)	(372)	(289)	(270)
Dividends and interim dividends paid to minority interests of consolidated subsidiaries	(657)	(100)	(58)	(88)
Proceeds from short-term borrowings and long-term debt	23,115	3,524	1,099	1,072
Principal repayments on short-term borrowings and long-term debt	(7,155)	(1,091)	(838)	(347)
Net cash provided by (used in) financing activities	8,487	1,295	(43)	252
IV. Effect of exchange rate changes	(510)	(77)	(8)	(42)
Net decrease in cash and cash equivalents	(100)	(15)	(185)	(283)
Cash and cash equivalents at beginning of year (net of bank overdrafts)	3,203	488	673	956
Cash and cash equivalents at end of year (net of bank overdrafts)	3,103	473	488	673

Non-cash transactions:

– increase of capital through conversion of debt		–	–	–
– lease financing operations	488	74	2	0

The change in cash and cash equivalents during the period includes the change in cash (including bank overdrafts) and short-term investments, net of provision.

The consolidated financial statements should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1 General

The consolidated financial statements of LVMH Group have been prepared in accordance with French accounting principles as defined by the French law of January 3, 1985. The new French regulation effective as from January 1, 2000 (Règlement 99-02 du Comité de Réglementation Comptable) are not expected to have a significant impact on stockholders' equity and Group earnings.

The methods applied for the implementation of these principles are also in conformity with U.S. accounting standards, with the exception primarily of the amortization of brands, the accounting method for foreign exchange hedging and reorganizing costs.

Because its shares are listed on the NASDAQ, LVMH prepares a table of concordance between its presentation of income and stockholders' equity under French accounting standards and US GAAP which is included in the form 20F.

1.2 Principles of consolidation

Are consolidated the accounts of significant subsidiaries in which LVMH has, directly or indirectly, a controlling interest.

For the companies owned jointly with Diageo plc, only the portion of assets and liabilities and results of operations relating to LVMH activity is included in the accompanying financial statements.

Investments in companies where LVMH has a significant influence but no controlling interest are accounted for using the equity method.

1.3 Foreign currency translation, hedging of exchange and interest rate risks

a) The financial statements of the foreign subsidiaries are translated as follows:

- Balance sheet at year-end exchange rates,
- Income statement at average exchange rates prevailing during the year.

The resulting translation adjustments are recorded in stockholders' equity, on the line "Cumulative translation adjustment".

b) Foreign currency transactions are accounted for at the exchange rate prevailing at the transaction date.

Assets and liabilities denominated in foreign currencies are converted at the year-end exchange rate, and unrealized gains and losses resulting from the translation are recorded in the statement of income.

Translation adjustments arising from foreign currency debt designated as hedges of long-term investments in foreign subsidiaries are recorded in stockholders' equity, under "Cumulative translation adjustment".

c) Foreign exchange and option contracts are revalued using the year-end exchange rates. Unrealized gains and losses resulting from such revaluations are:

- recorded in the statement of income to compensate the unrealized gains or losses on the assets or liabilities covered by these instruments;

- deferred if the instruments have been designated as hedges for transactions of the following accounting period;

- recorded as income or losses for the period if they have not been designated as hedges.

Deferred unrealized gains and losses are included in "Other current assets or liabilities".

d) Foreign exchange gains and losses arising from contracts hedging commercial risks are recorded as operating income or expenses to offset gains and losses recognized on such risks, except for premiums and discounts of forward contracts, which are recorded on a prorata basis as financial income and expenses. Foreign exchange gains and losses arising from contracts hedging financial risks are recorded as financial income or expenses.

e) Gains and losses resulting from interest rate swap contracts, future rate agreements and collars are accounted for on a prorata basis, over the period of the related contracts.

1.4 Brands and other intangible assets

Only the brands which are well-known, established, individually identifiable and which value can be periodically remeasured are recognized in the Group consolidated financial statements. The method used for their valuation is determined according to the industry nature and profitability.

An amortization is recorded when the value of a brand, based on the same method as those established at the date of acquisition, is permanently impaired.

Other intangible assets are, if appropriate, amortized over their useful lives :

- | | |
|---------------------------------|-------------------|
| • Leasehold acquisition rights: | duration of lease |
| • Software: | 1 to 5 years |

1.5 Goodwill

Goodwill is defined as the difference between the purchase price of acquired businesses, and the Group share of the underlying net assets at the date of acquisition. This calculation is made after the net assets of the acquired company have been restated in conformity with the group accounting principles and after revaluation to fair value, when fair value differs from net book value at the purchase date.

In the selective retailing segment, intangible assets such as name and corresponding market shares are not recorded separately from goodwill.

Goodwill are amortized on a straight-line basis over periods ranging from 5 to 40 years, depending on the estimate of their useful life. An additional write-down may be recorded if the expected future cash-flows differ significantly from the estimation made at the time of the acquisition.

Goodwill acquired under French regulation (“fonds de commerce”) are amortized over a period which may not exceed 18 years.

1.6 Property, plant and equipment

Property, plant and equipment is stated at historical cost, and include, as the case may be, the interest expense capitalized during the period prior to the date when the asset is put in use. Assets acquired under capital lease contracts are recorded on the basis of the present value of future lease payments.

Depreciation is charged using the straight-line method, at rates calculated on the basis of the estimated useful lives of the assets concerned. Principal useful lives used to calculate depreciation are as follows:

Buildings	20 to 50 years
Machinery and equipment	3 to 20 years
Retail leasehold improvements	3 to 10 years
Producing vineyards	18 to 25 years

Vineyards preparation and development costs are capitalized until the vineyards become commercially productive (generally the first 3 years) and are included in “construction in progress”.

1.7 Unconsolidated investments

Unconsolidated investments are recorded at acquisition cost, including direct incidental expenses when applicable.

In case of difference deemed permanent between the value in use for the Group of such investments and the net book value, an impairment provision is recorded for this amount.

The usefulness value of the shareholdings is based on such criteria as the value of the interest in the net assets, the stock price or earnings prospects, weighted by the consequences of these investments for the Group in terms of strategy or synergies with existing businesses.

1.8 Inventories and work-in-progress

Inventories are stated at the lower of cost, excluding interest, or net realizable value.

Cost for the major part of inventories is determined either according to the weighted average cost method or the FIFO (first-in, first-out) method.

Due to the length of the aging process for champagne and cognac, a substantial portion of the inventories is not sold within one year. However, in accordance with industry practices, these are classified as current assets.

1.9 Trade accounts receivable and other receivables

Receivables are recorded at their face value. A provision for risk of non-collectibility is recorded based on the probability of their recovery.

1.10 Short-term investments

Short-term investments are stated at the lower of cost or market value.

Market value for traded securities is determined by reference to the average price quoted on the related stock exchange during the last month of the year; and if applicable, translated at the year-end exchange rate. Market value of non-traded securities is based on published values or estimated realizable value. This calculation is determined on a line-by-line basis. No compensation is made between gains and losses.

In case of partial sales of an investment, the FIFO method is used to determine the gain or loss to be recognized.

1.11 Treasury shares

LVMH shares are recorded at acquisition cost.

Shares held by the parent company LVMH SA under French market regulations for stock price equalization or for employee stock option plans, as well as shares held by subsidiaries on a short-term basis, are recorded as assets in the balance sheet.

LVMH shares held by the parent company or group companies on a long-term basis, or for the purpose of future cancellation or exchange are recorded as a deduction from stockholders' equity, including the related realized capital gains or losses. Until the 1999 financial period, only LVMH shares held by subsidiaries, in accordance with applicable regulation, were deducted from stockholders' equity.

Shares acquired within the framework of stock price equalization or as short-term investments are treated as short-term securities (see above 1.10).

The shares held for stock option purchase plans are allocated to these plans for the duration of the option plan period. A loss provision is eventually recorded to bring the acquisition price in line with the exercise price.

1.12 Cash and cash equivalents

Cash and cash equivalents include cash in banks and short-term deposits which are immediately available, and restricted cash.

1.13 Pension and early retirement plans

In accordance with the laws and practices in the countries where the Group operates, companies within the Group contribute to various employee pension and retirement benefit plans.

In some countries including France, salary-based contributions are paid under these plans to government organizations which are liable for the payment of benefits. The Group has no actuarial liability under such plans.

Where specific retirement plans or other commitments are of the Group responsibility, the corresponding actuarial commitments are charged to the income statement either by way of a provision for “Other long-term liabilities” or by contributions to independent organizations responsible for the payment of the benefits.

1.14 Sales repurchase commitments

Companies in the Fragrances and Cosmetics division repurchase from their distributors unsold or outdated products. Reserves are provided for on the basis of a percentage of sales and gross margin to cover the costs of such repurchased products.

1.15 Research and development costs

Research and development costs are expensed in the year they are incurred.

1.16 Bonds issuance costs and redemption premiums

Redemption premiums and issuance costs are charged to the income statement over the life of the debt.

1.17 Income taxes

Deferred income taxes are provided for on temporary differences arising between reported income and taxable income. These amounts are recorded under the liability method, based on the enacted rates at the end of the year.

Taxes that would become payable in the event of distribution of the retained earnings of subsidiaries are provisioned for if such a distribution is probable.

1.18 Other income and expense; unusual items

Other income and expense comprise items which, due to their nature or infrequency of occurrence, may not be considered inherent to the operating activity of the Group.

Other income and expense items that are material and of an exceptional nature are recorded as unusual items. Unusual items are presented net of tax effect and minority interests.

1.19 Earnings per share

Earnings per share are calculated based on the weighted average number of common shares outstanding during the year, excluding the treasury shares deducted from equity.

Fully diluted earnings per share are computed based on the weighted average number of common shares outstanding during the year, less those shares deducted from equity, plus shares resulting from the assumed conversion of outstanding convertible debt and from the exercise of all existing options. This calculation eliminates the effect of the related interest expense and redemption premiums charge, net of the relating income tax effect.

2. CHANGES IN THE COMPOSITION OF THE GROUP

2.1 In 1999:

- In January, LVMH acquired the champagne house Krug for EUR 153 million (approximately FRF 1 billion); the difference

between this price and the net book value was allocated to the value of the Krug brand for EUR 100 million. Krug is consolidated as from January 1 in the Champagne and Wines business group.

- Also in January, the stake in Compagnie Financière Laflachère was increased to 52%; after the tender offer of February 1999, and the final withdrawal in December, Laflachère owned 99% of the group La Brosse et Dupont, listed before in the Paris stock exchange.

The total investment is EUR 90 million, EUR 62 million of which is recorded under goodwill, representing the La Brosse et Dupont “know-how” in the area of distribution; the goodwill will be amortized over 25 years. This activity has been consolidated in the Fragrances and Cosmetics business group since January 1.

- The stake in Château d’Yquem was increased to 64% in April, and consolidated as from July 1 in the Champagne and Wine business group. The difference between the price paid of EUR 98 million (FRF 645 million), and the net book value was allocated to the Yquem brand and the revaluation of the vineyards, up to EUR 108 and 18 million respectively (EUR 70 and 11 million respectively, for the group share).
- The Group bought in March 1999 for USD 182 million the minority interests in the South East Asian subsidiaries of Louis Vuitton Malletier and Loewe. The corresponding goodwill, representing an additionnal share for the group in the unbooked value of the Louis Vuitton trademark, will be amortized over 40 years.
- In September 1999, as part of the creation of a Watches and Jewelry business group, LVMH acquired on the Zurich market, through a takeover bid, more than 98% of the TAG Heuer group. The price of this acquisition of CHF 1.151 billion, represents principally the value of the TAG Heuer brand. TAG Heuer was consolidated as from October 1 in Other Activities, as the Watch and Jewelry business group was not formed until 2000.
- In September, LVMH acquired through its subsidiary LV Capital 70% of the British company Thomas Pink, for GBP 42 million; this amount was allocated to the Thomas Pink brand for EUR 50 million, of which EUR 35 million for the Group share, and to an EUR 19 million residual goodwill, to be amortized over 20 years. Thomas Pink has been consolidated in the Selective Retailing business group since October 1.
- The other investments carried out and consolidated in the period included 70% of the company Bliss, 100% of the Swiss company Benedom, Radio Classique and Sid Editions, representing a total of EUR 97 million.

In addition, due to their acquisition date, certain equity investments carried out during the period were not consolidated until 2000; these acquisitions are detailed in note 8 “Unconsolidated investments and other investments”.

Finally, in 1999 the investments in the Champagne and Wine division in the Simi Winery (California) and Porto Rozès (Portugal), and the Cognac and Spirits division in Etablissements Pellisson were disposed of. These disposals resulted in a total capital gain of EUR 29 million.

2.2 In 1998:

- In June 1998, LVMH acquired from BM Holding, its principal shareholder via Christian Dior, the distribution business and real estate assets of Le Bon Marché, valued at EUR 259 million. This acquisition was financed by a share capital increase representing approximately 1.51% of the LVMH parent company share capital after contribution. The price paid has been allocated mainly to the real estate assets. Le Bon Marché is fully consolidated since June 1, 1998.
- In July, LVMH acquired for EUR 118 million Marie Jeanne Godard, a specialized distribution network for fragrances and cosmetics consisting of approximately 80 shops in France. The majority of the acquisition price was treated as a complement to the Sephora goodwill (see below under 1997) and similarly will be amortized over 30 years.
- Louis Vuitton SA, a subsidiary of the holding LVMH, purchased and subsequently cancelled all its own shares held outside of LVMH, representing 2.95% of equity, of which 2.90% held by BM Holding. The shares were purchased for EUR 274 million, resulting in goodwill of EUR 213 million. The brands owned by Louis Vuitton are either recorded at historical value if acquired or not recorded if developed by the Group. The goodwill resulting from this shares buy back represents the increase of the Group share in the historical value of Louis Vuitton brands and therefore will be amortized over 40 years.
- In December 1998, as the result of the public offer by purchase or share exchange, LVMH acquired 99% of Belle Jardinière, a real estate company listed on the second market in Paris. The Belle Jardinière shareholders received EUR 7 million and 1,093,066 shares of LVMH stock, initially acquired by LVMH for EUR 180 million. At this date, BM holding owned 86% of Belle Jardinière. The purchase price was allocated to the value of the real estate assets. The Belle Jardinière is fully consolidated as of December 31, 1998.

2.3 In 1997

- In December 1996, LVMH purchased a 58.75% ownership interest in the Duty Free Shoppers Group (DFS). For the American DFS entities this transaction was not finalized until January 1997. In February 1997, the ownership interest was increased to 61.25%, bringing the total investment to USD 2.575 billion.

The portion of the purchase price, reflecting the value of the DFS name and the corresponding market share, has been included in goodwill for EUR 2 billion which is being amortized over 40 years.

DFS is consolidated from January 1, 1997.

- In July, LVMH acquired 100% of the capital of Sephora for EUR 243 million. Sephora, which operates 57 stores, is the leading specialized distributor of fragrances and cosmetics in France, and the second in Europe.

The value of the Sephora name and corresponding market share, represents the major part of goodwill, which is valued at EUR 259 million and is being amortized over 30 years.

2.4 Summarized pro forma information and impact on cash flow:

A simplified pro forma income statement is presented below for the 1998 and 1999 financial periods, on the basis of a consolidation scope showing as completed on January 1, 1998 the 1999 acquisitions of Laflachère, Krug, Bliss, Château d'Yquem, Benedom, Radio Classique, SID Editions, TAG Heuer and Pink, the buyout of the minority interests of Louis Vuitton Malletier and Loewe in Southeast Asia, the disposals of Simi Winery, Pellisson, Rozes, and the 1998 acquisitions of Le Bon Marché, Marie-Jeanne Godard, the Louis Vuitton SA share buyback, and the 1998 discontinuing of Diageo equity accounting.

The pro forma information given does not necessarily represent the results that would have been realized if the transactions described above had effectively occurred on January 1, 1998, and may not be presumed to indicate the future evolution of LVMH consolidated results.

<i>EUR millions</i>	1999 pro-forma	1998 pro-forma
Sales	8,791	7,635
of which : – Champagne and Wines	1,522	1,286
– Cognac and Spirits	712	649
– Fashion and Leather Goods	2,280	1,829
– Fragrances and Cosmetics	1,698	1,557
– Selective Retailing	2,205	1,970
Income from operations	1,582	1,275
Income before income taxes	1,431	1,145
Income from investments accounted for using the equity method	(6)	1
Net income before amortization of goodwill and unusual items	750	611
Net income before unusual items	646	509

The impact on group cash of the changes in consolidation scope, net from the cash of acquired or disposed of companies, totaled EUR 1.215 billion (compared with EUR 570 million in 1998).

This figure represents primarily investments in TAG Heuer (EUR 668 million), Krug (EUR 154 million) and the buy out of the minority interests of the distribution subsidiaries of Louis Vuitton Malletier in Southeast Asia (EUR 165 million).

In 1998, this amount mainly represents the investments in Marie-Jeanne Godard, Belle Jardinière and the Louis Vuitton's share buyback.

3 . SHORT-TERM INVESTMENTS AND CASH

	(FRF millions)	(EUR millions)		
	1999	1999	1998	1997
Short-term investments:				
Quoted securities and mutual funds at cost	1,002	152	186	264
Negotiable notes and other unquoted securites	399	61	72	113
Depreciation allowances	(198)	(30)	(41)	(21)
Net book value	1,203	183	217	356
Market value of short-term securities	1,219	186	217	3,625
Of which, market value of quoted securities and mutual funds	820	125	143	251
Cash and cash equivalents:				
Fixed-term deposits (maturity 3 > months)	125	19	1	—
Fixed-term deposits (maturity 3 < months)	100	15	193	252
Ordinary bank accounts	3,355	512	394	165
Net book value	3,580	546	588	417
Of which, restricted cash	28	4	4	13

At December 31, 1999 short term investments are reduced by an amount of EUR 226 reclassified as current assets, corresponding to a loan of 896 182 Bouygues Group shares ("prêt de titres") that was repaid on March 7, 2000.

4 . TREASURY SHARES

The allocation of LVMH shares is as follows:

	(FRF millions)	(EUR millions)		
	1999	1999	1998	1997
More than 1 year:				
– stock option plans	1,380	210	77	141
Less than 1 year:				
– stock option plans	592	90	153	127
– stock price equalization or short term investments:				
• gross	5,004	763	58	124
• depreciation allowance	–	–	(3)	(18)
Total	5,596	853	208	233

During the period, the following transactions were made in the portfolio:

Stock price equalization or short term investments				Stock options plans		
(currency units millions)	Number	EUR	FRF	Number	EUR	FRF
At January 1, 1999	346,055	58	382	1,838,026	230	1,509
– Purchases	2,762,806	804	5,271	818,106	137	901
– Bonus shares	5,500	–	–	193,659	–	–
– Exercice of options	NA	NA	NA	(659,375)	(67)	(440)
– Disposals at market price	(366,963)	(125)	(822)	–	–	–
– Gross realized capital gain	–	26	173	–	–	2
At December 31, 1999	2,747,398	763	5,004	2,190,416	300	1,972
Market value		1,011	6,634		NA	NA

The market value is based on the average price for the month of December of LVMH's share, i.e. EUR 368.1 (FRF 2,414.58).

5 . TRADE ACCOUNTS RECEIVABLE

	(FRF millions)	(EUR millions)		
	1999	1999	1998	1997
Gross value	9,789	1,492	1,167	1,022
Allowance for doubtful accounts	(332)	(50)	(41)	(41)
Net book value	9,457	1,442	1,126	981

6. INVENTORIES AND WORK IN PROGRESS

	(FRF millions)	(EUR millions)		
	1999	1999	1998	1997
Merchandises	3,336	509	278	345
Finished goods	5,546	845	678	584
	8,882	1,354	956	929
Wines and distilled alcohol in the process of aging	10,574	1,612	1,596	1,582
Other raw materials and work in progress	1,216	185	189	161
	11,790	1,797	1,785	1,743
Gross value	20,672	3,151	2,741	2,672
Provision	(1,366)	(208)	(170)	(111)
Total net	19,306	2,943	2,571	2,561

7. INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

	(FRF millions)	(EUR millions)		
	1999	1999	1998	1997
Diageo (formerly Guinness)	—	—	—	1,137
Other	69	10	7	8
Investments accounted for using the equity method	69	10	7	1,145
Diageo (formerly Guinness)	—	—	—	98
Diageo (formerly Guinness and GrandMet)	—	—	61	—
Other	(41)	(6)	1	2
Income from investments accounted for using the equity method	(41)	(6)	62	100

Since 1988, the LVMH and Guinness Groups have progressively made reciprocal capital investments, in addition to their distribution partnership.

At December 31, 1996, LVMH investment in Guinness was approximately 20% with Guinness owning 34% of Moët Hennessy, the holding company for the LVMH Group Wines and Spirits activities. LVMH interest in Guinness was reduced to 14.21% in January 1997 following LVMH disposal at this time of approximately 7% of the capital of Guinness.

In July and August 1997, LVMH sold approximately 3% of the capital of Guinness, reducing its stake in Guinness to 11.46%, and simultaneously acquired approximately 11% of the capital of GrandMet for FRF 14.8 billion.

The GrandMet-Guinness merger became effective in December 1997. As a result, former Guinness and GrandMet shares were exchanged for Diageo A and B shares (864 A shares and 136 B shares for each 1,000 shares of the former companies), the B shares giving the option to receive a “capital repayment” from February 1998.

At December 31, 1997, the investment in Diageo was recorded as follows in the LVMH consolidated balance sheet:

- Diageo A and B shares received in exchange for the shares held in Guinness were accounted for using the equity method, consistent with the previous treatment of the investment in Guinness;
- Diageo A shares received in exchange for the shares held in GrandMet were recorded as “other investments”, and Diageo B shares as “other current assets” for FRF 1.6 billion.

In February 1998, LVMH exercised the option for capital repayment attached to Diageo B shares and received a total amount of EUR 473 million. This amount has been recorded as a deduction from:

- the value of the Diageo B shares received in exchange for the shares Guinness accounted for using the equity method;
- the value of the Diageo B shares received in exchange for the GrandMet shares recorded as other current assets.

Following the capital repayment operation, LVMH’s stake in Diageo was approximately 10.9%.

The LVMH investment in Diageo is no longer accounted for using the equity method from June 30, 1998. The LVMH President resigned from the Diageo Board of Directors in December 1998.

In April 1999, within the Diageo share buyback program, LVMH contributed 143 millions shares corresponding to approximately 4% of the capital; this operation providing inflows of approximately EUR 1.5 billion, generated a gain of EUR 315 million.

On December 31, 1999, LVMH’s stake in Diageo was 6.87% LVMH remaining the main stockholder.

The Guinness and Diageo groups prepare their consolidated financial statements in accordance with the accounting principles generally accepted in the United Kingdom; the valuation of LVMH equity in Diageo, excluding the interests of Guinness and Diageo in Moët Hennessy, takes into account the necessary restatements to conform the Guinness and Diageo accounts to the accounting principles applied by LVMH.

A reconciliation between the main consolidated figures of Guinness Plc. and Diageo Plc., as presented in their annual report, and LVMH share is presented below:

a) Reconciliation between Guinness stockholders’ equity and the value of the shares under the equity method:

<i>(FRF millions)</i>	<i>1997 1 £ = 9,91 FF</i>
Guinness consolidated net assets	31,781
LVMH pro rata share	3,642
Revaluation of brands to fair value at the acquisition date	2,453
Restatements to LVMH accounting principles	2,575
Goodwill (see Note 9)	(1,217)
LVMH investment in Guinness equity excluding goodwill	7,453

b) Diageo/Guinness’s summarized consolidated statements of income (UK accounting principles):

<i>(GBP millions)</i>	<i>Diageo 1st half 98</i>	<i>Guinness 1997</i>
Net sales	5,312	4,606
Net income	527	370
Less Diageo/Guinness prorata share of Moët Hennessy net income	(26)	(61)
Effect of the merger with GrandMet and other unusual costs	–	313
Effect of GrandMet initial consolidation restatements	(88)	–
Diageo/Guinness consolidated net income, excluding unusual or merger costs and Moët Hennessy contribution	413	622

c) Reconciliation between Diageo/Guinness’s consolidated net income and the LVMH share in Diageo/Guinness’s net income:

<i>(FRF millions)</i>	<i>Diageo 1st half 98 1 £ = 9,99 FF</i>	<i>Guinness 1997 1 £ = 9,56 FF</i>
Diageo/Guinness consolidated net income excluding Moët Hennessy, the effects of the merger with GrandMet and other costs	4,127	5,946
LVMH pro rata share	449	710
Restatements to LVMH accounting principles	(30)	(29)
Amortization of goodwill	(18)	(38)
LVMH pro rata share of Diageo/Guinness net income	401	643

8. UNCONSOLIDATED INVESTMENTS AND OTHER INVESTMENTS

	(FRF millions)		(EUR millions)					
	Gross	1999 Allowance	Gross	1999 Allowance	Gross	1998 Allowance	Gross	1997 Allowance
• Diageo	12,585	–	1,919	–	3,180	–	2,013	–
• Gucci	8,238	–	1,256	–	170	–	–	–
• Other investments	2,132	(164)	325	(25)	302	(36)	164	(4)
Unconsolidated investments.	22,955	(164)	3,500	(25)	3,652	(36)	2,177	(4)
Investments acquired in 1999 and consolidated in 2000	3,171	–	484	–	–	–	–	–
Total.	26,126	(164)	3,984	(25)	3,652	(36)	2,177	(4)

The Diageo investment represented:

– on 31/12/97: A shares (ex GrandMet).

– on 31/12/98 and 31/12/99 A shares (ex GrandMet and Guinness) “deconsolidated”.

See Note 7 - Investments recorded under the equity method.

8.1 UNCONSOLIDATED INVESTMENTS

(EUR millions)	Group Interest	Net book value	Dividends received	Share Capital	Net income	Market value on 31/12/1999
Diageo PLC (UK) ⁽¹⁾	7%	1,919	87	6,134	1,400	1,880
Oxygen Media (USA)	5%	61	–	132	(27)	–
Video Networks Ltd (UK)	16%	31	–	77	(19)	–
Various investments in Internet funds (USA)	less than 20%	24	–	NA	NA	–
Grand Marnier S.A. (France) ⁽¹⁾	10%	23	1	140	16	25
Prost development NV (Netherlands)	10%	19	–	NA	NA	–
Other investments		10	–			–
Investments less than 20%		2,087	88			
Gucci Group NV (Netherlands) ⁽¹⁾	See Nota Bene	1,256	7	575	175	2,305
Pechel Industries S.A. (France) ⁽¹⁾	41%	27	–	68	4	–
Fininfo S.A. (France) ⁽¹⁾	21%	23	1	40	6	72
Inter Parfums Inc. (USA) ⁽¹⁾	21%	18	–	44	3	15
Other investments		25	–			–
Investments between 20 and 50%		1,349	8			
Other investments		39	1			
Investments greater than 50%		39	1			
Total		3,475	97			

⁽¹⁾ The figures provided are from before December 31, 1999.

Nota Bene :

At the beginning of 1999, LVMH increased its stake in Gucci through an additional investment of EUR 1.1 billion to 34.4%; this stake would be reduced to 20% if the capital increase decided by Gucci on March 19, 1999 were approved.

LVMH has undertaken legal actions concerning the validity of two reserved capital increases, carried out on February 18 and March 19, 1999. Following decisions rendered March 22 And May 27, 1999 by the Commercial Section of the Amsterdam Court of Appeals, which

confirmed the cancellation of the vote resulting from the reserved capital increase of February 18, 1999 and recognized the fault committed by Gucci and PPR (Pinault-Printemps-Redoute) at the expense of LVMH, LVMH filed suits before the Supreme Court of the Netherlands and the Amsterdam District Court. The primary purpose of those suits is to obtain the cancellation of the reserved capital increase decided by Gucci on March 19, 1999 and, in the event cancellation is not obtained by LVMH, compensation for its prejudice by the obligation for PPR to launch a takeover bid on Gucci.

8.2 Equity interests acquired in 1999, consolidated in 2000

(EUR millions)	Group Interest	Net book value	Equity ⁽²⁾	Sales
LVP Holding BV (Fendi) ⁽³⁾	50%	105	ND	ND
Phillips Auction Group Ltd (UK)	100%	87	4	49
Zenith International SA (Switzerland)	100%	74	33	47
Chaumet International SA (France)	100%	47	51	34
BeneFit Cosmetics Inc. (USA) ⁽¹⁾	70%	46	3	15
Ebel SA (Switzerland)	100%	20	(10)	135
Progen Spa ("Laguna"-Italy)	21%	24	2	51
Other		81		
Total		484		

(1) The figures provided are from before December 31, 1999.

(2) Parent company or consolidated stockholders' equity before revaluation resulting from the allocation of the price paid by LVMH.

(3) Partial payment for the 50-50 joint venture created early in 2000 between LVMH and the Prada group, which is to hold 51% of the Fendi group on the basis of an agreement signed in October 1999.

9. GOODWILL

	(FRF millions)		(EUR millions)					
	Gross value	1999 Accumulated amortization and provisions	Gross value	1999 Accumulated amortization and provisions	Gross value	1998 Accumulated amortization and provisions	Gross value	1997 Accumulated amortization and provisions
DFS	13,518	(1,014)	2,061	(155)	2,061	(103)	2,061	(52)
Sephora	2,751	(196)	418	(30)	401	(16)	268	(4)
Louis Vuitton	2,703	(132)	412	(20)	248	(5)	—	—
Veuve Clicquot Ponsardin	1,912	(661)	292	(101)	292	(94)	292	(87)
Diageo (ex Guinness)	—	—	—	—	—	—	230	(45)
Laflachère	405	(16)	62	(2)	—	—	—	—
Other	2,810	(1,215)	429	(185)	308	(119)	300	(94)
Total	24,099	(3,234)	3,674	(493)	3,310	(337)	3,151	(282)

DFS Goodwill:

The crisis in Southeast Asia resulted in a significant decrease in the frequency of travel of the population in this region. This led to a sharp decline in sales and operating income of DFS, particularly in 1998:

<i>(USD millions)</i>	1999	1998	1997
Sales	1 527	1 499	2 299
Income from operations	40	(77)	99

Management believes that this deterioration is only temporary; however, returning to the level of sales existing at the acquisition date is likely to require a long time.

The net book value of the DFS Goodwill at year-end is compared

to the sum of the estimated non-discounted operating income expected over the remaining amortization period of the goodwill, net of pro forma taxes (“cumulative net income”). Considering the activity of DFS, this amount would differ only slightly from the net discounted cash-flows.

The “cumulative net income” is calculated using available budgetary information and strategic plans, and projections regarding activity and future income over the remaining amortization period of the goodwill. These projections are based on prudent expected improvement including cyclical decreases in sales.

At 1999 and 1998 year-end, these forecasts show a “cumulative net income” greater than the net book value of the DFS goodwill. As with long term estimates, actual results may differ.

10. BRANDS AND OTHER INTANGIBLE ASSETS

	(FRF millions)		(EUR millions)					
	Gross	1999 Accumulated amortization and loss provisions	Gross	1999 Accumulated amortization and loss provisions	Gross	1998 Accumulated amortization and loss provisions	Gross	1997 Accumulated amortization and loss provisions
Brands	15,709	(26)	2,395	(4)	1,369	(3)	1,368	(3)
- TAG Heuer	4,821	—	735	—	—	—	—	—
- Guerlain	2,893	—	441	—	441	—	441	—
- Céline	2,301	—	351	—	351	—	351	—
- Loewe	800	—	122	—	122	—	122	—
- Veuve Clicquot	741	—	113	—	113	—	113	—
- Château d'Yquem	708	—	108	—	—	—	—	—
- Krug	657	—	100	—	—	—	—	—
- Autres	2,788	(26)	425	(4)	342	(3)	341	(3)
Leasehold rights	619	(186)	94	(28)	72	(26)	48	(16)
Software	508	(223)	77	(34)	40	(22)	36	(20)
Other	569	(388)	87	(60)	69	(48)	27	(12)
Total	17,405	(823)	2,653	(126)	1,550	(99)	1,479	(51)

- Only acquired brands, excluding those developed by the Group, are recorded in the consolidated balance sheet. Their value corresponds to the valuation measured on the acquisition date.

The main brands included in the caption “other” not detailed in the above schedule are: Parfums Christian Dior, Givenchy, Kenzo, et Bliss, the champagnes Pommery and Canard Duchêne, the publications La Tribune and Investir, and the Christian Lacroix, Thomas Pink and Fred Joaillier brands.

The methods used for the brand valuation depend on the industry

segment and correspond to the capitalization of net income or marginal net income, the application of a multiple to revenues, or a combination of these methods. These multiplier or capitalization coefficients are calculated based upon the brand notoriety and age, an estimation of its useful life, as well as by reference to past transactions.

- Brands which are not capitalized include Louis Vuitton and Hennessy, the champagnes Moët et Chandon, Dom Perignon, Mercier and Ruinart.

11. PROPERTY, PLANT AND EQUIPMENT

	(FRF millions)		(EUR millions)					
	Cost	1999 Accumulated depreciation	Cost	1999 Accumulated depreciation	Costs	1998 Accumulated depreciation	Cost	1997 Accumulated amortization
Land (including vineyards land)	5,384	(235)	821	(36)	761	(35)	480	(4)
Producing vineyards	732	(282)	112	(43)	105	(39)	101	(36)
Buildings	10,198	(3,208)	1,555	(489)	1,355	(438)	836	(313)
Machinery and equipment	7,802	(5,167)	1,189	(787)	1,041	(679)	1,035	(651)
Other tangible assets	5,866	(2,359)	894	(360)	585	(299)	487	(251)
Total	29,982	(11,251)	4,571	(1,715)	3,847	(1,490)	2,939	(1,255)
including assets acquired or financed under capital leases:	1,939	(498)	296	(76)	208	(64)	203	(57)

12. SHORT-TERM BORROWINGS

Analysis by nature and by currency

	(FRF millions)	(EUR millions)				(FRF millions)	(EUR millions)			
	1999	1999	1998	1997		1999	1999	1998	1997	
Commercial papers	16,097	2,454	1,829	1,829	EUR ⁽²⁾	22,724	3,464	2,789	2,541	
Other credit lines	7,405	1,129	436	849	JPY	1,902	290	154	110	
Bond issue ⁽¹⁾	3,936	600	610	—	USD	2,790	425	143	45	
Bank overdrafts	1,683	256	317	99	GDP	290	44	17	6	
					Other	1,415	216	89	75	
Total	29,121	4,439	3,192	2,777		29,121	4,439	3,192	2,777	

⁽¹⁾ Issued and reimbursable at the par value, with a variable interest rate.

⁽²⁾ Part of the long-term debt in EUR was swapped at three months, and transformed into notes of CHF 540 million, GBP 66 million and USD 388 million.

At December 31, 1999, unused short-term lines of credit totaled approximately EUR 2.2 billion.

13. LONG-TERM DEBT

Analysis by nature

			(FRF millions)	(EUR millions)		
	Interest rates	Maturities	1999	1999	1998	199
Bond issue EUR 800 000 000, 1999 ⁽¹⁾	5,00%	2006	5,248	800	–	–
Bond issue EUR 150 000 000, 1999 ⁽²⁾	3,75%	2001	984	150	–	–
Bond issue indexed FRF 1 300 000 761, 1998 ⁽³⁾	1,00%	2005	1,300	198	198	–
Bond issue USD 200 000 000, 1997 ⁽⁴⁾	6,75%	2000	1,155	176	176	176
Bond issue FRF 1 500 000 000, 1996 ⁽⁵⁾	5,25%	2002	1,500	229	229	229
Bond issue LUF 1 000 000 000, 1993	6,75%	1999	–	–	25	25
Bond issue LUF 1 000 000 000, 1993	7,50%	1999	–	–	25	25
Capitalized lease obligations		2000 à 2006	967	147	75	81
Other long-term debt		2000 à 2006	10,138	1,546	827	874
Total long term debt			21,292	3,246	1,555	1,410
Less current portion ⁽⁶⁾			(1,056)	(161)	(130)	(27)
Portion in excess of one year			20,236	3,085	1,425	1,383

(1) 1999 bond of EUR 800 million, redeemable at par in full at maturity, issued in three tranches and swapped and transformed into variable rate bonds as follows:

- first tranche of EUR 500 million, issued at 99.515% of the par value,
- second tranche of EUR 200 million, issued at 97.395% of the par value,
- third tranche of EUR 100 million, issued at 96.653% of the par value.

(2) Bonds issued at par, redeemable at par in full at maturity, swapped for variable rate bonds

(3) Indexed bond issued at 100% of par value linked to LVMH stock price of EUR 233, fully reimbursable under one of the following options: a) upon maturity at the greater of par value or the average of the 10 previous stock market prices preceding May 1, 2005, b) at the bondholder request between May 15, 2002 and April 15, 2005 based on the LVMH stock price, or c) at the issuer's request between April 15 and May 14, 2002 at 150% of the par value. This bond was swapped for non-indexed variable rate bonds when issued.

(4) Bonds issued at 100.055% of the par value, redeemable at par value and in full at maturity, swapped for EUR 176 million variable rate bonds when issued.

(5) Bonds issued at 100.76% of the par value, redeemable at par value and in full at maturity, swapped for variable rate bonds when issued.

(6) On December 31, 1999, unused, irrevocable long-term lines of credit amounted to EUR 1.1 billion.

Based on these commitments, a part of the current portion of long-term debt equal EUR 176 million was maintained under long-term liabilities.

In addition, because of the existence of authorizations of renewal, the current portion of long-term debt was reclassified under long-term liabilities, i.e. EUR 882 million (EUR 46 million on December 31, 1998; EUR 73 million on December 31, 1997).

Analysis by maturity date and currency

(expressed in EUR millions)					
Maturity dates	1999	Currency	1999	1998	1997
2000	161	EUR	2,262	1,222	1,195
2001	332	JPY	73	30	8
2002	592	USD	379	297	206
2003	499	CHF	495	–	–
2004	252	Other	37	6	1
2005 and after	1,410				
Long-term debt	3,246		3,246	1,555	1,410

14. OTHER LONG-TERM LIABILITIES

	(FRF millions)	(EUR millions)		
	1999	1999	1998	1997
Liabilities for supplementary pension plans, early retirement plans and retirement bonus	1,041	159	148	124
Employees profit sharing plans	441	67	53	50
Contingency and loss provisions	3,355	511	500	544
Reorganization plans	814	124	204	173
Other liabilities	387	60	102	51
Total other long-term liabilities	6,038	921	1,007	942

15. REPACKAGED NOTES

Issuance dates	December 1990	February 1992
Par value (in millions of French francs)	5,000	1,505
Issuance price	At par value	At par value
Stated interest rate	Euribor 6 months +0,45%	9.70%
Balance at December 31	1999	EUR 294
	1999	FRF 1,926
	1998	FRF 2,246
	1997	FRF 2,566

In 1990 and 1992, LVMH issued outside of France two series of subordinated notes (“repackaged subordinated notes”) having the following conditions:

- repayable at par value only in the event of liquidation or voluntary dissolution of LVMH, except for that resulting from a merger or spin-off;
- principal payments subordinated to the full payment of all other creditors;
- possibility to suspend interest payments if specific financial ratios are not achieved.

In 1996, due to an amendment to the 1990 repackaged subordinated notes agreement which eliminated the second and third of the aforementioned conditions, these notes were reclassified in debt as repackaged notes. The repackaged subordinated notes issued in 1992 were simultaneously reclassified as a result of the pari-passu clause in their agreement.

Although there are no fixed repayments terms, the repackaged notes are recorded on the balance sheet for an amount that will be progressively reduced to a nil value at the end of a fifteen-year period, arising from agreements entered with third party.

In accordance with these agreements and in return for an initial lump sum payment by LVMH, the third party companies have promised to hold or to repurchase the notes to noteholders after a fifteen-year period, and have agreed to relinquish any rights for interest on these notes after that time.

According to these arrangements:

- the repackaged notes have been recorded in the balance sheet at issuance at their par value, after deduction of the aforementioned payments; each year, these notes are subject to an amortization corresponding to the interest yielded by these payments' investment effected by the third party companies,
- the consolidated net result of each year is impacted by the interest expense borne on the par value, after the aforementioned amortization.

The 1990 repackaged notes, issued at variable rate, have been swapped for fixed rate up to EUR 469 million; the 1992 repackaged notes, issued at fixed rate, have been swapped for variable rate up to EUR 76 million.

16. MINORITY INTERESTS

	(FRF millions)	(EUR millions)		
	1999	1999	1998	1997
As of January 1	5,670	864	923	820
– dividends paid to minority interests	(657)	(100)	(58)	(85)
– minority interests in income before unusual items	900	137	83	139
– minority interests in unusual items	120	18	(53)	(54)
– impact of discontinuance of recording Diageo under the equity method	676	103	–	81
– impact of the Louis Vuitton share buy-back	–	–	(61)	–
– acquisition of Château d'Yquem	350	54	–	–
– net effect of other acquisitions and disposals of consolidated companies	(117)	(18)	37	16
– foreign currency translation	124	19	(7)	6
As of December 31	7,066	1,077	864	923

17. STOCKHOLDERS' EQUITY

At December 31, 1999, the number of outstanding shares, whose par value is EUR 1.5 totaled 97,957,650 (88,983,072 in 1998; 87,596,460 in 1997). Among the shares outstanding at December 31, 1999, 43,463,062 had double voting rights; such double voting rights is granted to nominal shares held for at least three years.

The 8,900,954 shares increase during the period is the result of the bonus share distribution of June 21, 1999 (1 new share for 10 existing shares) and the exercise of options or conversion of debt for the rest.

The authorized share capital at December 31, 1999, totaled 119,706,552.

In accordance with French law, dividends may only be declared on the parent company income for the current year and statutory retained earnings available for distribution. At December 31, 1999 the amount available for distribution, excluding the proposed dividend for 1999 of EUR 333 million, totaled EUR 2,2 billion, in which approximately EUR 45 million are free of distribution tax.

18. STOCK OPTION PLANS

On May 25, 1992 the Board of Directors was authorized by the shareholders meeting to grant stock options under one or several plans, for the benefit of Group management or personnel up to a limit of 1.5% of the Company's share capital.

On June 8, 1995, the Board of Directors was authorized by the shareholders meeting to grant additional stock options, up to a limit of 3% of the Company's share capital. This authorization expires on June 8, 2000.

The duration of each plan is ten years, and the options can be exercised three years after the plan's grant date (five years for the May 29, 1997 plan). This mandatory time period can be waived in certain cases, such as retirement.

In each plan one option granted gives the right to subscribe or to purchase one LVMH share.

• Subscription plans:

Shareholders' Meeting	Grant date	Number of stock options	Exercise price (EUR)	Exercise price (FRF) (2)	Outstanding and exercisable options at 31/12/1999 (2)
June 4, 1987	June 12, 1990	45,878	93.60	614	1,314
June 4, 1987	October 2, 1990	45,878	69.36	455	4,613
June 4, 1987	March 20, 1991	53,158	78.97	518	12,165
June 4, 1987	March 18 1992	47,498	104.58	686	14,075

• Purchase plans:

Shareholders' Meeting	Grant date	Number of stock options (1)	Exercise price (EUR)	Exercise price (FRF) (2)	Outstanding and exercisable options at 31/12/1999 (2)
May 25, 1992	March 17, 1993	49,681	77.14	506	18,520
May 25, 1992	March 16, 1994	139,031	89.49	587	326,348
May 25, 1992	June 17, 1994	1,250	88.27	579	1,513
May 25, 1992	March 22, 1995	256,903	104.43	685	132,669
June 8, 1995	May 30, 1996	233,199	170.44	1,118	222,610
June 8, 1995	May 29, 1997	233,040	187.82	1,232	238,201
June 8, 1995	January 29, 1998	269,130	129.43	849	285,886
June 8, 1995	March 16, 1998	15,800	156.56	1,027	17,380
June 8, 1995	January 20, 1999	320,059	160.45	1,052	351,245
June 8, 1995	September 16, 1999	44,000	273.20	1,792	44,000

1) Number of options at the plan's issuance excluding adjustments made for the bonus shares issued in September 1991, July 94 and June 99 (one for ten) and the stock split (five for one) in March 1994.

(2) Adjusted in accordance with the equity transactions cited in (1).

Number of stock options exercisable	1999	1998	1997
Outstanding as of January 1	2,067,854	1,898,943	1,981,858
Bonus share distribution	201,079	–	–
Granted	364,059	284,930	233,040
Exercised	(732,788)	(107,817)	(306,676)
Expired	(229,665)	(8,202)	(9,279)
Outstanding and exercisable as of December 31	1,670,539	2,067,854	1,898,943

19. SEGMENT INFORMATION BY BUSINESS GROUP

	(FRF millions) 1999	1999	(EUR millions) 1998	1997
Net sales				
Champagne and Wines	10,014	1,526	1,254	1,134
Cognac and Spirits	4,683	714	665	762
Fashion and Leather Goods	14,954	2,280	1,829	1,837
Fragrances and Cosmetics	11,168	1,703	1,369	1,406
Selective retailing	14,283	2,177	1,799	2,170
Other activities and eliminations ⁽¹⁾	964	147	20	14
Total	56,066	8,547	6,936	7,323
Income from operations ⁽²⁾				
Champagne and Wines	2,848	434	325	250
Cognac and Spirits	1,450	221	210	207
Fashion and Leather Goods	5,408	824	620	656
Fragrances and Cosmetics	955	146	110	94
Selective retailing	(190)	(29)	(34)	102
Other activities and eliminations ⁽¹⁾	(326)	(49)	(47)	(40)
Total	10,145	1,547	1,184	1,269
Total assets ⁽²⁾				
Champagne and Wines	23,165	3,532	2,995	2,652
Cognac and Spirits	6,796	1,036	1,174	1,280
Fashion and Leather Goods	15,358	2,341	2,098	1,689
Fragrances and Cosmetics	13,053	1,990	1,689	1,731
Selective retailing	27,978	4,265	3,631	3,216
Diageo (ex Guinness - 1997)	—	—	—	1,322
Other activities and eliminations ⁽¹⁾	49,655	7,570	4,707	3,322
Total	136,005	20,734	16,294	15,212
Inventories				
Champagne and Wines	8,852	1,349	1,269	1,154
Cognac and Spirits	3,622	552	588	632
Fashion and Leather Goods	1,813	276	268	229
Fragrances and Cosmetics	1,226	187	173	204
Selective retailing	3,356	512	275	341
Other activities and eliminations ⁽¹⁾	437	67	(2)	1
Total	19,306	2,943	2,571	2,561

⁽¹⁾ including Watches & Jewelry in 1999

⁽²⁾ these figures cannot be used for the ROCE (Return On Capital Employed) ratio calculation without prior adjustments

20. INFORMATION BY GEOGRAPHICAL REGION

	(FRF millions) 1999	1999	(EUR millions) 1998	1997
Exports from French companies	18,898	2,881	2,446	2,491
Exports as a percentage of net sales of the French subsidiaries	64%	64%	68%	75%
Net sales outside France as a percentage of total net sales	80%	80%	81%	87%

The information below is presented on the basis of the subsidiaries' geographic locations and not of the final destination of products sold:

	(FRF millions) 1999	1999	(EUR millions) 1998	1997
Net sales				
France	29,394	4,481	3,635	3,294
Europe (excluding France)	8,368	1,276	998	960
USA	12,346	1,882	1,488	1,619
Japan	8,179	1,247	994	976
Asia (excluding Japan)	10,728	1,635	1,373	1,995
Other	2,810	428	362	368
Total	71,825	10,949	8,850	9,212
Eliminations	(15,759)	(2,402)	(1,914)	(1,889)
Total	56,066	8,547	6 936	7 323
Income from operations				
France	6,344	967	754	671
Europe (excluding France)	414	63	46	66
USA	56	9	36	106
Japan	1,363	208	181	181
Asia (excluding Japan)	1,693	258	134	212
Other	275	42	33	33
Total	10,145	1,547	1,184	1,269
Total assets				
France	80,929	12,338	11,333	8,770
Europe (excluding France)	20,132	3,069	774	2,063
U.S.A	13,631	2,078	1,510	1,595
Japan	3,604	549	356	373
Asia (excluding Japan)	13,838	2,110	1,912	1,945
Other	3,871	590	409	466
Total	136,005	20,734	16,294	15,212

21. FINANCIAL EXPENSE – NET

	(FRF millions) 1999	1999	(EUR millions) 1998	1997
Interest expense	1,907	291	235	148
Interest income	(403)	(61)	(56)	(68)
Exchange (gains) losses – net	(18)	(3)	(5)	(1)
Total financial expense - net	1,486	227	174	79

22. INCOME TAXES

22.1 Components of the income tax expense:

	(FRF millions) 1999	1999	(EUR millions) 1998	1997
Current income taxes	3,701	565	487	485
Deferred income taxes	(70)	(11)	(21)	(80)
Income tax expense	3,631	554	466	405

22.2 Components of the deferred income tax charge:

	(FRF millions) 1999	1999	(EUR millions) 1998	1997
French tax-based provisions	(2)	–	(24)	(37)
Intercompany profits included in inventories	(100)	(15)	(5)	(20)
Other restatements to subsidiaries accounts to conform with group accounting principles, and consolidation adjustments	(2)	(1)	6	(30)
Adjustment of deferred tax liabilities or assets for a change in tax rates	34	5	2	6
Deferred income tax charge (income) for the year	(70)	(11)	(21)	(81)

22.3 Reconciliation of the French statutory tax rate to the effective tax rate:

The reconciliation between the French statutory tax rate and the effective tax rate recorded in the consolidated financial statements comprises the following:

(expressed as a percentage of income before income taxes)	1999	1998	1997
French statutory tax rate	33 1/3%	33 1/3%	33 1/3%
• Temporary supplementary income tax applicable to French companies	3,5%	4,9%	2,9%
• Differences in tax rates for foreign subsidiaries	(2,5%)	(0,5%)	(1,6%)
• Subsidiary losses not included in a tax consolidation	6,2%	4,7%	2,8%
• Differences between consolidated and taxable results, and impact of reduced tax rates	(2,2%)	3,1%	(3,8%)
• Impact of withholding tax	0,3%	0,5%	0,5%
Effective tax rate	38,6 %	46 %	34,1%

In 1997 and 1998, French companies were subject to a supplementary income tax of 25% of the basic rate, reduced to 20% in 1999. This supplementary income tax resulted in an additional tax expense of EUR 50 million (EUR 50 million in 1998 and EUR 35 million in 1997).

22.4 Tax consolidation:

- Tax sharing agreements allow certain French companies of the Group to combine their taxable results to determine the overall tax expense for which only the parent company is fully liable.
The related tax consolidations, which principally concern the parent companies LVMH and Moët Hennessy, permitted a tax savings of EUR 168 million in 1999 (EUR 137 million in 1998; EUR 54 million in 1997).
- The application of other tax sharing agreements in certain foreign countries, notably the U.S., provided an additional tax savings of EUR 13 million in 1999.

23. AMORTIZATION OF GOODWILL

	(FRF millions) 1999	1999	(EUR millions) 1998	1997
– Consolidated companies	667	102	81	73
– Investments accounted for using the equity method	–	–	16	7
Total amortization charge	667	102	97	80

24. UNUSUAL ITEMS

In 1999:

Unusual items include the net income of EUR 315 million, realized in April as a result of the Diageo share buyback program to which LVMH contributed approximately 143 million shares, and a provision of 37 EUR million relating to the residual interest.

Unusual items also include EUR 66 million for indirect acquisition costs of shareholdings, EUR 53 million for the impairment of assets, primarily intangibles and provisions of approximately 68 EUR million relating to the reorganization costs of the Fashion Business group and other logistics reorganization costs.

In 1998:

Due to the continuing south-east Asian crisis, the reorganizing provisions charged in 1997 have increased in 1998 by EUR 127 million. These are mainly related to DFS, but also to the French activities of the Wines and Spirits segment. In addition, a provision for risks related to some intangible assets has been recorded for EUR 26 million.

In 1997:

The Group realized a net gain of 85 EUR million on the sale of approximately 3% of Guinness common stock in July which has been recorded as an unusual item, as has the GBP 250 million received from Guinness in November 1997 (EUR 216 million after tax). Offsetting these unusual income items, are EUR 238 million provisions for the reorganization of certain activities, primarily international distribution in the Fragrances and Cosmetics segment but also in the Wines and Spirits segment. Additionally, EUR 49 million were provided for costs generated by the financial crisis in Asia, including the write-down of certain assets and the closing of stores.

25. EXPOSURE TO FOREIGN EXCHANGE AND INTEREST RATE RISKS

25.1 Financial instruments

Financial instruments are used to hedge risks in connection with the Group activity. Management of these instruments, most often traded on organized or comparable markets, is centralized. The counterparties are chosen according to their international rating, and for reasons of diversification as well.

- Foreign exchange risk:

Group subsidiaries carry out a significant portion of their sales and occasionally their purchases in foreign currencies. Hedging instruments are used to reduce the risks arising from foreign currency fluctuations against the various companies own currencies. They are designated to either accounts receivable or accounts payable, or, within certain limits, to anticipated future transactions.

1. Hedges of foreign exchange risks

Total outstanding hedges as of December 31, 1999 for all currencies, by nature and amount, are as follows:

(in EUR millions, translated using exchange rate as of December 31)	Amount of designated hedges			Deferred gains/ (losses) net of tax
	1999	2000	2001	
Instruments that hedge operating transactions:				
Forward sales contracts:				
• USD	165	515	—	
• JPY	130	139	—	
• Other	42	93	—	
	337	747	—	(28)
Options:				
• USD	—	198	25	
• JPY	10	494	281	
• Other	—	18	—	
	10	710	306	(43)
	347	1,457	306	(71)
Instruments that hedge financing transactions:				
• Net assets and dividends				
– Forward sales contracts	—	112	—	(2)
– Options	—	58	—	(4)
• Other operations				
– Forward sales contracts	6	1,995	—	(109)
– Options	—	423	—	—
	6	2,588	—	(115)

At December 31, 1998, deferred expenses (net of tax) amounted to EUR 17 million (EUR 11 million of deferred income in 1997).

At the closing of the period 1999, financial instruments not designated as hedges consisted of purchases and sales of options of respectively USD 400 and 25 million against JPY.

The Group may also use appropriate financial instruments to hedge net investment in, or dividends to be received from, foreign subsidiaries, with the objective of limiting the effect of changes in foreign currency fluctuations as compared to the French franc on consolidated stockholder's equity.

In order to reduce the impact of exchange rate differences on the level of consolidated revenues and net income, LVMH may also, from time to time, use financial instruments that are not designated as hedges. The revaluation of those financial instruments at their market value reduces the effect of currency fluctuations.

- Interest rate risk:

Hedging instruments are linked to specific financial debt. Each instrument has a due date that falls on or before the maturity of the corresponding debt and the same nominal value as the hedged debt.

The accounting method used for these instruments is described in the accounting policies in Note 1.3.

2. Hedges of interest rate risk

Hedges outstanding as of December 31, 1999 by nature and notional amount are as follows:

(EUR millions)	Maturities less than 1 year	Maturities 1 to 5 years	Maturities 5 to 10 years
Fixed rate swaps	5	590	–
Variable rate swaps	2,781	1,157	826
Caps bought	482	955	–
Floors sold	30	–	–

Taking into consideration the above instruments, fixed-rate debt (including the repackaged notes) represents approximately 15% of total consolidated debt.

In these conditions, an interest rate fluctuation of 1% would impact the consolidated net income by EUR 37.4 million.

25.2 Translation of foreign subsidiaries accounts

The percentage of the 1999 consolidated net income (before unusual items) deriving from foreign subsidiaries which prepare their financial statements in British pounds, Japanese yens and U.S. dollars and currencies linked to the U.S. dollar is 1%, 17% and 14% respectively. Taking into account the translation effect alone, a 10% change in exchange rates for these currencies would have an impact of 52 EUR million on consolidated income from operations and 20 EUR million on consolidated net income.

26. LEASE COMMITMENTS

Certain subsidiaries have acquired or refinanced land, buildings and equipment under non-cancelable operating and capital leases.

Future minimum lease commitments under non-cancelable leases with remaining terms of one year or more are set forth below:

December 31, 1999	(FRF millions)		(EUR millions)	
	Operating leases	Capital leases	Operating leases	Capital leases
2000	1,283	119	196	18
2001	1,196	110	182	17
2002	990	103	151	15
2003	916	98	140	15
2004	869	98	132	15
2005 and subsequent years	4,478	1,868	683	285
Total minimum lease commitments	9,732	2,396	1,484	365
Less amounts representing interest		(1,429)		(218)
Present value of net minimum lease commitments	9,732	967	1,484	147

Rental expense for all operating leases (excluding subleasing) is as follows:

	(FRF millions) 1999	1999	(EUR millions) 1998	1997
Minimum lease payments	990	151	175	138
Effects of escalation clauses	3	—	—	2
	993	151	175	140

27. COMMITMENTS, CONTINGENCIES AND LITIGATION IN PROCESS AT YEAR END

a) In the Wines and Spirits division, some companies have contractual arrangements with various growers to supply a portion of their future requirements for grapes or distilled alcohol. Based upon either contractual prices or latest current market prices and anticipated yields, these commitments amounted to EUR 224 million at December 31, 1999 (345 in 1998; 382 in 1997), and principally concern the supplies for 2000 and 2001.

b) Contractual commitments entered into by the Group to purchase minority interests in consolidated subsidiaries or additional interest in unconsolidated subsidiaries mainly result from the agreement signed on January 20, 1994 between LVMH and Diageo (ex-Guinness). According to this agreement, LVMH committed to repurchase the Diageo 34% investment in Moët Hennessy, with a six-month notice and for an amount equal to 80% of the investment value at the date of notice.

At the agreement date, the Diageo investment in Moët Hennessy was assessed at more than EUR 1,2 billion.

The other commitments to purchase minority interests in consolidated subsidiaries or additional interest in unconsolidated investments total EUR 244 million.

c) The Group has committed the amount of 65 EUR million at December 31, 1999 (93 in 1998; 51 in 1997) to purchase property, plant and equipment, of which EUR 21 million are related to the purchase of casks over a five-year period.

d) For its retailing activity, the Group operates under concession agreements with airport authorities which provide for payments generally based on sales with a guaranteed minimum payment.

As of December 31, 1999, the minimum commitments under these agreements amount to EUR 366 million for periods with expiration dates in 2000 or later.

e) In the ordinary course of its business, the Group is a party from time to time to legal proceedings and claims involving trademarks and intellectual property, selective distribution agreements, licensing, employees relations, tax audits and other matters incidental to its business. The Group estimates that the provisions included in the balance sheet, related to litigation and contingent liabilities known or in-process at December 31, 1999, are sufficient to cover any unfavorable outcome, so that the Group financial position would not be significantly affected.

f) Deposits, pledges and other guarantees given amount to EUR 134 million at December 31, 1999. Guarantees received total EUR 5 million.

g) Concerning the equity interest in Gucci, also see Note 8-1: unconsolidated investments.

28. RESEARCH AND DEVELOPMENT COSTS

Research and development costs related to scientific research and new product development amounted to EUR 26 million 1998 (EUR 21 million in 1998; EUR 18 in 1997).

Research and development costs extended to packaging and design amounted to EUR 37 million in 1999 (EUR 35 million in 1998; EUR 26 million in 1997).

29. EMPLOYEE INFORMATION

In 1999, LVMH employed an average of 38,282 (33,057 in 1998; 32,348 in 1997).

The following table sets forth the number of employees, by job category, as of December 31:

	1999	1998	1997
Labor and production	8,125	6,534	6,475
Office and clerical	22,608	20,033	19,206
Technicians	4,282	3,085	2,973
Executives and management	6,229	5,214	4,857
Total	41,244	34,866	33,511

- Employment expenses (salaries, wages, social charges and benefits) amounted to EUR 1.382 billion in 1999 (EUR 1.219 billion in 1998; EUR 1.206 billion in 1997).
- Group French companies with more than 50 employees apply a profit-sharing scheme resulting from the law; the allocation of amounts distributed is frequently in proportion to the compensation. Most French companies of the group also have incentive schemes based on sales, earnings and productivity objectives; the amounts distributed are in general also in proportion to compensation. The total amount under profit-sharing and incentive schemes in 1999 was EUR 42 million (EUR 33 million in 1998 and EUR 34 million in 1997).
- In 1999, LVMH paid EUR 310 thousand in director fees to Board members. Management compensation paid to Board members on one hand, and to Executive Committee and General Management, i.e. 19 people, on the other hand, amounts to respectively EUR 247 thousand and EUR 23 million.
- Pension costs incurred under group-managed retirement plans amounted to EUR 10 million in 1999 (EUR 15 million in 1998; EUR 13 million in 1997).

30. EVENTS OCCURRING SUBSEQUENT TO YEAR END

Since the beginning of the 2000 financial period, the Group made additional acquisitions to complete its portfolio of brands or commercial outlets:

- Miami Cruiseline Services, world leader in the sale of duty-free luxury products on cruise ships with more than USD 300 million in sales;
- Boïdi, which operates a chain of perfumeries in the Turin region and reaches EUR 17 million sales;
- 67% of the capital of Emilio Pucci;
- already owner of Phillips, LVMH concluded an agreement to purchase Tajan, France's leading auction house;
- Finally, LVMH acquired a controlling interest in Urban Decay, a U.S. cosmetics company specialized in makeup, aiming at US 15 million sales.

CONSOLIDATED COMPANIES AT DECEMBER 31, 1999

*The following companies are consolidated except where noted by (5), these companies being accounted for using the equity method.

Companies	Headquarters	Group Interest	Companies	Headquarters	Group Interest
Champagne and Wines					
Champagne Moët & Chandon SA	Epernay, France	66%	Hennessy Dublin Ltd	Dublin, Ireland	65%
Champagne Mercier SA	Epernay, France	66%	Edward Dillon & Co. Ltd ⁽⁵⁾	Dublin, Ireland	22%
Champagne Ruinart SA	Reims, France	66%	UD Moët Hennessy BV ⁽⁴⁾	La Haye, Netherlands	66%
Champagne Ruinart UK Ltd	Newhaven, United Kingdom	66%	DMJ Holdings BV ⁽⁴⁾	Amsterdam, Netherlands	44%
France Champagne SA	Epernay, France	66%	Hennessy UK Ltd	Newhaven, United Kingdom	66%
Moët & Chandon SA (Suisse) ⁽²⁾	Geneva, Switzerland	66%	Jardine Wines & Spirits KK ^{(3) (4)}	Tokyo, Japan	44%
Chandon SA Espagne	Sant Cugat, Spain	66%	Hennessy Far East Ltd	Hong Kong	65%
De Fresnoy SA	Epernay, France	66%	Riche Monde Hong Kong Ltd ^{(3) (4)}	Hong Kong	50%
Moët Hennessy UK Ltd	London, United Kingdom	66%	Moët Hennessy UDG (Far East) Ltd ⁽⁴⁾	Hong Kong	66%
Moët Hennessy Deutschland GmbH ⁽²⁾	Munich, Germany	66%	Riche Monde Orient Limited ⁽⁴⁾	Hong Kong	50%
Moët Hennessy Italia SpA ⁽²⁾	Turin, Italy	66%	Riche Monde Overseas Pte Ltd ⁽⁴⁾	Singapore	66%
Domaine Chandon, Inc.	Yountville (California), USA	66%	Riche Monde Malaisie Inc. ^{(3) (4)}	Petaling Jaya, Malaysia	33%
Deux Rivières General Partnership ⁽⁵⁾	Yountville (California), USA	15%	Riche Monde Taipei Ltd ^{(3) (4)}	Taipei, Taiwan	50%
Schieffelin & Co. Inc. ⁽²⁾	New York, USA	66%	Moët Hennessy Asia Pte Ltd ⁽³⁾	Singapore	65%
Bodegas Chandon SA	Buenos Aires, Argentina	73%	Riche Monde Singapour Pte Ltd ^{(3) (4)}	Singapore	66%
Promesses SA	Paris, France	66%	Riche Monde Bangkok Ltd ^{(3) (4)}	Bangkok, Thailand	66%
Domaine Chandon Australia, Pty Ltd	Coldstream Victoria, Australia	66%	France Korea Wines & Spirits Ltd	Séoul, South Korea	65%
MH UDV France SA	Paris, France	66%	Fashion and Leather Goods		
Chamfpar SA	Reims, France	66%	Louis Vuitton Malletier SA	Paris, France	100%
Champagne Pommery SA	Reims, France	66%	SNC Société des Ateliers Louis Vuitton	Paris, France	100%
Champagne Pommery & Greno SA	Reims, France	66%	SNC Société Louis Vuitton Services	Paris, France	100%
Pommery Distribution SA (Suisse)	Vevey, Switzerland	66%	SNC Société des Magasins Louis Vuitton - France	Paris, France	100%
Veuve Clicquot Ponsardin SA	Reims, France	66%	Louis Vuitton Monaco SA	Monte-Carlo, Monaco	100%
Champagne Canard-Duchêne SA	Ludes, France	66%	Louis Vuitton UK Ltd	London, United Kingdom	100%
Société Civile des Crus de Champagne	Reims, France	66%	Louis Vuitton Deutschland GmbH	Disseeldorf, Germany	100%
Negama SA	Reims, France	33%	Louis Vuitton Suisse SA	Geneva, Switzerland	100%
H. Parrot Ltd	London, United Kingdom	65%	Louis Vuitton Belgique SA	Brussels, Belgium	100%
Veuve Clicquot UK	London, United Kingdom	66%	Louis Vuitton Italia SpA	Milan, Italy	100%
Veuve Clicquot Import GmbH	Wiesbaden, Germany	66%	Louis Vuitton GesmbH	Vienna, Austria	100%
Veuve Clicquot Suisse SA	Geneva, Switzerland	66%	Louis Vuitton Hellas SA	Athens, Greece	100%
Cloudy Bay Vineyards	New Zealand	52%	Louis Vuitton Espana SA	Madrid, Spain	100%
Krug SA	Reims, France	66%	Louis Vuitton Portugal, Maleiro, Lda.	Lisbon, Portugal	100%
Clicquot Inc.	New York, USA	66%	Louis Vuitton Danmark A/S	Copenhagen, Denmark	100%
Veuve Clicquot Properties, Pty Ltd	Sydney, Australia	66%	Magasin Louis Vuitton Koweït	Koweït	60%
Cape Mentelle Vineyards Ltd	Margaret River, Australia	52%	San Dimas Luggage Company	San Dimas (California), USA	100%
Widow Estates Ltd	Auckland, New Zealand	66%	Atlantic Luggage Company, Ltd	Hamilton, Bermuda	40%
Scharffenberger Cellars Inc.	Napa Valley (California) USA	66%	Louis Vuitton N.A., Inc.	New York, USA	100%
Marques Champagne Spiritueux GIE ⁽⁵⁾	Brussels, Belgium	66%	Louis Vuitton Canada Inc.	Toronto, Canada	100%
Paragon Vintners Ltd	London, United Kingdom	66%	Louis Vuitton US Manufacturing, Inc.	San Dimas (California), USA	100%
Moët Hennessy Netherlands BV ⁽²⁾	Naarden, Netherlands	66%	Louis Vuitton New Zealand Ltd	Auckland, New Zealand	100%
Olivier Asia Ltd	Hong Kong	66%	Louis Vuitton Chili Ltda	Santiago, Chile	100%
Olivier Hong Kong Ltd	Hong Kong	66%	Louis Vuitton Hawaii, Inc.	Honolulu (Hawaii), USA	100%
Olivier Singapore (Pte) Ltd	Singapore	66%	Louis Vuitton Guam, Inc.	Agana, Guam	100%
Olivier supplies (Malaisie) Sdn Bhd	Ampang, Malaysia	66%	Louis Vuitton Saipan, Inc.	Saipan, NMI	100%
Olivier Taiwan Ltd	Taipei, Taiwan	65%	Louis Vuitton Japan KK ⁽³⁾	Tokyo, Japan	99%
P.T. Protara Boga Indonesia	Jakarta, Indonesia	40%	Louis Vuitton Pacific Ltd	Hong Kong	100%
Château d'Yquem SA	Sauternes, France	64%	Louis Vuitton Hong Kong Ltd	Hong Kong	100%
Château d'Yquem SC	Sauternes, France	63%	Louis Vuitton (Singapore) Pte Ltd	Singapore	100%
Cognac and Spirits			Louis Vuitton Taiwan Ltd	Taipei, Taiwan	90%
Ja.s Hennessy & Co. SA	Cognac, France	65%	Louis Vuitton Comete Services Ltd	Taipei, Taiwan	90%
Thomas Hine & Cie SA	Jarnac, France	65%	LV Cup New Zealand, Ltd	Auckland, New Zealand	100%
			LV Saudi Arabia, Limited Liability Company	Jeddah, Saudi Arabia	65%

Companies	Headquarters	Group Interest
Louis Vuitton Malaysia Sdn Berhad Inc.	Kuala-Lumpur, Malaysia	100%
Louis Vuitton Korea, Ltd	Seoul, Korea	100%
LV Venezuela SA	Caracas, Venezuela	100%
Louis Vuitton Australia, Pty Ltd	Melbourne, Australia	100%
Catalana Talleres SA	Barbera del Valles, Spain	100%
Louis Vuitton Mexico, SA de CV	Mexico, Mexico	100%
Louis Vuitton Argentine SA	Buenos Aires, Argentina	100%
Louis Vuitton Cantacilik Ticaret, AS	Istanbul, Turkey	100%
Louis Vuitton Distribucao Ltda	Brasilia, Brazil	100%
LV Ceska	Prague, Czech Republic	100%
LV UAE	Dubai, United Emirates	65%
LV Colombian Corp.	Bogota, Colombia	100%
Belle Jardiniere SA	Paris, France	99%
Loewe SA	Madrid, Spain	100%
Perfumes Loewe	Madrid, Spain	99%
Loewe Hermanos SA	Madrid, Spain	100%
Lopena SA	Madrid, Spain	100%
Loewe FAP SL	Madrid, Spain	100%
Manufacturas Loewe	Barcelona, Spain	100%
SNC Loewe International	Paris, France	100%
SNC Loewe France	Paris, France	100%
Loewe Hermanos (UK) Ltd	Londron, United Kingdom	100%
Loewe Hawaii, Inc.	Honolulu (Hawaii) USA	100%
Loewe Guam, Inc.	Agana, Guam	100%
Loewe Japan KK	Tokyo, Japan	92%
Loewe Hong Kong Ltd	Hong Kong	100%
Loewe Fashions (Singapore) Pte Ltd	Singapore	100%
Loewe Malaysia Sdn berhad Inc.	Kuala Lumpur, Malaysia	100%
Loewe Taiwan Ltd	Taipei, Taiwan	90%
Loewe Australia, Pty Ltd	Sydney, Australia	100%
Loewe Saipan Inc.	Saipan, NMI	100%
Serrano Inc.	New York, USA	100%
Fashion Holding SA	Madrid, Spain	100%
Celine SA	Paris, France	99%
Romad SARL	Lyon, France	100%
Celine Monaco SA	Monte-Carlo, Monaco	100%
Avenue M International SCA	Paris, France	100%
Enilec Gestion SARL	Paris, France	100%
Celine Suisse SA	Geneva, Switzerland	100%
Celine Inc.	New York, USA	100%
Celine Ltd (Hong Kong)	Hong Kong	99%
Celine Pte Ltd (Singapore)	Singapore	100%
Celine Ltd (Saipan)	Saipan, NMI	100%
Celine Italia SRL	Florence, Italy	100%
Celine Production SRL	Florence, Italy	100%
Camoï SpA	Rome, Italy	100%
Celine Montaigne SA	Paris, France	100%
Celine UK Ltd	London, United Kingdom	100%
Celine Guam Inc.	Tamuning, Guam	100%
Celine Australia, Pty Ltd	Sydney, Australia	100%
Celine Japon KK	Tokyo, Japan	100%
Celine Hawaii Inc.	Hawaii, USA	100%
Celine Korea Ltd	Seoul, South Korea	100%
Celine Taiwan Ltd	Taiwan	51%

Companies	Headquarters	Group Interest
Parfums Celine SNC	Paris, France	99%
Kenzo SA	Paris, France	100%
Kenzo Homme Madeleine SA	Paris, France	100%
Kenzo Logistique SA	Montbazon, France	100%
Modulo SA	Montbazon, France	100%
Fleurisloane Ltd	London, United Kingdom	100%
Fleurus Mode GmbH	Berlin, Germany	100%
Florixelles SA	Brussels, Belgium	100%
Florimadrid SA	Madrid, Spain	100%
Kenzo Paris KK	Tokyo, Japan	100%
Fleurus of America Corp.	Wilmington (Delaware), USA	100%
Givenchy SA	Paris, France	100%
Gentleman Givenchy SA	Paris, France	76%
Givenchy Corporation	New York, USA	100%
Givenchy KK (Japon)	Tokyo, Japan	100%
Givenchy Boutique Ltd	Tokyo, Japan	60%
Gentleman Givenchy Far East Ltd	Hong Kong	76%
Christian Laeroix SNC	Paris, France	100%
Christian Laeroix KK	Tokyo, Japan	100%

Fragrances and Cosmetics

Parfums Christian Dior SA	Paris, France	100%
SNC du 33 avenue Hoche	Paris, France	100%
Parfums Christian Dior (UK) Ltd	London, United Kingdom	100%
Parfums Christian Dior Ireland Ltd	Dublin, Ireland	100%
Parfums Christian Dior GmbH	Düsseldorf, Germany	100%
Parfums Christian Dior SAB	Brussels, Belgium	100%
Parfums Christian Dior BV	Rotterdam, Netherlands	100%
Iparkos BV	Rotterdam, Netherlands	100%
Parfums Christian Dior AG.	Zurich, Switzerland	100%
Parfums Christian Dior SpA	Pisa, Italy	100%
Farlabo SA ⁽⁵⁾	Madrid, Spain	25%
Distribuidora Farlabo SA ⁽⁵⁾	Madrid, Spain	100%
Christian Dior Perfumes, Inc.	New York, USA	100%
Parfums Christian Dior Canada, Inc.	Montreal, Canada	100%
Parfums Christian Dior de Panama SA	Panama	100%
Parfums Christian Dior America Latina SA	Panama	100%
Perfumes Christian Dior de Mexico, SA de CV	Mexico City, Mexico	100%
Parfums Christian Dior KK	Tokyo, Japan	100%
Parfums Christian Dior Singapour Pte Ltd	Singapore	100%
Inalux SA	Luxembourg	100%
Parfums Christian Dior Far East Ltd	Hong Kong	100%
Parfums Christian Dior China Co., Ltd	Shanghai, China	70%
Koluxe Parfums Dior Ltd	Seoul, South Korea	75%
Parfums Christian Dior Hong Kong Ltd	Hong Kong	100%
Parfums Christian Dior Malaisie Sdn berhad Inc.	Kuala Lumpur, Malaysia	100%
Fa Hua Hong Kong Co., Ltd	Hong Kong	100%
Fa Hua Taiwan Ltd	Taipei, Taiwan	100%
Diorfil SA	Athens, Greece	100%
Pardior de Mexico SA de CV	Mexico City, Mexico	100%
Parfums Christian Dior A/S (Danemark)	Copenhagen, Denmark	100%
Parfums Christian Dior A/S (Norvège)	Hoevik, Norway	100%
Parfums Christian Dior Australia Pty Ltd	Sydney, Australia	100%
Parfums Christian Dior AB	Stockholm, Sweden	100%
Parfums Christian Dior New Zealand Ltd	Auckland, New Zealand	100%

Companies	Headquarters	Group Interest
Iparkos Company Ltd	Bangkok, Thailand	49%
Parfums Christian Dior Brésil Ltda	Sao Paulo, Brazil	99%
Parfums Christian Dior Argentine SA	Buenos Aires, Argentina	100%
Parfums Christian Dior Autriche GesmbH	Vienna, Austria	100%
Guerlain SA	Paris, France	100%
Guerlain Ltd	Perivale, United Kingdom	100%
Guerlain Parfumeur GmbH	Wiesbaden, Germany	100%
Guerlain GesmbH	Vienna, Austria	100%
Cofra GesmbH	Vienna, Austria	100%
Guerlain Oceania Australia Pty Ltd	Melbourne, Australia	100%
Guerlain SA (Belgique)	Fleurus, Belgium	100%
Guerlain SA (Suisse)	Geneva, Switzerland	100%
Guerlain SpA	Milan, Italy	100%
Guerlain SAE	Madrid, Spain	100%
Guerlain de Portugal Lda.	Lisbon, Portugal	100%
Oy Guerlain AB	Helsinki, Finland	100%
Guerlain Inc.	New York, USA	100%
Guerlain Canada Ltd	Montreal, Canada	100%
Guerlain De Mexico SA	Satelite, Mexico	100%
Guerlain Puerto Rico Inc.	San Juan, Puerto Rico	100%
Guerlain KK	Tokyo, Japan	100%
Guerlain Asia Pacific Ltd (Hong Kong)	Hong Kong	100%
Guerlain Taiwan Co. Ltd	Taipei, Taiwan	100%
Guerlain South East Asia Singapore Pte Ltd	Singapore	100%
Guerlain Malaisie SDN Berhad Inc.	Kuala Lumpur, Malaysia	100%
Parfums Givenchy SA	Levallois, France	100%
Parfums Givenchy Ltd	Hersham, United Kingdom	100%
Parfums Givenchy GmbH	Wiesbaden, Germany	100%
Parfums Givenchy, Inc.	New York, USA	100%
Parfums Givenchy Canada Ltd	Toronto, Canada	100%
Parfums Givenchy KK	Tokyo, Japan	100%
Parfums Givenchy SRL	Milan, Italy	100%
Parfums Givenchy Western Hemisphere Div. Inc.	Miami (Florida), USA	100%
Parfums Givenchy Asia Pacific Ltd	Singapore	100%
Cosmetic of France Inc.	New York, USA	100%
Tamaris SA	Paris, France	100%
Tamalia SpA	Milan, Italy	100%
JGLF SA	Saint-Vérand, France	52%
Saint Vérand SA	Saint-Vérand, France	52%
Laflachère SA	Saint-Vérand, France	52%
La Brosse et Dupont SA	Courbevoie, France	52%
Lardenois SA	Hermes, France	52%
Lardenois Portugal SA	S. Domingos de Rana, Portugal	52%
Lardenois Belgique SA	Brussels, Belgium	52%
Mitsie SA	Tarare, France	52%
Serpe SA	Barcelona, Spain	51%
Arielux SA	Arielux, France	52%
SN Celluloid	Sélestat, France	52%
Medicis SA	Sélestat, France	18%
Vikim SARL	Saint-Brieuc, France	16%
Medicis Plisson SA	Beauvais, France	50%
Ladoë SA	Ladoë, France	52%
IBCS SA	Béthisy-Saint-Pierre, France	52%
Société Roulor Belge SA NV	Brussels, Belgium	52%
SCI Masurel	Tourcoing, France	52%

Companies	Headquarters	Group Interest
SCI Sageda	Orange, France	52%
LBD Asia Ltd	Kowloon, Hong Kong	44%
Lamatex SA	Cours-la-Ville, France	42%
La Niçoise SA	Carros, France	49%
AGD Italie SRL	Stezzano, Italy	49%
Métal & Plastique SA	Oyonnax, France	49%
Centre formation SARL	Saint-Vérand, France	39%
Bliss LLC	Delaware, USA	70%

Selective retailing

Sephora Holding SA	Paris, France	100%
Immo-Parfums SARL	Boigny-sur-Bionne, France	100%
Sephora France SA	Boigny-sur-Bionne, France	100%
Plus Beau Moins Cher SARL	Paris, France	75%
Sephora Productions SA	Paris, France	100%
Unité de valeur SARL	Boigny-sur-Bionne, France	100%
Sephora Luxembourg SARL	Luxembourg	100%
Sephora Espagne SA	Madrid, Spain	100%
Sephora Italie SpA	Curno, Italy	100%
Sephora Deutschland GmbH	Essen, Germany	100%
Sephora Pologne SPZ00	Warsaw, Poland	100%
Sephora Portugal Lda	Lisbon, Portugal	100%
Sephora US Inc.	USA	100%
Sephora Japon KK	Japan	100%
DFS Holdings Limited	Hamilton, Bermuda	61%
DFS Australia Pty. Limited	Sydney, Australia	61%
DFS Group Limited	Hamilton, Bermuda	61 %
DFS Trading Limited	Hamilton, Bermuda	61%
DFS Italy Limited Srl	Florence, Italy	61%
DFS Northwest Retailing Limited	Vancouver, Canada	61%
DFS Saipan Limited	Saipan, NMI	61%
Kinkai Saipan L.P.	Saipan, NMI	61%
Commonwealth Investment Company, Inc.	Northern Mariana Islands	61%
Duty Free Shoppers Hong Kong Limited	Kowloon, Hong Kong	61%
DFS Trading Hong Kong Limited	Kowloon, Hong Kong	61%
DFS China Partners Limited	Kowloon, Hong Kong	61%
Preferred Products Limited	Kowloon, Hong Kong	61%
DFS Palau Limited	Koror, Palau	61%
DFS New Zealand Limited	Auckland, New Zealand	61%
DFS Merchandising Limited	San Francisco, USA	61%
DFS Korea Limited	Seoul, South Korea	61%
DFS Japan KK	Tokyo, Japan	61%
DFS Singapore (Pte) Limited	Singapore	61%
DFS Trading Singapore (Pte) Limited	Singapore	61%
DFS Venture Singapore (Pte) Limited	Singapore	61%
DFS Taiwan Limited	Taipei, Taiwan	61%
DFS Galleria Taiwan Limited	Taipei, Taiwan	61%
Tou You Duty Free Shop Co. Ltd	Taipei, Taiwan	61%
Duty Free Shoppers Macau Limited	Kowloon, Hong Kong	28 %
DFS Macau Limited	Kowloon, Hong Kong	31 %
Hong Kong International Boutique Partners	Kowloon, Hong Kong	31 %
Singapore International Boutique Partners	Singapore	31 %
JAL/DFS Duty Free Shoppers KK	Chiba, Japan	25 %
DFS Group L.P.	Delaware, USA	61%
Royal Hawaiian Insurance Company Ltd	Hawaii, USA	61%

Companies	Headquarters	Group Interest
DFS/BP Concessions Inc.	Portland (Oregon) USA	50%
LAX Plan	Los Angeles (California) USA	42%
DFS/Concessions Unique, Inc.	Dallas (Texas) USA	42%
Hawaii International Boutique Partners	Honolulu, Hawaii, USA	31%
Guam Retail Joint Venture	Tamuning, Guam	31%
Waikiki Retail Joint Venture	Honolulu (Hawaii) USA	31%
Twenty Seven - Twenty Eight Corp.	Delaware, USA	61%
Le Bon Marché SA	Paris, France	100%
SEGEF SA	Paris, France	99%
Franck & Fils SA	Paris, France	100%
LVMH Specialty Retail Concepts LLC	Delaware, USA	100%
Sephora.com LLC	Delaware, USA	100%
Eluxury.com LLC ⁽⁵⁾	Delaware, USA	50%
Thomas Pink Holdings Ltd	London, United Kingdom	70%
Thomas Pink Ltd	Edinburgh, United Kingdom	70%
Thomas Pink BV	Netherlands	70%
Thomas Pink Inc.	New York, USA	70%
Thomas Pink Ireland Ltd	Dublin, Ireland	70%
Thomas Pink Belgium SA	Brussels, Belgium	70%

Watches and Jewelry

Fred Joaillier SA	Paris, France	100%
Fred SA	Paris, France	100%
Fred Inc.	Beverly Hills (California), USA	100%
Joaillerie de Monaco SA	Monte-Carlo, Monaco	100%
Benedom Suisse	Geneva, Switzerland	100%
Benedom France SA	Paris, France	100%
Benedom Inc.	New York, USA	83%
TAG Heuer SA	Marin, Switzerland	98,4%
TAG Heuer Espanola SA	Madrid, Spain	98,4%
TAG Heuer France SA	Paris, France	98,4%
TAG Heuer Italia SpA	Milan, Italy	98,4%
TAG Heuer Deutschland GmbH	Bad Homburg, Germany	98,4%
Timecrown Ltd	Manchester, United Kingdom	98,4%
Duval, Ltd	Manchester, United Kingdom	98,4%
Oris (UK) Ltd	Manchester, United Kingdom	98,4%
PTD Ltd	Manchester, United Kingdom	98,4%
TAG Heuer USA Inc.	Springfield, New Jersey, USA	98,4%
Pro Time Service Inc.	Springfield, New Jersey, USA	98,4%
TAG Heuer Canada Ltd	Toronto, Canada	98,4%
TAG Heuer Far East Ltd	Hong Kong	98,4%
TAG Heuer Singapore Pte Ltd	Singapore	98,4%
TAG Heuer Malaysia Sdn Bhd	Kuala Lumpur, Malaysia	98,4%
TAG Heuer Capital Pte Ltd	Singapore	98,4%
TAG Heuer Japan KK	Tokyo, Japan	98,4%
TAG Heuer Australia Pty Ltd	Melbourne, Australia	98,4%
TAG Heuer Hong Kong Ltd	Hong Kong	98,4%
TAG Heuer International SA	Luxembourg	98,4%
Cortech SA	Cornol, Switzerland	98,4%
Miserez SARL	Bendorf, France	98,4%

Other Activities

LVMH Moët Hennessy Louis Vuitton SA	Paris, France	Parent company
Louis Vuitton SA	Paris, France	100%
Moët Hennessy SA ⁽¹⁾	Paris, France	66%

Companies	Headquarters	Group Interest
S.C.I. du 30 de l'avenue Hoche	Paris, France	98%
Ufipar SA	Paris, France	100%
Sofidiv SA	Paris, France	100%
GIE LVMH Services	Paris, France	80%
Ufipress SA	Paris, France	100%
Delphine SA	Paris, France	100%
Saint Jacques Finance SA	Paris, France	100%
LVMH Finance SA	Paris, France	100%
Eutrope SA	Paris, France	100%
Provital SA	Champillon, France	100%
Delano SA	Basel, Switzerland	100%
LVMH BV	Naarden, Netherlands	100%
LVMH KK	Tokyo, Japan	100%
LVMH Asia Pacific Ltd	Hong Kong	100%
Flavius SA	Paris, France	100%
Compagnie financière Laflachère SA	Paris, France	52%
LV Capital SA	Paris, France	100%
Moët Hennessy Inc.	New York, USA	66%
LVMH Inc.	New York, USA	100%
Coriolan SA	Paris, France	100%
Tumon Entertainment Inc.	Tamuning, Guam	100%
Comete Guam Inc.	Tamuning, Guam	100%
Tumon Games Inc.	Tamuning, Guam	100%
Tumon Aquarium Inc.	Tamuning, Guam	100%
Comete Saipan Inc.	Saipan NMI	100%
Desfossés International SA	Paris, France	99%
Victoire Multimedia SA	Paris, France	99%
Victoire Multi-Média Informatique	Paris, France	65%
Imprimerie Desfossés SA	Paris, France	99%
Tribune Desfossés SA	Paris, France	99%
Investir Publications SA	Paris, France	99%
Investir Télécom SA	Paris, France	99%
Compo Finance SARL	Paris, France	99%
Pressinvest SA	Paris, France	99%
Groupe SID SA	Poitiers, France	99%
SID Presse SARL	Poitiers, France	99%
SID Communication SA	Poitiers, France	99%
SID Formation SARL	Poitiers, France	99%
SID Développement SA	Poitiers, France	99%
Freelance SA	Poitiers, France	99%
Juris Eco Media SARL	Poitiers, France	99%
Globe On Line SA	Paris, France	82%
Radio Classique SA	Paris, France	99%
OCD SA	Paris, France	82%

⁽¹⁾ The part of the assets and net income relating to the Cognac activity is consolidated in the Cognac and Spirits segment.

⁽²⁾ The Cognac activity of these subsidiaries is included in the Cognac and Spirits segment.

⁽³⁾ The Champagne activity of these subsidiaries is included in the Champagne and Wines segment.

⁽⁴⁾ Joint venture companies - Only LVMH activity is consolidated.

⁽⁵⁾ Accounted for using the equity method.

REPORT OF STATUTORY AUDITORS

In our capacity as statutory auditors and independent accountants, we have audited the accompanying consolidated accounts, expressed in Euros, of LVMH MOET HENNESSY LOUIS VUITTON as of December 31, 1999.

These consolidated accounts are the responsibility of the Company management. Our responsibility is to express an opinion on these accounts based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated accounts are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated accounts. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated

account presentation. We believe that our audit provides a reasonable basis for our opinion.

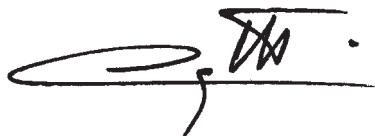
In our opinion, the consolidated accounts present fairly, in all material respects, the financial position of the Group as of December 31, 1999 and the results of the Group operations included in the consolidation for the year then ended.

We have also reviewed the information relating to the Group contained in the Directors' report. We noted nothing that could lead us to believe that such information is not fairly stated.

Paris, March 9, 2000

Statutory Auditors

Members of the Compagnie Régionale de Paris



COGERCO-FLIPO

Represented by Henri LEJETTÉ



ERNST & YOUNG Audit

Represented by Gabriel GALET and François HILLY

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Moët & Chandon Group

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CHAMPAGNE RUINART

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Chandon Estates Group

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Pommery Group

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Veuve Clicquot Group

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BP 1 Ludes
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Fax. 33 3 26 61 13 90

KRUG

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5, rue Coquebert
51100 Reims - France
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*

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Fax. 33 5 57 98 07 08

S.C. CHÂTEAU D'YQUEM

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COGNAC AND SPIRITS

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JAS HENNESSY & Co.

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