LVMH

MOËT HENNESSY . LOUIS VUITTON

FINANCIAL DOCUMENTS

YEAR ENDED DECEMBER 31, 2006

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EXECUTIVE AND SUPERVISORY BODIES; STATUTORY AUDITORS

BOARD OF DIRECTORS

Bernard Arnault
Chairman and Chief Executive Officer

Antoine Bernheim [1]
Vice Chairman

Antonio Belloni
Group Managing Director

Antoine Arnault
Delphine Arnault
Jean Arnault
Nicolas Bazire
Nicholas Clive Worms [1]
Diego Della Valle [1]
Albert Frère
Jacques Friedmann [1]
Pierre Godé
Gilles Hennessy
Patrick Houël
Arnaud Lagardère [1]
Lord Powell of Bayswater
Felix G. Rohatyn
Hubert Védrine [1]

ADVISORY BOARD MEMBER

Kilian Hennessy [1]

PERFORMANCE AUDIT COMMITTEE

Antoine Bernheim [1]
Chairman

Nicholas Clive Worms [1]
Gilles Hennessy

NOMINATIONS AND COMPENSATION COMMITTEE

Antoine Bernheim [1]
Chairman

Albert Frère
Kilian Hennessy [1]

1 Independent Director

EXECUTIVE COMMITTEE *

Bernard Arnault
Chairman and Chief Executive Officer

Antonio Belloni
Group Managing Director

Nicolas Bazire
Development and Acquisitions

Ed Brennan
Travel retail

Yves Carcelle
Fashion and Leather Goods

Pierre Godé
Advisor to the Chairman

Jean-Jacques Guiony
Finance

Patrick Houël
Advisor to the Chairman

Concetta Lanciaux
Advisor to the Chairman, Synergies, Human Resources

Christophe Navarre
Wines and Spirits

Patrick Ouart
Advisor to the Chairman

Philippe Pascal
Watches and Jewelry

Daniel Piette
Investment funds

Bernard Rolley
Operations

Pierre-Yves Roussel
Fashion

Mark Weber
Donna Karan

GENERAL SECRETARY

Marc-Antoine Jamet

STATUTORY AUDITORS

DELOITTE & ASSOCIES
represented by Thierry Benoît and Alain Pons

ERNST & YOUNG AUDIT
represented by Jeanne Boillet and Gilles Galippe

* As of December 31, 2006

THE LVMH GROUP

BUSINESS REVIEW AND COMMENTS ON THE CONSOLIDATED FINANCIAL STATEMENTS

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FINANCIAL HIGHLIGHTS

(EUR millions)	**2006**	2005	2004
Key consolidated data			
• Revenue	**15,306**	13,910	12,481
Profit from recurring operations	**3,172**	2,743	2,372
Group share of net profit	**1,879**	1,440	1,194
• Share capital	**147**	147	147
Total equity	**11,594**	10,484	8,675
Non-current assets	**19,620**	19,537	18,105
Current assets	**9,165**	8,516	7,412
Non-current liabilities	**10,835**	10,978	10,766
Current liabilities	**6,356**	6,591	6,076
Net financial debt	**3,400**	4,318	5,283
Total assets	**28,785**	28,053	25,517
• Cash from operations before changes in working capital	**3,504**	3,089	2,708

(EUR)			
Earnings per share			
Basic Group share of net profit	**3.98**	3.06	2.55
Diluted Group share of net profit	**3.94**	3.04	2.53
Dividend per share			
Interim	**0.30**	0.25	0.25
Final	**1.10**	0.90	0.70
Total dividend [(1)]	**1.40**	1.15	0.95

(1) For fiscal year 2006, amount proposed at the Ordinary Shareholders' Meeting of May 10, 2007.

BUSINESS REVIEW

1. COMMENTS ON THE CONSOLIDATED INCOME STATEMENT

Revenue by business group

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

Profit from recurring operations by business group

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

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

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

Revenue by geographic region of delivery

(percentage)	2006	2005	2004
France	15	15	16
Europe (excluding France)	22	20	20
United States	26	27	27
Japan	13	14	15
Asia (excluding Japan)	17	17	15
Other markets	7	7	7
Total	**100**	**100**	**100**

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

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

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

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

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

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

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

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

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

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

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

	2006	2005	2004
France	288	278	278
Europe (excluding France)	456	422	413
United States	394	365	345
Japan	278	262	252
Asia (excluding Japan)	363	329	338
Other markets	80	67	67
Total	**1,859**	**1,723**	**1,693**

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

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

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

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

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

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

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

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

in Paris with a prime location in the center of city, and continues to increase its already high level of profitability.

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

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

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

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

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

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

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

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

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

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

2. WINES AND SPIRITS

	2006	2005	2004
Sales volume *(millions of bottles)*			
Champagne	59.9	55.2	53.0
Cognac	55.3	50.5	46.5
Other spirits	26.6	27.9	6.0
Still and sparkling wines	34.5	31.8	30.6
Revenue by geographic region of delivery (%)			
France	8	9	9
Europe (excluding France)	28	27	26
United States	31	33	35
Japan	9	9	9
Asia (excluding Japan)	15	13	12
Other markets	9	9	9
Total	100	100	100
Revenue *(EUR millions)*	2,994	2,644	2,259
Profit from recurring operations *(EUR millions)*	962	869	813
Operating margin (%)	32	33	36
Operating investments *(EUR millions)*	104	97	70

Highlights

The Wines and Spirits business group recorded organic revenue growth of 14%. The vigor of the brands is illustrated both by their growth in the key countries and by rapid advances supported by investments targeting new markets. The profit from recurring operations rose by 11%.

The Champagne and Cognac volumes grew by 8% and 10%, respectively, in a context of price increases and new improvement in the product mix in favor of premium qualities and vintages.

The growth in China confirms the potential of that immense market, particularly for Hennessy, whose X.O is the uncontested leader in its category.

2006 was characterized by an exceptional spirit of innovation displayed within the brands and by sustained efforts towards strong, targeted advertising.

The distribution network of Moët Hennessy which is a major competitive advantage, was further strengthened, especially in Russia, a market with high potential.

Principal developments

Champagne and Wines

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

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

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

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

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

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

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

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

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

Cognac and Spirits

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

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

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

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

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

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

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

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

Innovation

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

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

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

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

Outlook

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

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

3. FASHION AND LEATHER GOODS

	2006	2005	2004
Revenue by geographic region of delivery (%)			
France	9	9	10
Europe (excluding France)	19	17	16
United States	21	22	22
Japan	26	30	31
Asia (excluding Japan)	20	18	16
Other markets	5	4	5
Total	**100**	**100**	**100**
Revenue *(EUR millions)*	**5,222**	**4,812**	**4,366**
Type of revenue as a percentage of total revenue (excluding Loius Vuitton)			
Retail	50	50	46
Wholesale	36	35	38
Licenses	7	8	8
Other	7	7	8
Total	**100**	**100**	**100**
Profit from recurring operations *(EUR millions)*	**1,633**	**1,467**	**1,309**
Operating margin (%)	**31**	**30**	**30**
Number of stores			
Louis Vuitton	368	345	340
Other brands	586	546	556
Operating investments *(EUR millions)*	**319**	**281**	**248**

Highlights

In 2006, the Fashion and Leather Goods business group posted organic revenue growth of 11% and improved profit from recurring operations by 11%.

The fashion and leather goods brands invested strongly in their global expansion. The business group's global retail network represented 954 stores at December 31, 2006.

Louis Vuitton continued to enhance its leadership position with remarkable performance in all regions. Backed by the success of its flagship products and its new creations, the brand posted particularly dynamic growth among its European, Chinese and South Korean customers.

Confirming the trend established in 2005, Fendi turned in an excellent performance in 2006, marked by strong growth in all product categories and further improvement in its profitability.

Principal developments

Louis Vuitton

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

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

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

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

Fendi

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

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

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

Other brands

Donna Karan, a symbolic brand in the United States, continued to implement its strategy based on an expansion of its designs and the implementation of a new concept of exclusive boutiques. The women's ready-to-wear collections (the luxury *Collection* line and the more active *DKNY* line) recorded solid growth. The brand benefited from the very promising launch of the *Gold Donna Karan* fragrance and the success of the clothing and accessories it inspired. In 2006, Donna Karan again improved its profitability.

2006 was marked by the arrival of new President Mark Weber, who was also appointed President of LVMH Inc. (United States), and who holds operational responsibility for Thomas Pink worldwide.

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

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

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

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

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

Marc Jacobs continued to record very strong growth driven by the increasing success of its ready-to-wear collections. Each of its fashion shows was an event in New York. The second line *Marc by Marc Jacobs* has created particularly steady demand. In order to take advantage of the brand's strong potential, a major design effort was initiated to develop its two leather goods lines. Two footwear collections that complete the direct offering from Marc Jacobs have been successful since the first seasons. Marc Jacobs continued to expand its retail network. The opening of the Palais Royal boutique in Paris, the first site in Europe, and the *Marc by Marc Jacobs* store in San Francisco were highlights of 2006.

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

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

Outlook

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

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

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

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

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

4. PERFUMES AND COSMETICS

	2006	2005	2004
Revenue by product category *(%)*			
Fragrances	52	53	56
Cosmetics	28	28	27
Skincare products	20	19	17
Total	**100**	**100**	**100**
Revenue by geographic region of delivery (%)			
France	17	18	19
Europe (excluding France)	41	40	40
United States	9	9	9
Japan	7	8	8
Asia (excluding Japan)	13	11	10
Other markets	13	14	14
Total	**100**	**100**	**100**
Revenue *(EUR millions)*	**2,519**	**2,285**	**2,128**
Profit from recurring operations *(EUR millions)*	**222**	**173**	**150**
Operating margin (%)	**8.8**	**7.6**	**7.0**
Operating investments *(EUR millions)*	**98**	**115**	**85**
Number of stores	**48**	**43**	**43**

Highlights

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

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

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

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

Principal developments

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

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

Parfums Christian Dior

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

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

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

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

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

Guerlain

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

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

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

Other brands

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

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

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

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

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

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

Acqua di Parma and **Fresh** recorded excellent results. These two brands strengthened their exclusive positioning and achieved good increases in revenue and profitability.

Outlook

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

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

Growth for **Guerlain** will be driven by an innovation plan to strengthen the flagship lines of *Insolence*, *L'Instant*, *Orchidée Impériale*, *KissKiss* and *Terracotta*, and will include the launch of a

new foundation product and the initiation of a project to gradually replace the brand's skin care line.

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

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

5. WATCHES AND JEWELRY

	2006	2005	2004
Revenue by geographic region of delivery (%)			
France	7	8	9
Europe (excluding France)	25	23	25
United States	25	24	22
Japan	14	16	16
Asia (excluding Japan)	14	15	14
Other markets	15	14	14
Total	**100**	**100**	**100**
Revenue *(EUR millions)*	**737**	**585**	**500**
Profit from recurring operations *(EUR millions)*	**80**	**21**	**(10)**
Operating margin (%)	**10.9**	**3.6**	**(2.0)**
Operating investments *(EUR millions)*	**25**	**28**	**18**
Number of stores	**82**	**70**	**59**

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

Highlights

The Watches and Jewelry business group recorded organic revenue growth of 28%, gained market share and strongly increased its profit from recurring operations.

TAG Heuer showed excellent commercial and financial performance worldwide through its remarkable capacity for innovation, the development of its iconic product lines, and the effectiveness of its marketing investments.

Manufacture Zenith posted strong growth and has significantly improved its financial results.

Chaumet strengthened its presence in Europe and Asia.

Dior Watches confirmed the success of the *Christal* line, which was created in late 2005 in collaboration with John Galliano.

The De Beers brand has experienced steady growth, particularly in the United States market, where it was introduced in late 2005.

Principal developments

In 2006, for the third consecutive year, the organic revenue growth from LVMH Watches and Jewelry brands has been much higher than that of its competitors. That growth is balanced among Europe, the Americas, Asia and Japan, and every watch and jewelry brand has improved its performance. The development of new markets is being actively pursued: the strengthening of distribution agreements, with the acquisition of an equity stake in Xinju Hengdeli in China, has enabled TAG Heuer, then Dior

Watches and Zenith to gain a visible presence; the presence of TAG Heuer in India is today significant; the Middle East and Eastern Europe are also seeing openings and receiving targeted investments, both in jewelry and in watches. The financial recovery of the business group has continued and has translated into a 281% increase in profit from recurring operations.

Tag Heuer

A record year for the world leader in sports-inspired watches and chronographs: **TAG Heuer** continues to experience remarkable growth in volume and in value and is strengthening its star brand status within the LVMH portfolio and Swiss watchmaking.

2006 was marked by increased revenue in all markets, continued upmarket positioning and recognized technological innovation. TAG Heuer increased its leadership in the market segment of watches priced between 1,000 and 4,000 euros. The growth was driven by the strengthening of iconic lines, particularly *Aquaracer, Link, Carrera* and *Monaco*, and by two major innovations, the *Monaco 69* and the *Carrera Calibre 360*, the only mechanical chronograph able to measure one hundredth of a second, which received the Grand Prix de l'Horlogerie de Genève.

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

Zenith

Manufacture **Zenith** has again posted strong growth in revenue and greatly improved its financial results. The brand experienced double-digit growth in all its markets while maintaining very selective distribution.

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

Dior Watches

The growth of **Dior Watches** is driven by the success of the *Christal* line, which was launched in late 2005. That watch-intensive collection stands out sharply in the fashion watch market. It has continued its expansion and upmarket positioning thanks to the launch of jewelry versions, which have been very well received worldwide.

2006 was also marked by the launch of a Black Time version, a superb, all-black automatic chronograph in the *Chiffre Rouge* men's line.

Dior Watches has increased the selectivity of its distribution network, particularly in Asia.

Chaumet

Continuing its targeted expansion, **Chaumet** strengthened its presence in high-priority markets, located primarily in Europe and Asia. While making those investments, the brand continued to improve the productivity of its stores. After the 2005 opening in Taiwan, Chaumet opened a major store in Hong Kong in September, the bridgehead of its expansion in China. The brand has considerably increased its recognition and its positions in Japan where it is experiencing steady growth and has opened new boutiques inside Harrods in London, and under franchise in Saint Petersburg and in Almaty, Kazakhstan.

The launch of the *Attrape-moi si tu m'aimes* jewelry collection and the development of the *Dandy* line of watches are the other highlights of 2006.

Other brands

The **De Beers** brand had an excellent year. While continuing its steady growth in Japan, it had a promising performance in the United States, a market that it entered in late 2005 in New York and Los Angeles. De Beers has strengthened its presence in London and opened its first boutique in the Middle East, in Dubai. The *Talisman* and *Secret of the Roses* collections, fine jewelry and engagement rings contributed to substantial growth in revenue per store. To increase its recognition and image, a new advertising campaign was launched in 2006 for De Beers.

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

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

Outlook

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

TAG Heuer, **Zenith** and **Dior Watches** have planned many innovations in their iconic lines and will continue their policy of upmarket positioning. TAG Heuer will update the architecture of its stores. **Chaumet** will increase its wristwatch offerings and its emblematic line *Liens* and will open a store in London on Bond Street while continuing to strengthen its presence in Asia, the Middle East

and Eastern Europe. **De Beers** will introduce its first wristwatch collection and will increase its presence in the United States (in Las Vegas in January), the Middle East, Japan, Hong Kong and Korea. **Fred** will relaunch its *36* line of watches and will design a line of unisex jewelry.

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

6. SELECTIVE RETAILING

	2006	2005	2004
Revenue by geographic region of delivery (%)			
France	24	24	26
Europe (excluding France)	9	8	9
United States	40	40	39
Japan	3	3	1
Asia (excluding Japan)	20	21	21
Other markets	4	4	4
Total	**100**	**100**	**100**
Revenue *(EUR millions)*	**3,891**	**3,648**	**3,276**
Profit from recurring operations *(EUR millions)*	**400**	**347**	**238**
Operating margin (%)	**10.3**	**9.5**	**7.3**
Operating investments *(EUR millions)*	**175**	**131**	**168**
Number of stores			
Sephora	621	558	521
Other trade names	149	156	169

Highlights

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

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

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

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

Principal developments

DFS

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

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

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

Miami Cruiseline

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

Sephora

In 2006, with revenue growth, gains in market shares, new and strong improvement in profitability, **Sephora** exceeded its goals on both sides of the Atlantic. It expanded its presence in China and is preparing its foothold in the Middle East. The expansion into these new territories is financed by the cash flow generated in Europe and America. As of December 31, Sephora's global network consisted of 621 stores.

Sephora's continued expansion in Europe translated into 31 net store openings and a large number of renovations. These developments meet Sephora's objective of increasing its positions by targeting the best locations in the key countries where its concept is increasingly successful every year.

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

In the United States, for the sixth consecutive year, Sephora experienced double-digit revenue growth on a same-store basis and again posted a sharp increase in its profit from recurring operations. The solid performance in all regions translates into gains in market share. Sephora had 23 net openings in 2006 on the American continent, which brings the number of large stores in its network to 142 (including four in Canada). Of note are openings at very high-quality locations, particularly in Manhattan, where Sephora is present through 11 points of sale. The website sephora.com continues to experience very strong growth.

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

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

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

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

Le Bon Marché

Every year, **Le Bon Marché** increasingly asserts itself as the benchmark store for luxury and prestige in the heart of Paris. Its recent developments in the world of women's fashion contributed to a sharp increase in its revenue and profit from recurring operations in 2006. More high-end foreign customers are choosing Le Bon Marché as their preferred store when they are in Paris.

In 2006, the lingerie space underwent renovation and will represent one of the drivers of growth in 2007. A new advertising campaign with a very chic design has been conducted to reinforce the high-end positioning and image of this Left Bank department store.

Outlook

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

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

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

COMMENTS ON THE CONSOLIDATED CASH FLOW STATEMENT

The consolidated cash flow statement, as presented on page 28, details the main cash flows for fiscal year 2006.

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

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

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

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

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

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

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

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

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

Transactions relating to equity generated a 728 million euro outflow.

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

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

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

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

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

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

COMMENTS ON THE CONSOLIDATED BALANCE SHEET

LVMH's consolidated balance sheet total, as presented on page 25, amounted to 28.8 billion euros as of December 31, 2006, which represents a year-on-year increase of 2.6%.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Long term borrowings exceed 80% of total net debt.

As of December 31, 2006 confirmed credit lines amounted to 4.3 billion euros, of which only 0.3 billion euros were drawn, which means that the undrawn amount available was 4.0 billion euros. The Group's undrawn confirmed credit lines substantially

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The consolidated financial statements presented are "condensed", which means that they only include notes that are significant or facilitate understanding of changes in the Group's business activity and financial position during the year. They are extracted from the consolidated financial statements approved by the Board of Directors which include all of the notes to the financial statements required under IFRS, as adopted in the European Union.

CONSOLIDATED INCOME STATEMENT

(EUR millions, except for earnings per share)	Notes	2006	2005	2004
Revenue	**22-23**	**15,306**	**13,910**	**12,481**
Cost of sales		(5,481)	(5,001)	(4,373)
Gross margin		**9,825**	**8,909**	**8,108**
Marketing and selling expenses		(5,364)	(4,892)	(4,512)
General and administrative expenses		(1,289)	(1,274)	(1,224)
Profit from recurring operations	**22-23**	**3,172**	**2,743**	**2,372**
Other operating income and expenses	**24**	(120)	(221)	(199)
Operating profit		**3,052**	**2,522**	**2,173**
Cost of net financial debt		(173)	(188)	(214)
Other financial income and expenses		120	45	(6)
Net financial income (expense)	**25**	**(53)**	**(143)**	**(220)**
Income taxes	**26**	(847)	(718)	(537)
Income (loss) from investments in associates	**7**	8	7	(14)
Net profit		**2,160**	**1,668**	**1,402**
of which: minority interests		281	228	208
Group share		**1,879**	**1,440**	**1,194**
Basic Group share of net earnings per share *(in euros)*	**27**	**3.98**	**3.06**	**2.55**
Number of shares on which the calculation is based		471,901,820	470,206,389	468,953,254
Diluted Group share of net earnings per share *(in euros)*	**27**	**3.94**	**3.04**	**2.53**
Number of shares on which the calculation is based		477,471,955	474,047,257	472,601,925

CONSOLIDATED BALANCE SHEET

ASSETS *(EUR millions)*	Notes	2006	2005	2004
Brands and other intangible assets - net	3	8,227	8,530	7,838
Goodwill - net	4	4,537	4,479	4,048
Property, plant and equipment - net	6	5,173	4,983	4,541
Investments in associates	7	126	128	115
Non-current available for sale financial assets	8	504	451	718
Other non-current assets		658	660	628
Deferred tax	26	395	306	217
Non-current assets		**19,620**	**19,537**	**18,105**
Inventories and work in progress	9	4,383	4,134	3,598
Trade accounts receivable	10	1,461	1,370	1,364
Income taxes		512	317	113
Other current assets	11	1,587	1,225	1,302
Cash and cash equivalents	13	1,222	1,470	1,035
Current assets		**9,165**	**8,516**	**7,412**
Total assets		**28,785**	**28,053**	**25,517**

LIABILITIES AND EQUITY *(EUR millions)*	Notes	2006	2005	2004
Share capital		147	147	147
Share premium account		1,736	1,736	1,736
LVMH treasury shares		(1,019)	(972)	(1,006)
Revaluation reserves		917	658	521
Other reserves		7,062	6,158	5,390
Cumulative translation adjustment		(119)	292	(200)
Group share of net profit		1,879	1,440	1,194
Equity - Group share	14	10,603	9,459	7,782
Minority interests	16	991	1,025	893
Total equity		**11,594**	**10,484**	**8,675**
Long term borrowings	17	3,235	3,747	4,188
Provisions	18	983	949	883
Deferred tax	26	2,862	2,925	2,458
Other non-current liabilities	19	3,755	3,357	3,237
Non-current liabilities		**10,835**	**10,978**	**10,766**
Short term borrowings	17	2,100	2,642	2,529
Trade accounts payable		1,899	1,732	1,581
Income taxes		692	373	201
Provisions	18	255	305	259
Other current liabilities	20	1,410	1,539	1,506
Current liabilities		**6,356**	**6,591**	**6,076**
Total liabilities and equity		**28,785**	**28,053**	**25,517**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(EUR millions)	Number of shares							Total equity		
		Share capital	Share premium account	LVMH treasury shares and related derivatives	Revaluation reserves	Cumulative translation adjustment	Net profit and other reserves	Group share	Minority interests	Total
Notes		14.1		14.2	14.4	14.5			16	
As of January 1, 2004	**489,937,410**	**147**	**1,736**	**(882)**	**460**	**-**	**5,761**	**7,222**	**928**	**8,150**
Translation adjustment						(200)		(200)	(61)	(261)
Income and expenses recognized directly in equity					61			61	3	64
Net profit							1,194	1,194	208	1,402
Total recognized income and expenses		**-**	**-**	**-**	**61**	**(200)**	**1,194**	**1,055**	**150**	**1,205**
Stock option plan expenses							50	50	-	50
(Acquisition)/disposal of LVMH treasury shares				(124)			(9)	(133)	-	(133)
Interim and final dividends paid							(412)	(412)	(109)	(521)
Changes in consolidation scope								-	(7)	(7)
Effects of purchase commitments for minority interests								-	(69)	(69)
As of December 31, 2004	**489,937,410**	**147**	**1,736**	**(1,006)**	**521**	**(200)**	**6,584**	**7,782**	**893**	**8,675**
Translation adjustment						492		492	107	599
Income and expenses recognized directly in equity					137			137	(12)	125
Net profit							1,440	1,440	228	1,668
Total recognized income and expenses		**-**	**-**	**-**	**137**	**492**	**1,440**	**2,069**	**323**	**2,392**
Stock option plan expenses							23	23	2	25
(Acquisition)/disposal of LVMH treasury shares				34			(3)	31	-	31
Capital increase in subsidiaries								-	3	3
Interim and final dividends paid							(446)	(446)	(120)	(566)
Changes in consolidation scope								-	(77)	(77)
Effects of purchase commitments for minority interests								-	1	1
As of December 31, 2005	**489,937,410**	**147**	**1,736**	**(972)**	**658**	**292**	**7,598**	**9,459**	**1,025**	**10,484**

(EUR millions)	Number of shares	Share capital	Share premium account	LVMH treasury shares and related derivatives	Revaluation reserves	Cumulative translation adjustment	Net profit and other reserves	Total equity		
								Group share	Minority interests	Total
		14.1		14.2	14.4	14.5			16	
As of December 31, 2005	**489,937,410**	**147**	**1,736**	**(972)**	**658**	**292**	**7,598**	**9,459**	**1,025**	**10,484**
Translation adjustment						(411)		**(411)**	(90)	**(501)**
Income and expenses recognized directly in equity					259			**259**	29	**288**
Net profit							1,879	**1,879**	281	**2,160**
Total recognized income and expenses		**-**	**-**	**-**	**259**	**(411)**	**1,879**	**1,727**	**220**	**1,947**
Stock option plan expenses							32	**32**	3	**35**
(Acquisition)/disposal of LVMH treasury shares				(47)			(2)	**(49)**	-	**(49)**
Capital increase in subsidiaries								**-**	6	**6**
Interim and final dividends paid							(566)	**(566)**	(120)	**(686)**
Changes in consolidation scope								**-**	(6)	**(6)**
Effects of purchase commitments for minority interests								**-**	(137)	**(137)**
As of December 31, 2006	**489,937,410**	**147**	**1,736**	**(1,019)**	**917**	**(119)**	**8,941**	**10,603**	**991**	**11,594**

CONSOLIDATED CASH FLOW STATEMENT

(EUR millions)	Notes	2006	2005	2004
I. Operating activities				
Operating profit		3,052	2,522	2,173
Net increase in depreciation, amortization and provisions, excluding tax and financial items		474	639	529
Other unrealized gains and losses, excluding financial items		(31)	(102)	(25)
Dividends received		28	47	20
Other adjustments		(19)	(17)	11
Cash from operations before changes in working capital		**3,504**	**3,089**	**2,708**
Cost of net financial debt: interest paid		(174)	(222)	(215)
Income taxes paid		(784)	(616)	(389)
Net cash from operations before changes in working capital		**2,546**	**2,251**	**2,104**
Change in inventories and work in progress		(351)	(281)	(252)
Change in trade accounts receivable		(146)	(67)	29
Change in trade accounts payable		208	27	(88)
Change in other receivables and payables		31	64	92
Total change in working capital		**(258)**	**(257)**	**(219)**
Net cash from operating activities		**2,288**	**1,994**	**1,885**
II. Investing activities				
Purchase of tangible and intangible fixed assets		(771)	(707)	(640)
Proceeds from sale of tangible and intangible fixed assets		10	21	63
Guarantee deposits paid and other operating investments		12	7	(11)
Operating investments		**(749)**	**(679)**	**(588)**
Purchase of non-current available for sale financial assets		(87)	(69)	(57)
Proceeds from sale of non-current available for sale financial assets	8	172	469	95
Impact of purchase and sale of consolidated investments		(48)	(604)	(401)
Other financial investments		-	65	-
Financial investments		**37**	**(139)**	**(363)**
Net cash from (used in) investing activities		**(712)**	**(818)**	**(951)**
III. Transactions relating to equity				
Capital increases subscribed by minority interests		6	3	1
Purchase and proceeds from sale of LVMH treasury shares		(48)	32	(131)
Interim and final dividends paid by LVMH		(566)	(446)	(412)
Interim and final dividends paid to minority interests in consolidated subsidiaries		(120)	(120)	(109)
Net cash from (used in) transactions relating to equity		**(728)**	**(531)**	**(651)**
IV. Financing activities				
Proceeds from borrowings		785	1,192	1,599
Repayment of borrowings		(1,757)	(1,559)	(1,686)
Purchase and proceeds from sale of current available for sale financial assets		(181)	(40)	11
Net cash from (used in) financing activities		**(1,153)**	**(407)**	**(76)**
V. Effect of exchange rate changes		**(10)**	**41**	**(9)**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (I+II+III+IV+V)		**(315)**	**279**	**198**
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD	13	**1,080**	**801**	**603**
CASH AND CASH EQUIVALENTS AT END OF PERIOD	13	**765**	**1,080**	**801**
Transactions generating no change in cash:				
- acquisition of assets by means of finance leases		8	9	56

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ACCOUNTING POLICIES

1.1. General framework

As required by Regulation (EC) No. 1606/2002 of July 19, 2002, the consolidated financial statements for the year ended December 31, 2006 were established in accordance with international accounting standards (IAS/IFRS) adopted by the European Union and applicable on February 14, 2007, the date on which these financial statements were approved for publication by the Board of Directors. These standards have been applied consistently to the fiscal years presented.

The Group has applied IAS 32 and IAS 39 with effect from January 1, 2004, including the amendments to IAS 39 pertaining to the cash flow hedge accounting of forecast intragroup transactions and the fair value option.

1.2. Changes in the accounting framework in 2006

Standards, amendments and interpretations for which application is mandatory in 2006

The following standards, amendments and interpretations, which are applicable to LVMH and were implemented by the Group as of January 1, 2006, do not have a significant impact on the consolidated financial statements presented:

- Amendments to IAS 39 and IFRS 4 pertaining to financial guarantees;
- IFRIC Interpretation 4, which includes the criteria used to determine whether an arrangement contains an implicit lease;
- Amendment to IAS 21 pertaining to the recognition of the net investment in a foreign consolidated entity;
- Limited amendment to IAS 19 pertaining to the recognition and disclosure of actuarial gains and losses arising from the calculation of employee benefit commitments.

Standards, amendments and interpretations for which application is optional in 2006

The following standards, amendments and interpretations will only be applied in the consolidated financial statements from 2007 onwards:

- IFRS 7 Financial instruments – Disclosures;
- Amendment to IAS 1, which introduces additional disclosure requirements relating to capital;
- IFRIC 8 Scope of IFRS 2, the standard dealing with share-based payments;
- IFRIC 9 Reassessment of embedded derivatives;
- IFRIC 10 Interim financial reporting and impairment.

The impacts of these texts on the consolidated financial statements are in the process of being quantified.

1.3. First-time adoption of IFRS

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

- business combinations: the exemption from retrospective application was not applied. The recognition of the merger of Moët Hennessy and Louis Vuitton in 1987 and all subsequent acquisitions were restated in accordance with IFRS 3; IAS 36 Impairment of Assets and IAS 38 Intangible Assets were applied retrospectively as of this date;
- measurement of property, plant and equipment and intangible assets: the option to measure these assets at fair value at the date of transition was not applied;
- employee benefits: actuarial gains and losses previously deferred under French GAAP at the date of transition were recognized;
- foreign currency translation of the financial statements of foreign subsidiaries: translation reserves relating to the consolidation of subsidiaries that prepare their accounts in foreign currency were reset to zero as of January 1, 2004 and offset against "Other reserves";
- share-based payment: IFRS 2 Share-Based Payment was applied to all share subscription and share purchase option plans that were open at the date of transition, including those created before November 7, 2002, the date before which application is not mandatory.

1.4. Use of estimates

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

1.5. Methods of consolidation

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

Jointly controlled companies are consolidated on a proportionate basis.

For distribution subsidiaries operating in accordance with the contractual distribution arrangements with the Diageo Group, only the portion of assets and liabilities and results of operations relating to LVMH Group activities is included in the consolidated financial statements (see Note 1.23).

Companies where the Group has significant influence but no controlling interest are accounted for using the equity method.

1.6. Foreign currency translation of the financial statements of foreign subsidiaries

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

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

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

1.7. Foreign currency transactions and hedging of exchange rate risks

Foreign currency transactions of consolidated companies are translated to their functional currencies at the exchange rates prevailing at the transaction dates.

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

- within gross margin in the case of commercial transactions;
- within net financial income/expense in the case of purely financial transactions.

Foreign exchange gains and losses arising from the translation of inter-company transactions or receivables and payables denominated in foreign currencies, or from their elimination, are recorded in the income statement unless they relate to long term inter-company financing transactions which can be considered as transactions relating to equity. In the latter case, translation adjustments are recorded in equity under "Cumulative translation adjustment".

Derivatives which are designated as hedges of commercial foreign currency transactions are recognized in the balance sheet at their market value at the balance sheet date and any change in the market value of such derivatives is recognized:

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

When derivatives are designated as hedges of subsidiaries' equity in foreign currency (net investment hedge), any change in market value of the derivatives is recognized within equity under "Cumulative translation adjustment" for the effective portion and within net financial income/expense for the ineffective portion.

1.8. Brands, trade names and other intangible assets

Only acquired brands and trade names that are well known and individually identifiable are recorded as assets at their values calculated on their dates of acquisition.

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

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

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

Amortizable lives of brands and trade names, depending on their estimated longevity, range from 5 to 40 years.

Amortization and any impairment expense of brands and trade names are recognized within "Other operating income and expenses".

Impairment tests are carried out for brands, trade names and other intangible assets using the methodology described in Note 1.12.

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

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

- leasehold rights: based on market conditions, generally between 100% and 200% of the lease period
- development expenditure: 3 years at most
- software: 1 to 5 years

1.9. Goodwill

When the Group takes *de jure* or *de facto* exclusive control of an enterprise, its assets, liabilities and contingent liabilities are estimated at their fair value and the difference between the cost of taking exclusive control and the Group's share of the fair value of those assets, liabilities and contingent liabilities is recognized as goodwill.

The cost of taking exclusive control is the price paid by the Group in the context of an acquisition, or an estimate of this price if the transaction is carried out without any payment of cash.

Pending specific guidance from current standards, the difference between the cost and carrying amount of minority interests purchased after control is acquired is recognized as goodwill.

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

Goodwill is not amortized but is subject to annual impairment testing. Any impairment expense recognized is included within "Other operating income and expenses".

1.10. Purchase commitments for minority interests

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

Pending guidance from IFRS on this subject, the Group recognizes these commitments as follows at each period-end:

- the contractual value of the commitment at this date appears in "Other non-current liabilities";
- the corresponding minority interests are reclassified and included in the above amount;
- the difference between the amount of the commitment and the reclassified minority interests is recorded as goodwill.

This accounting policy has no effect on the presentation of minority interests within the income statement.

The accounting treatment described above nevertheless elicits the following observation: certain interpretations of these texts lead to the recognition of the entire amount of goodwill as a deduction from equity; under other interpretations, goodwill is maintained under assets but in an amount frozen at the acquisition date, with subsequent changes being taken directly to the income statement.

1.11. Property, plant and equipment

With the exception of vineyard land, the gross value of property, plant and equipment is stated at acquisition cost. Any borrowing costs incurred prior to use of assets are expensed.

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

Vines for champagnes, cognacs and other wines produced by the Group, are considered as biological assets as defined in IAS 41 Agriculture. As their valuation at market value differs little from that recognized at historical cost, no revaluation is undertaken for these assets.

Investment property is measured at cost.

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

Property, plant and equipment is depreciated on a straight-line basis over its estimated useful life:

- buildings including investment property: 20 to 50 years
- machinery and equipment: 3 to 25 years
- store improvements: 3 to 10 years
- producing vineyards: 18 to 25 years

The depreciable amount of property, plant and equipment comprises its acquisition cost less any estimated residual value.

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

1.12. Impairment testing of fixed assets

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

Value in use is based on the present value of the cash flows expected to be generated by these assets. Net selling price is estimated by comparison with recent similar transactions or on the basis of valuations performed by independent experts.

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

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

The forecast data required for the cash flow methods is based on budgets and business plans prepared by management of the related business segments. Detailed forecasts cover a five-year period with the exception of certain brands undergoing strategic repositioning for which a longer period is retained. Moreover, a final value is also estimated, which corresponds to the capitalization in perpetuity of cash flows most often arising from the last year of the plan. When several forecast scenarios are developed, the probability of occurrence of each scenario is assessed. Forecast cash flows are discounted on the basis of the rate of return to be expected by an investor in the applicable business and include assessment of the risk factor associated with each business.

1.13. Available for sale financial assets

Available for sale financial assets are classified as current or non-current based on their nature and the estimated period for which they will be held.

Non-current available for sale financial assets mainly include strategic and non-strategic participating investments.

Current available for sale financial assets include temporary investments in shares, shares of "SICAV", "FCP" and other mutual funds, excluding investments made as part of the daily cash management, accounted for as cash and cash equivalents (see Note 1.16).

Available for sale financial assets are measured at their listed value at balance sheet date in the case of quoted investments, and at their net realizable value in the case of unquoted investments.

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

1.14. Inventories and work in progress

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

Wine produced by the Group, especially champagne, is measured at the applicable harvest market value, as if the harvested grapes had been purchased from third parties. Until the date of the harvest, the value of grapes is calculated pro rata temporis on the basis of the estimated yield and market value.

Inventories are valued using the weighted average cost or FIFO methods.

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

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

1.15. Trade accounts receivable

Trade accounts receivable generally represent less than two months' sales and are recorded at their face value. A provision for impairment is recorded if their net realizable value, based on the probability of their collection, is less than their carrying amount.

1.16. Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits as well as highly liquid monetary investments subject to an insignificant risk of changes in value.

Monetary investments are measured at their market value and at the exchange rate prevailing at the balance sheet date, with any changes in value recognized as part of net financial income/expense.

1.17. Provisions

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

When execution of its obligation is expected to be deferred by more than one year, the provision amount is discounted, the effects of which are generally recognized in net financial income/expense.

1.18. Borrowings

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

In the case of hedging against fluctuations in the capital amount of borrowings resulting from interest rate risk, both the hedged amount of borrowings and the related hedges are measured at their market value at the balance sheet date, with any changes in those values recognized within net financial income/expense for the period.

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

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

Financial debt bearing embedded derivatives is measured at market value as allowed by the fair value option under IAS 39.

Net financial debt comprises short and long term borrowings, the market value at the balance sheet date of interest rate derivatives, less the value of current available for sale and other financial assets and cash and cash equivalents at that date.

1.19. Derivatives

The Group enters into derivative transactions as part of its strategy for hedging foreign exchange and interest rate risks. IAS 39 subordinates the use of hedge accounting to demonstration and documentation of the effectiveness of hedging relationships when hedges are implemented and subsequently throughout their existence.

A hedge is considered to be effective if the ratio of changes in the value of the derivative to changes in the value of the hedged underlying remains within a range of 80 to 125%.

Derivatives are recognized in the balance sheet at their market value at the balance sheet date. Changes in their value are accounted for as described in Note 1.7 in the case of foreign exchange hedges, and as described in Note 1.18 in the case of interest rate hedges.

Market value is based on market data and on commonly used valuation models, and may be confirmed in the case of complex instruments by reference to values quoted by independent financial institutions.

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

1.20. Treasury shares and related derivatives

LVMH shares and options to purchase LVMH shares that are held by the Group are measured at their acquisition cost and recognized as a deduction from consolidated equity, irrespective of the purpose for which they are held.

The cost of disposals of shares is determined by allocation category (see Note 14.2) using the FIFO method with the exception of shares held under stock option plans for which the calculation is performed for each plan using the weighted average cost method. Gains and losses on disposal, net of income taxes, are taken directly to equity.

1.21. Pensions, medical costs and other employee or retired employee commitments

When payments are made by the Group in respect of retirement benefits, pensions, medical costs and other commitments to third party organizations which are liable for the payment of benefits or medical expense reimbursements, these contributions are expensed in the period in which they fall due with no liability recorded on the balance sheet.

When retirement benefits, pensions, medical costs and other commitments are undertaken directly by the Group, a provision is recorded in the balance sheet in the amount of the corresponding actuarial commitment, and any changes in this commitment are expensed within profit from recurring operations over the period, including effects of discounting.

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

The actuarial commitment is calculated based on individual country and company assessments. In particular, these assessments include assumptions regarding salary increases, inflation, life expectancy, staff turnover and the return on plan assets.

Cumulative actuarial gains or losses are amortized if, at the year-end, they exceed 10% of the higher of the total commitment or the market value of the funded plan assets. These gains or losses are amortized in the period following their recognition over the average residual active life of the relevant employees.

1.22. Current and deferred tax

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

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

Future tax savings from tax losses carried forward are recorded as deferred tax assets on the balance sheet and impaired where appropriate; only amounts for which future use is deemed probable are recognized.

Deferred tax assets and liabilities are not discounted.

Taxes payable in respect of the distribution of retained earnings of subsidiaries are provided for if distribution is deemed probable.

1.23. Revenue recognition

Revenue

Revenue mainly comprises direct sales to customers and sales through distributors. Sales made in stores owned by third parties are treated as revenue if the risks and rewards of ownership of the inventories are not transferred to those third parties.

Direct sales to customers are made through retail outlets for Fashion and Leather Goods, certain Perfumes and Cosmetics, certain Watches and Jewelry brands and Selective Retailing. These sales are recognized at the time of purchase by retail customers.

Wholesale sales through distributors are made for Wines and Spirits, certain Perfumes and Cosmetics and certain Watches and Jewelry brands. The Group recognizes revenue when title transfers to third party customers, i.e. generally on shipment of products from Group facilities.

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

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

Provisions for product returns

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

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

Businesses undertaken in partnership with Diageo

A significant proportion of revenue for the Group's Wines and Spirits businesses are achieved within the framework of distribution agreements with Diageo generally taking the form of shared entities which sell and deliver both groups' brands to customers. Because the distribution agreements provide specific rules for allocating these entities' net profit and assets and liabilities between LVMH and Diageo, LVMH only recognizes the portion of their revenue and expenses attributable to its own brands.

1.24. Advertising and promotion expenses

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

Advertising and promotion expenses are recognized as expenses for the period in which they are incurred; the cost of media campaigns in particular is time-apportioned over the duration of these campaigns and the cost of samples and catalogs is recognized when they are made available to customers.

1.25. Stock option and similar plans

Share purchase and subscription option plans give rise to recognition of an expense based on the expected gain for plan beneficiaries calculated, using the Black & Scholes method, at the date of the Board Meeting at which the decision to initiate the plans is made. This expense is apportioned on a straight-line basis over the option vesting period with a corresponding adjustment increasing the amount of consolidated reserves.

For bonus share plans, the expected gain is calculated on the basis of the closing share price on the day before the Board Meeting at which the decision to initiate the plan is made, and dividends expected to accrue during the vesting period.

With respect to LVMH share-based incentives, which are settled in cash and not in shares, the corresponding annual expense is recorded as a liability on the balance sheet in an equivalent amount.

1.26. Profit from recurring operations and other operating income and expenses

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

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

distort the comparability of profit from recurring operations from one period to the next.

1.27. Earnings per share

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

Diluted earnings per share are calculated based on the weighted average number of shares before dilution and adding the weighted average number of shares that would result from the exercise of all existing subscription options during the period or any other diluting instrument. It is assumed for the purposes of this calculation that the funds received from the exercise of options (see Note 1.25) would be employed to re-purchase LVMH shares at a price corresponding to their average trading price over the period.

2. CHANGES IN THE SCOPE OF CONSOLIDATION

No changes in the scope of consolidation occurred in fiscal years 2005 or 2006 that could affect the comparability of the consolidated financial statements for these two periods. However, although it does not represent a change in the scope of consolidation, the impacts of the business suspension of the Samaritaine department store in Paris in June 2005 should be taken into account for the purposes of analyzing the income statements presented (see Note 22 Segment information and Note 24 Other operating income and expenses).

3. BRANDS, TRADE NAMES AND OTHER INTANGIBLE ASSETS

(EUR millions)	2006			2005	2004
	Gross	Accumulated amortization and impairment	Net	Net	Net
Brands	6,111	(343)	5,768	5,846	5,493
Trade names	3,383	(1,380)	2,003	2,204	1,983
License rights	288	(54)	234	260	158
Leasehold rights	210	(127)	83	90	102
Software	262	(191)	71	59	44
Other	169	(101)	68	71	58
Total	**10,423**	**(2,196)**	**8,227**	**8,530**	**7,838**
Of which: assets held under finance leases	14	(13)	1	1	1

Movements during the year ended December 31, 2006 in the net amounts of brands, trade names and other intangible assets were as follows:

Gross value *(EUR millions)*	**Brands**	**Trade names**	**Other intangible assets**	**Total**
As of December 31, 2005	**6,190**	**3,740**	**911**	**10,841**
Acquisitions	-	-	76	76
Disposals	-	-	(15)	(15)
Translation adjustment	(78)	(357)	(41)	(476)
Other	(1)	-	(2)	(3)
As of December 31, 2006	**6,111**	**3,383**	**929**	**10,423**

Accumulated amortization and impairment *(EUR millions)*	**Brands**	**Trade names**	**Other intangible assets**	**Total**
As of December 31, 2005	**(344)**	**(1,536)**	**(431)**	**(2,311)**
Amortization expense	(6)	-	(71)	(77)
Disposals	-	-	13	13
Translation adjustment	6	156	12	174
Other	1	-	4	5
As of December 31, 2006	**(343)**	**(1,380)**	**(473)**	**(2,196)**

Net carrying amount as of December 31, 2006	**5,768**	**2,003**	**456**	**8,227**

The translation adjustment mainly reflects the effects of changes in euro/US dollar exchange rates in the period on the valuation of intangible assets denominated in US dollars, especially the Donna Karan New York brand and the DFS trade name.

4. GOODWILL

(EUR millions)	**2006**			2005	2004
	Gross	**Impairment**	**Net**	Net	Net
Goodwill arising on consolidated investments	3,847	(1,093)	2,754	2,910	2,580
Goodwill arising on purchase commitments for minority interests	1,802	(19)	1,783	1,569	1,468
Total	**5,649**	**(1,112)**	**4,537**	**4,479**	**4,048**

Please refer also to Note 19 for goodwill arising on purchase commitments for minority interests.

Changes in net goodwill in 2006 break down as follows:

(EUR millions)	Gross	Impairment	Net
As of December 31, 2005	**5,645**	**(1,166)**	**4,479**
Changes in the scope of consolidation in the period	11	-	11
Changes in purchase commitments for minority interests	220	-	220
Changes in impairment	-	(15)	(15)
Translation adjustment	(227)	69	(158)
As of December 31, 2006	**5,649**	**(1,112)**	**4,537**

The translation adjustment mainly reflects the effects of changes in euro/US dollar exchange rates in the period on the valuation of goodwill denominated in US dollars, especially Millennium, Miami Cruiseline and Donna Karan New York.

5. IMPAIRMENT TESTING OF INTANGIBLE ASSETS WITH INDEFINITE USEFUL LIVES

Brands, trade names, and other intangible assets with indefinite useful lives as well as the goodwill arising on acquisition have been subject to annual impairment testing. No significant impairment expense has been recognized in respect of these items during the course of fiscal year 2006.

6. PROPERTY, PLANT AND EQUIPMENT

(EUR millions)	2006			2005	2004
	Gross	Depreciation and impairment	Net	Net	Net
Land	706	-	706	650	628
Vineyard land and producing vineyards	1,417	(69)	1,348	1,217	1,162
Buildings	1,598	(609)	989	1,052	989
Investment property	343	(46)	297	312	288
Machinery and equipment	3,555	(2,186)	1,369	1,357	1,071
Other tangible fixed assets (including assets in progress)	850	(386)	464	395	403
Total	**8,469**	**(3,296)**	**5,173**	**4,983**	**4,541**
Of which: assets held under finance leases	326	(144)	182	213	212
historical cost of vineyard land and producing vineyards	531	(69)	462	459	453

Movements in property, plant and equipment in 2006 break down as follows:

Gross value *(EUR millions)*	Vineyard land and producing vineyards	Land and buildings	Investment property	Machinery and equipment	Other tangible fixed assets (including assets in progress)	Total
As of December 31, 2005	**1,280**	**2,292**	**353**	**3,407**	**779**	**8,111**
Acquisitions	7	106	1	294	289	697
Change in the market value of vineyard land	133	-	-	-	-	133
Disposals and retirements	1	(25)	-	(131)	(33)	(188)
Translation adjustment	(8)	(86)	(11)	(136)	(35)	(276)
Other	4	17	-	121	(150)	(8)
As of December 31, 2006	**1,417**	**2,304**	**343**	**3,555**	**850**	**8,469**

Accumulated depreciation and impairment *(EUR millions)*	Vineyard land and producing vineyards	Land and buildings	Investment property	Machinery and equipment	Other tangible fixed assets (including assets in progress)	Total
As of December 31, 2005	**(63)**	**(590)**	**(41)**	**(2,050)**	**(384)**	**(3,128)**
Depreciation expense	(6)	(57)	(5)	(329)	(57)	(454)
Impairment expense	-	-	-	(8)	(1)	(9)
Disposals and retirements	(1)	23	-	126	33	181
Translation adjustment	1	15	-	75	23	114
As of December 31, 2006	**(69)**	**(609)**	**(46)**	**(2,186)**	**(386)**	**(3,296)**
Net carrying amount as of December 31, 2006	**1,348**	**1,695**	**297**	**1,369**	**464**	**5,173**

Property, plant and equipment acquisitions consisted mainly of investments by Louis Vuitton, DFS and Sephora in their retail networks.

7. INVESTMENTS IN ASSOCIATES

(EUR millions)	2006			2005	2004
	Gross	Impairment	Net	Net	Net
Share of net assets of associates as of January 1	**133**	**(5)**	**128**	**115**	**102**
Share of net profit (loss) for the period	8	-	8	7	(14)
Dividends paid	(7)	-	(7)	(3)	(4)
Changes in the scope of consolidation	(7)	5	(2)	10	32
Translation adjustment	(1)	-	(1)	(1)	(1)
Share of net assets of associates as of December 31	**126**	**-**	**126**	**128**	**115**

In 2006, investments in associates consisted primarily of:

- a 40% equity stake in Mongoual SA, a real estate company which owns a property held for rental in Paris (France) which is also the head office of LVMH Moët Hennessy Louis Vuitton SA;
- a 23.1% equity stake in Micromania, the leading distributor of video games and consoles in the French market.

Total rents invoiced by Mongoual SA to the Group amounted to 14 million euros in 2006 (14 million euros in 2005 and 2004).

8. NON-CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

(EUR millions)	2006			2005	2004
	Gross	Impairment	Net	Net	Net
Total	**536**	**(32)**	**504**	**451**	**718**

As of December 31, 2004, non-current available for sale financial assets included an investment in Bouygues amounting to 401 million euros (see also Note 12 Current available for sale financial assets).

Non-current available for sale financial assets changed as follows during the 2006 fiscal year:

(EUR millions)	
As of December 31, 2005	**451**
Acquisitions	85
Disposals at realized value	(162)
Impact of changes in market value	132
Net impairment expense	5
Translation adjustment	(7)
As of December 31, 2006	**504**

The net gain/loss on disposal is analyzed in Note 25 Net financial income/expense.

9. INVENTORIES AND WORK IN PROGRESS

(EUR millions)	2006	2005	2004
Wines and distilled alcohol in the process of aging	2,406	2,161	1,883
Other raw materials and work in progress	421	385	367
	2,827	2,546	2,250
Goods purchased for resale	456	481	497
Finished products	1,621	1,684	1,396
	2,077	2,165	1,893
Gross amount	**4,904**	**4,711**	**4,143**
Provision for impairment	(521)	(577)	(545)
Net amount	**4,383**	**4,134**	**3,598**

The net change in inventories for the year breaks down as follows:

(EUR millions)	Gross	Impairment	Net
As of December 31, 2005	**4,711**	**(577)**	**4,134**
Change in gross inventories	346	-	346
Fair value adjustment for the harvest of the period	23	-	23
Change in provision for impairment	-	21	21
Translation adjustment	(176)	35	(141)
As of December 31, 2006	**4,904**	**(521)**	**4,383**

The effects on cost of sales of marking to market harvests are as follows:

(EUR millions)	2006	2005	2004
Fair value adjustment for the harvest of the period	41	34	46
Adjustment for inventory consumed	(18)	(15)	(21)
Net effect on cost of sales of the period	**23**	**19**	**25**

10. TRADE ACCOUNTS RECEIVABLE

(EUR millions)	2006	2005	2004
Trade accounts receivable - nominal amount	1,650	1,577	1,560
Provision for impairment	(54)	(66)	(77)
Provision for product returns	(135)	(141)	(119)
Net amount	**1,461**	**1,370**	**1,364**
Of which: receivables factored in accordance with the French Dailly law	-	-	268

There is no difference between the market value of trade accounts receivable and their carrying amount.

11. OTHER CURRENT ASSETS

(EUR millions)	2006	2005	2004
Current available for sale financial assets	607	421	201
Derivatives	242	136	393
Tax accounts receivable, excluding income taxes	231	186	212
Advances and payments on account to vendors	100	86	57
Prepaid expenses	225	205	198
Other receivables, net	182	191	241
Total	**1,587**	**1,225**	**1,302**

Prepaid expenses include samples and advertising materials, particularly for Perfumes and Cosmetics, in the amount of 88 million euros as of December 31, 2006 (72 million euros as of December 31, 2005, 74 million euros as of December 31, 2004).

There is no difference between the market value of other current assets and their carrying amount.

Please also refer to Note 12 Current available for sale financial assets and Note 21 Derivatives.

12. CURRENT AVAILABLE FOR SALE FINANCIAL ASSETS

(EUR millions)	**2006**	2005	2004
Unlisted securities, shares in non money market SICAV and FCP mutual funds	**462**	280	191
Listed securities	**145**	141	10
Total	**607**	**421**	**201**
Of which: historic cost of current available for sale financial assets	**506**	317	190

As of December 31, 2005, current available for sale financial assets included an investment in Bouygues amounting to 126 million euros, most of which was divested in 2006.

Current available for sale financial assets changed as follows in fiscal year 2006:

(EUR millions)	
As of December 31, 2005	**421**
Acquisitions	336
Disposals at net realized value	(156)
Changes in market value	42
Translation difference	(36)
As of December 31, 2006	**607**

The results on disposal are analyzed in Note 25 Net financial income/expense.

13. CASH AND CASH EQUIVALENTS

(EUR millions)	**2006**	2005	2004
Fixed terms deposits (less than 3 months)	**126**	94	89
SICAV and FCP money market funds	**49**	34	18
Ordinary bank accounts	**1,047**	1,342	928
Cash and cash equivalents	**1,222**	**1,470**	**1,035**

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

(EUR millions)	**2006**	2005	2004
Cash and cash equivalents	**1,222**	1,470	1,035
Bank overdrafts	**(457)**	(390)	(234)
Net cash and cash equivalents	**765**	**1,080**	**801**

14. EQUITY

14.1. Share capital

As of December 31, 2006, issued and fully paid-up shares totaled 489,937,410 (489,937,410 shares as of December 31, 2005 and 2004), with a par value of 0.30 euro per share, including 219,487,441 shares with double voting rights. Double voting rights are granted to registered shares held for at least three years (219,721,757 as of December 31, 2005, 220, 144, 242 as of December 31, 2004).

14.2. Treasury shares and derivatives settled in LVMH shares

The portfolio of treasury shares and derivatives settled in LVMH shares is allocated as follows:

(EUR millions)	2006		2005	2004
	Number	Value	Value	Value
Share purchase option plans	10,797,426	592	729	824
Bonus share plans	261,267	15	6	-
Other plans	6,342,396	301	232	-
Shares held for stock option and similar plans	**17,401,089**	**908**	**967**	**824**
Liquidity contract	217,000	17	5	182
LVMH treasury shares	**17,618,089**	**925**	**972**	**1,006**
LVMH share-based calls [(1)]	1,838,500	94	-	-
LVMH treasury shares and derivatives settled in LVMH shares	**-**	**1,019**	**972**	**1,006**

(1) Number of shares which could be purchased if all of the calls outstanding at the balance sheet date were exercised and the related premium paid on subscription.

Until fiscal year 2006, LVMH shares to be delivered under share purchase option plans were held by LVMH and allocated to these plans as from the launch date of the plans. In the first half of 2006, this method of hedging was replaced for certain existing plans by the purchase of LVMH share purchase options (LVMH share-based calls). The LVMH shares that were replaced by the LVMH share-based calls were reallocated to cover plans other than share purchase option plans.

"Other plans" comprise share subscription option plans and share-based compensation plans index-linked to the change in the LVMH share price.

The market value of LVMH shares held under the liquidity contract as of December 31, 2006 is 17 million euros.

The portfolio movements in 2006 were as follows:

LVMH shares

(EUR millions)	Number of shares	Value
As of December 31, 2005	**19,293,947**	**972**
Purchases	6,725,569	525
Options exercised	(2,242,958)	(93)
Proceeds from disposals	(6,158,469)	(481)
Gross capital gain (loss) on sale	-	2
As of December 31, 2006	**17,618,089**	**925**

LVMH share-based calls

(EUR millions)	Number of calls	Value
As of December 31, 2005	**-**	**-**
Calls purchased	2,160,600	110
Calls exercised	(322,100)	(16)
As of December 31, 2006	**1,838,500**	**94**

14.3. Dividends paid by the parent company LVMH S.A.

In accordance with French regulations, dividends are deducted from the profit for the year and reserves available for distribution of the parent company, after deducting applicable withholding tax and the value of treasury shares. As of December 31, 2006, the amount available for distribution was 4,759 million euros; after taking into account the proposed dividend distribution in respect of the 2006 fiscal year, the amount available for distribution is 4,073 million euros.

(EUR millions)	**2006**	2005	2004
Interim dividend for the current year (0.30 euro for 2006; 0.25 euro for 2005 and 2004)	**147**	122	122
Impact of treasury shares	**(5)**	(5)	(5)
	142	117	117
Final dividend for the previous year (2005: 0.90 euro; 2004: 0.70 euro; 2003: 0.63 euro)	**441**	343	308
Impact of treasury shares	**(17)**	(14)	(13)
	424	329	295
Total disbursement for the period	**566**	**446**	**412**

The final dividend for 2006, as proposed to the Shareholders' Meeting of May 10, 2007 is 1.10 euro per share, representing a total disbursement of 539 million euros excluding the effects of treasury shares.

14.4. Revaluation reserves

Revaluation reserves record the unrealized gains and losses in respect of current and non-current available for sale financial assets, hedges of future foreign currency cash flows and vineyard land, primarily in Champagne.

These reserves changed as follows during the fiscal years presented:

(EUR millions)	Available for sale financial assets	Hedges of future foreign currency cash flows	Vineyard land	Total Group share
As of January 1, 2004	**(16)**	**125**	**351**	**460**
Change in value	78	134	62	274
Transfer to profit for the year	(6)	(168)	-	(174)
Tax impact	(35)	12	(16)	(39)
Gains and losses recognized in equity	37	(22)	46	61
As of December 31, 2004	**21**	**103**	**397**	**521**
Change in value	379	(114)	38	303
Transfer to profit for the year	(129)	(52)	-	(181)
Tax impact	(26)	54	(13)	15
Gains and losses recognized in equity	224	(112)	25	137
As of December 31, 2005	**245**	**(9)**	**422**	**658**
Change in value	284	155	105	544
Transfer to profit for the year	(157)	(55)	-	(212)
Tax impact	(2)	(35)	(36)	(73)
Gains and losses recognized in equity	125	65	69	259
As of December 31, 2006	**370**	**56**	**491**	**917**

14.5. Cumulative translation adjustment

The change in the translation adjustment recognized under equity at December 31, 2006, net of hedging effects of net assets denominated in foreign currency, breaks down as follows by currency:

(EUR millions)	**2006**	Change	2005	2004
US dollar	(154)	(356)	202	(199)
Hong Kong dollar	(11)	(32)	21	(17)
Pound sterling	29	13	16	2
Other currencies	-	(47)	47	2
Hedges of foreign currency net assets [1]	17	11	6	12
Total	**(119)**	**(411)**	**292**	**(200)**

(1) See 17.3 Analysis of gross borrowings by currency.

15. STOCK OPTION AND SIMILAR PLANS

Share subscription and purchase option plans

The Shareholders' Meeting of May 11, 2006 authorized the Board of Directors, for a period of thirty-eight months expiring in July 2009, to grant share subscription or purchase options to Group company employees or directors, on one or more occasions, in an amount not to exceed 3% of the company's share capital.

Each plan is valid for 10 years. The options may be exercised after a three or four-year period, depending on whether the plans were issued before or after 2004, with the exception of the share purchase option plan dated May 14, 2001 initially concerning 1,105,877 options, which is valid for eight years and for which the options may be exercised after a period of four years.

In certain circumstances, in particular in the event of retirement, the period of three or four years before options may be exercised is not applicable.

For all plans, one option entitles the holder to purchase one LVMH share.

Bonus share plans

The Shareholders' Meeting of May 12, 2005 authorized the Board of Directors, for a period of thirty-eight months expiring in July 2008, to grant bonus shares to Group company employees or directors, on one or more occasions, in an amount not to exceed 1% of the company's share capital on the date of this authorization.

The allocation of shares to their beneficiaries becomes definitive after a two-year vesting period and the shares will need to be held by the beneficiaries for an additional two years.

15.1. Share subscription option plans

	2006		2005		2004	
	Number	**Weighted average exercise price *(EUR)***	**Number**	**Weighted average exercise price *(EUR)***	**Number**	**Weighted average exercise price *(EUR)***
Options outstanding as of January 1	**4,637,175**	**54.57**	**2,747,475**	**55.73**	**-**	**-**
Options granted during the period	1,789,359	79.07	1,924,400	52.93	2,747,475	55.73
Expired options	-	-	(34,700)	55.59	-	-
Options exercised during the period	-	-	-	-	-	-
Options outstanding as of December 31	**6,426,534**	**61.39**	**4,637,175**	**54.57**	**2,747,475**	**55.73**

Options granted relate to the share subscription option plan set up on May 11, 2006 with an average unit exercise price of 79.07 euros. The vesting period is four years.

15.2. Share purchase option plans

	2006		2005		2004	
	Number	Weighted average exercise price *(EUR)*	Number	Weighted average exercise price *(EUR)*	Number	Weighted average exercise price *(EUR)*
Options outstanding as of January 1	**14,927, 777**	**49.48**	**17,148, 615**	**48.66**	**19,433, 292**	**45.67**
Options granted	-	-	-	-	-	-
Expired options	(48,893)	63.59	(956,498)	61.61	(106,425)	46.01
Options exercised during the period	(2,242, 958)	39.83	(1,264, 340)	29.21	(2,178, 252)	22.10
Options outstanding as of December 31	**12,635, 926**	**51.36**	**14,927, 777**	**49.48**	**17,148, 615**	**48.66**

15.3. Bonus share plans

A plan involving the allocation of 164,306 bonus shares was set up on May 11, 2006.

15.4. LVMH share-based incentives

LVMH share-based incentives that are settled in cash for amounts based on changes in the LVMH share price were set up on January 21, 2004 and May 12, 2005; they related initially to 206,750 and 187,300 shares respectively. Moreover, two plans equivalent to the award of 39,300 and 12,000 bonus shares were set up on May 11, 2006 and August 1, 2006, respectively. These plans vest over a period of four years.

15.5. Calculation of the expense for the period

The period expense of each option plan is determined on the basis of the Black & Scholes method, as described in Note 1.25. The assumptions and criteria retained for this calculation are as follows:

	2006 Plans	2005 Plans	2004 Plans
LVMH share price on the grant date *(EUR)*	84.05	57.05	62.75
Average exercise price *(EUR)*	79.07	52.82	55.7
Volatility of LVMH shares	24.5%	21.7%	25.0%
Dividend distribution rate	1.4%	1.65%	1.35%
Risk-free investment rate	4.1%	3.06%	3.78%
Vesting period	4 years	4 years	4 years

The volatility of LVMH's shares is determined on the basis of their implicit volatility.

The unit values of share subscription options and bonus shares allocated in 2006 are 25.06 euros and 81.70 euros, respectively.

The expense for the period resulting from these valuations is presented below; in 2004, 2005 and 2006, all plans that had commenced their vesting period as of January 1, 2004, the date of transition to IFRS, are taken into account.

(EUR millions)	2006	2005	2004
Share subscription and purchase option plans, bonus share plans	34	25	50
LVMH-share based compensation plans	1	5	1
Expense for the year	**35**	**30**	**51**

16. MINORITY INTERESTS

(EUR millions)	2006	2005	2004
As of January 1	**1,025**	**893**	**928**
Minority interests' share of net profit	281	228	208
Dividends paid to minority interests	(120)	(120)	(109)
Changes in scope of consolidation:			
consolidation of Millennium	-	-	82
acquisition of minority interests in Millennium	-	(76)	-
acquisition of minority interests in Fendi	(2)	-	(43)
acquisition of minority interests in Donna Karan	(4)	-	(23)
other changes in scope of consolidation	-	(1)	(23)
Total changes in the scope of consolidation	(6)	(77)	(7)
Capital increases subscribed by minority interests	6	3	-
Minority interests' share in the following changes:			
revaluation reserves	29	(12)	3
translation adjustment	(90)	107	(61)
stock option plan expenses	3	2	-
Effects of purchase commitments for minority interests	(137)	1	(69)
As of December 31	**991**	**1,025**	**893**

17. BORROWINGS

17.1. Net financial debt

(EUR millions)	2006	2005	2004
Long term borrowings	3,235	3,747	4,188
Short term borrowings	2,100	2,642	2,529
Gross amount of borrowings	**5,335**	**6,389**	**6,717**
Interest rate risk derivatives	(74)	(151)	(156)
Borrowings net of interest rate risk derivatives	**5,261**	**6,238**	**6,561**
Current available for sale financial assets	(607)	(421)	(201)
Other financial assets	(32)	(29)	(42)
Cash and cash equivalents	(1,222)	(1,470)	(1,035)
Net financial debt	**3,400**	**4,318**	**5,283**

Net financial debt does not take into consideration purchase commitments for minority interests included in "Other non-current liabilities" (see Note 19). The impact of interest rate derivatives is detailed in Note 21.

17.2. Analysis of gross borrowings by payment date

(EUR millions)		2006
Years	2007	2,100
	2008	1,024
	2009	122
	2010	777
	2011	606
	Thereafter	706
Total		**5,335**

17.4. Analysis of gross borrowings by interest rate type after hedging

(EUR millions)	2006	2005	2004
Floating rate	1,756	604	976
Capped floating rate	1,400	2,531	3,099
Fixed rate	2,105	3,103	2,486
Total	**5,261**	**6,238**	**6,561**

17.3. Analysis of gross borrowings by currency after hedging

(EUR millions)	2006	2005	2004
Euro	3,348	4,200	4,697
US dollar	431	384	323
Swiss franc	814	881	881
Yen	253	403	486
Other currencies	415	370	174
Total	**5,261**	**6,238**	**6,561**

In general, the purpose of foreign currency borrowings is to hedge net foreign currency-denominated assets acquired following the purchase of companies outside of the euro zone.

18. PROVISIONS

(EUR millions)	2006	2005	2004
Provisions for pensions, medical costs and similar commitments	260	264	258
Provisions for contingencies and losses	685	631	581
Provisions for reorganization	38	54	44
Non-current provisions	**983**	**949**	**883**
Provisions for pensions, medical costs and similar commitments	4	5	4
Provisions for contingencies and losses	142	152	188
Provisions for reorganization	109	148	67
Current provisions	**255**	**305**	**259**
Total	**1,238**	**1,254**	**1,142**

In 2006, the changes in provisions were as follows:

(EUR millions)	Dec. 31, 2005	Increases	Amounts used	Amounts released	Changes in scope of consolidation	Other items (including translation adjustment)	Dec. 31, 2006
Provisions for pensions, medical costs and similar commitments	**269**	42	(34)			(13)	**264**
Provisions for contingencies and losses	**783**	204	(136)	(25)		1	**827**
Provisions for reorganization	**202**	30	(71)	(3)		(11)	**147**
Total	**1,254**	**276**	**(241)**	**(28)**	**-**	**(23)**	**1,238**
Of which: profit from recurring operations		138	(89)	(23)			
net financial income (expense)		-	-	-			
other		138	(152)	(5)			

Provisions for pensions, medical costs and similar commitments are examined in Note 28.

Provisions for contingencies and losses correspond to the estimate of the impact on assets and liabilities of risks, disputes, or actual or probable litigation arising from the Group's activities; such activities are carried out worldwide, within what is often an imprecise regulatory framework that is different for each country, changes over time, and applies to areas ranging from product composition to the tax computation.

Regarding provisions for reorganization, please refer also to Note 24 "Other operating income and expenses" concerning the business suspension of the Samaritaine department store in Paris.

19. OTHER NON-CURRENT LIABILITIES

(EUR millions)	2006	2005	2004
Purchase commitments for minority interests	3,490	3,151	3,013
Derivatives	17	15	26
Employee profit-sharing [1]	100	63	55
Other liabilities	148	128	143
Total	**3,755**	**3,357**	**3,237**

(1) French companies only, pursuant to legal provisions.

As of December 31, 2004, 2005 and 2006 purchase commitments for minority interests mainly include the put option granted to Diageo plc for its 34% share in Moët Hennessy SNC, with six-month's advance notice and for 80% of its market value.

With regard to this commitment valuation, the market value was determined by applying the share price multiples of comparable firms to Moët Hennessy's operating results.

Purchase commitments for minority interests also include commitments relating to minority shareholders in Fendi (6%) and BeneFit (20%), calculated using various formulae which may include a minimum value.

The market value of the other non-current financial liabilities was identical to their carrying amount.

20. OTHER CURRENT LIABILITIES

(EUR millions)	**2006**	2005	2004
Derivatives	**30**	98	161
Employees and social institutions	**488**	485	439
Employee profit-sharing	**29**	44	13
Taxes other than income taxes	**239**	212	210
Advances and payments on account	**68**	104	95
Deferred payment for tangible and financial non-current assets	**168**	192	199
Deferred income	**47**	46	59
Other	**341**	358	330
Total	**1,410**	**1,539**	**1,506**

The market value of the other current financial liabilities was identical to their carrying amount. Derivatives are analyzed in Note 21.

21. DERIVATIVES

Financial instruments are used by the Group to hedge risks arising from Group activity and protect its assets. These instruments, most often traded on organized markets, are mainly centralized. Counterparties are chosen according to their international rating as well as for diversification purposes.

21.1. Summary of derivatives

Derivatives are recorded in the balance sheet for the amounts and in the captions detailed as follows:

(EUR millions)		Note	**2006**	2005	2004
Interest rate risk					
Assets:	non-current		**29**	94	154
	current		**89**	119	180
Liabilities:	non-current		**(17)**	(13)	(26)
	current		**(27)**	(49)	(152)
		21.3	**74**	**151**	**156**
Foreign exchange risk					
Assets:	non-current		**2**	16	44
	current		**153**	17	213
Liabilities:	non-current		**-**	(2)	-
	current		**(3)**	(49)	(9)
		21.2	**152**	**(18)**	**248**
Total					
Assets:	non-current		**31**	110	198
	current	**11**	**242**	136	393
Liabilities:	non-current	**19**	**(17)**	(15)	(26)
	current	**20**	**(30)**	(98)	(161)
			226	**133**	**404**

21.2. Derivatives used to manage foreign exchange risk

A significant part of both Group companies' sales to customers and their own retail subsidiaries and purchases are denominated in foreign currencies: the majority of these foreign currency-denominated cash flows are inter-company cash flows. Hedging instruments are used to reduce the risks arising from foreign currency fluctuations against the various companies' own currencies and are allocated to either accounts receivable or accounts payable for the period, or, under certain conditions, to anticipated future transactions.

Future foreign currency-denominated cash flows are broken down as part of the budget preparation process and are hedged progressively over a period not exceeding one year unless a longer period is justified by probable commitments. As such, and according to market trends, identified foreign exchange risks are hedged progressively using forward contracts or options.

The Group may also use appropriate financial instruments to hedge the net worth of foreign subsidiaries, in order to limit the impact of foreign currency fluctuations against the euro on consolidated equity.

Derivatives used to manage foreign exchange risk outstanding as of December 31, 2006 break down as follows:

(EUR millions)	Allocated to fiscal year [1]			Market value [2]				
	2006	**2007**	**Total**	**Future cash flow hedges**	**Fair value hedges**	**Net asset hedges**	**Not allocated**	**Total**
Options purchased								
Put USD	45	1,285	1,330	78			4	82
Put JPY	76	81	157	8			5	13
Other		2	2					-
	121	**1,368**	**1,489**	**86**	**-**	**-**	**9**	**95**
Ranges								
Written USD		12	12					-
Written JPY		225	225	13				13
Other	9		9				1	1
	9	**237**	**246**	**13**	**-**	**-**	**1**	**14**
Forward exchange contracts [3]								
USD	154	43	197		2		4	6
JPY	169	74	243	14	11	1	5	31
GBP	91	56	147					-
Other	57	(14)	43	1				1
	471	**159**	**630**	**15**	**13**	**1**	**9**	**38**
Foreign exchange swaps [3]								
CHF	784		784				11	11
USD	361	(84)	277				(2)	(2)
GBP	(26)		(26)				(1)	(1)
JPY	(190)		(190)			2	(5)	(3)
Other	76		76					-
	1,005	**(84)**	**921**	**-**	**-**	**2**	**3**	**5**
Total				**114**	**13**	**3**	**22**	**152**

(1) Nominal amounts
(2) Gain/(loss)
(3) Sale/(purchase)

21.3. Derivatives used to manage interest rate risk

The Group manages its interest rate exposure on the basis of total net financial debt. The objective of its management policy is to protect net profit against a sharp rise in interest rates.

As such, the Group uses interest rate swaps and options (caps and floors).

Derivatives used to manage interest rate risk outstanding as of December 31, 2006 break down as follows:

(EUR millions)	Maturity [1]			Market value [2]		
	2007	2008 to 2011	Total	Fair value hedges	Not allocated	Total
Interest rate swaps in euros						
- fixed rate payer	400	950	1,350	7	10	17
- floating rate payer	698	2,350	3,048	54	(10)	44
- floating / floating	350	1,200	1,550	-	3	3
Other operations in euros						
- caps purchased	1,400	-	1,400	-	6	6
Cross-currency swaps	-	39	39	-	4	4
Total				**61**	**13**	**74**

(1) Nominal amounts
(2) Gain/(loss)

21.4. Derivatives used to manage equity risk

As the Group's investment policy is long term, the portfolio of available for sale financial assets is not hedged.

22. SEGMENT INFORMATION

22.1. Information by business group

Year ended December 31, 2006

(EUR millions)	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing [6]	Other and holding companies	Eliminations [1] [4] [5]	2006
Sales outside the Group	2,989	5,190	2,379	724	3,879	145	-	15,306
Sales between business groups	5	32	140	13	12	6	(208)	-
Total revenue	**2,994**	**5,222**	**2,519**	**737**	**3,891**	**151**	**(208)**	**15,306**
Profit from recurring operations	962	1,633	222	80	400	(137)	12	3,172
Other operating income and expenses	(12)	(44)	(30)	(9)	(27)	2	-	(120)
Operating investments [2]	107	308	99	25	186	50	-	775
Depreciation and amortization	61	208	98	21	117	16	-	521
Impairment	-	5	-	-	7	10	-	22
Brands, trade names, licenses and goodwill [3]	2,936	4,978	920	1,009	2 643	56	-	12,542
Inventories	2,730	603	244	235	558	50	(37)	4,383
Other operating assets	2,220	1,752	648	229	1,575	1,548	3,888	11,860
Total assets	**7,886**	**7,333**	**1,812**	**1,473**	**4,776**	**1,654**	**3,851**	**28,785**
Equity	-	-	-	-	-	-	11,594	11,594
Operating liabilities	1,025	935	736	156	1,010	428	12,901	17,191
Total liabilities and equity	**1,025**	**935**	**736**	**156**	**1,010**	**428**	**24,495**	**28,785**

Year ended December 31, 2005

(EUR millions)	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing [6]	Other and holding companies	Eliminations [1] [4] [5]	2005
Sales outside the Group	2,639	4,781	2,161	575	3,637	117	-	13,910
Sales between business groups	5	31	124	10	11	6	(187)	-
Total revenue	**2,644**	**4,812**	**2,285**	**585**	**3,648**	**123**	**(187)**	**13,910**
Profit from recurring operations	869	1,467	173	21	347	(129)	(5)	2,743
Other operating income and expenses	(3)	(25)	(10)	-	(183)	-	-	(221)
Operating investments [2]	100	302	115	26	135	36	-	714
Depreciation and amortization	59	187	91	19	112	27	-	495
Impairment	-	-	-	-	72	11	-	83
Brands, trade names, licenses and goodwill [3]	2,830	5,033	938	1,041	2,861	86	-	12,789
Inventories	2,479	661	227	219	534	64	(50)	4,134
Other operating assets	1,899	1,672	669	220	1,542	1,647	3,481	11,130
Total assets	**7,208**	**7,366**	**1,834**	**1,480**	**4,937**	**1,797**	**3,431**	**28,053**
Equity	-	-	-	-	-	-	10,484	10,484
Operating liabilities	932	960	666	145	1,043	592	13,231	17,569
Total liabilities and equity	**932**	**960**	**666**	**145**	**1,043**	**592**	**23,715**	**28,053**

Year ended December 31, 2004

(EUR millions)	Wines and Spirits	Fashion and Leather Goods	Perfumes and Cosmetics	Watches and Jewelry	Selective Retailing [6]	Other and holding companies	Eliminations [1] [4] [5]	2004
Sales outside the Group	2,255	4,339	2,017	490	3,266	114	-	12,481
Sales between business groups	4	27	111	10	10	5	(167)	-
Total revenue	**2,259**	**4,366**	**2,128**	**500**	**3,276**	**119**	**(167)**	**12,481**
Profit from recurring operations	813	1,309	150	(10)	238	(136)	8	2,372
Other operating income and expenses	(19)	(51)	(36)	(34)	(37)	(22)	-	(199)
Operating investments [2]	69	253	86	20	181	63	-	672
Depreciation and amortization	48	173	89	18	109	24	-	461
Impairment	3	12	20	24	25	17	-	101
Brands, trade names, licenses and goodwill [3]	2,068	4,925	923	1,049	2,619	98	-	11,682
Inventories	2,141	555	230	180	477	58	(43)	3,598
Other operating assets	1,651	1,633	622	203	1,440	1,908	2,780	10,237
Total assets	**5,860**	**7,113**	**1,775**	**1,432**	**4,536**	**2,064**	**2,737**	**25,517**
Equity	-	-	-	-	-	-	8 675	8,675
Operating liabilities	767	894	606	112	882	650	12,931	16,842
Total liabilities and equity	**767**	**894**	**606**	**112**	**882**	**650**	**21,606**	**25,517**

(1) Eliminations correspond to sales between business groups; these generally consist of sales from business groups other than Selective Retailing to Selective Retailing. Selling prices between the different business groups correspond to the prices applied in the normal course of business for transactions involving wholesalers or distributors outside the Group.
(2) Operating investments correspond to amounts capitalized during the fiscal year rather than payments made during the fiscal year with respect to these investments.
(3) Brands, trade names, licenses, and goodwill correspond to the net carrying amounts shown under Notes 3 and 4.
(4) Assets not allocated include investments in associates, available for sale financial assets, other financial assets, and income tax receivables.
(5) Liabilities not allocated include borrowings and both current and deferred tax liabilities.
(6) Of which revenue for La Samaritaine: 14, 51 and 101 million euros respectively, as of December 31, 2006, 2005 and 2004.

De Beers-LV has been reclassified in 2006 from the Other activities business group to the Watches and Jewelry business group. Data for 2004 and 2005 fiscal years have been restated to ensure comparability.

22.2. Information by geographic region

Revenue by geographic region of delivery breaks down as follows:

(EUR millions)	2006	2005	2004
France	2,197	2,073	2,005
Europe (excluding France)	3,332	2,850	2,524
United States	4,009	3,686	3,327
Japan	1,985	2,013	1,837
Asia (excluding Japan)	2,651	2,301	1,923
Other	1,132	987	865
Revenue	**15,306**	**13,910**	**12,481**

Operating investments by geographic zone break down as follows:

(EUR millions)	2006	2005	2004
France	295	317	243
Europe (excluding France)	119	126	90
United States	138	126	95
Japan	91	18	159
Asia (excluding Japan)	78	95	45
Other	54	32	40
Operating investments	**775**	**714**	**672**

Operating investments correspond to the amounts capitalized during the fiscal year rather than payments made during the fiscal year with respect to these investments.

23. EXPENSES BY TYPE

Profit from recurring operations includes the following expenses:

(EUR millions)	2006	2005	2004
Advertising and promotion expenses	1,783	1,541	1,403
Commercial lease expenses	942	743	690
Personnel costs	2,429	2,351	2,248

Advertising and promotion expenses mainly consist of the cost of media campaigns and point-of-sale advertising, and also include personnel costs dedicated to this function.

As of December 31, 2006, a total of 1,859 stores were operated by the Group worldwide (1,723 in 2005 and 1,693 in 2004), particularly by Fashion and Leather Goods and Selective Retailing.

In certain countries, leases for stores are contingent on the payment of minimum amounts, especially for stores with lease payments indexed to revenue. The total lease expense for the Group's stores breaks down as follows:

(EUR millions)	2006	2005	2004
Fixed or minimum lease payments	340	266	177
Variable portion of indexed leases	173	185	135
Airport concession fees - fixed portion	232	248	220
Airport concession fees - variable portion	197	171	158
Commercial lease expenses for the period	**942**	**870**	**690**

Personnel costs consist of the following elements:

(EUR millions)	2006	2005	2004
Salaries and social charges	2,331	2,292	2,123
Pensions, medical costs and similar expenses in respect of defined benefit plans	63	29	74
Stock option plan and related expenses	35	30	51
Total	**2,429**	**2,351**	**2,248**

24. OTHER OPERATING INCOME AND EXPENSES

(EUR millions)	**2006**	2005	2004
Amortization of brands and trade names	(6)	(7)	(9)
Impairment of brands, trade names and goodwill	(15)	(49)	(54)
Impairment of tangible assets	(7)	(34)	(47)
Net gains (losses) on disposal of fixed assets	-	-	(14)
Restructuring costs	(63)	(132)	(27)
Net impact on foreign exchange gains and losses of the transition to IFRS	-	(3)	(36)
Other	(29)	4	(12)
Other operating income and expenses	**(120)**	**(221)**	**(199)**

In 2006, restructuring costs, which were of a commercial or industrial nature, mainly relate to the Fashion and Leather Goods and the Perfumes and Cosmetics business groups. In 2005, other operating income and expenses included an exceptional expense of 179 million euros following the closure of the Samaritaine department store in Paris, which was required in order to carry out major renovation work to bring the premises into compliance with safety regulations and other standards.

25. NET FINANCIAL INCOME/EXPENSE

(EUR millions)	**2006**	2005	2004
Borrowing costs, excluding perpetual bonds	(201)	(199)	(218)
Interest and income from cash equivalents and current available for sale financial assets	23	15	26
Fair value adjustment of borrowings and hedges, excluding perpetual bonds	7	1	(6)
Net cost of perpetual bonds	(2)	(5)	(16)
Cost of net financial debt	**(173)**	**(188)**	**(214)**
Dividends received from non-current available for sale financial assets	21	44	16
Ineffective portion of foreign currency hedges	(45)	(106)	(12)
Net gain (loss) on the sale of available for sale financial assets	164	128	-
Other items - net	(20)	(21)	(10)
Other financial income and expenses	**120**	**45**	**(6)**
Net financial income/(expense)	**(53)**	**(143)**	**(220)**

The disposals of available for sale financial assets made in 2006 generated capital gains of 164 million euros. These are essentially attributable to the disposal of Bouygues shares and of various investments held by FCPR L Capital.

In 2005, the net gain on the sale of available for sale financial assets included 99 million euros in respect of gains on the sale of Bouygues shares.

26. INCOME TAXES

26.1. Analysis of the income tax expense

(EUR millions)	2006	2005	2004
Current income taxes for the year	(986)	(594)	(523)
Current income taxes for prior periods	4	10	42
Current income taxes	**(982)**	**(584)**	**(481)**
Change in deferred income taxes	135	(132)	(95)
Effect of changes in tax rate on deferred income taxes	-	(2)	39
Deferred income taxes	**135**	**(134)**	**(56)**
Total tax expense	**(847)**	**(718)**	**(537)**
Tax on items recognized in equity	(73)	15	(39)

The effective tax rate is as follows:

(EUR millions)	2006	2005	2004
Profit before tax	2,999	2,379	1,953
Total income tax expense	(847)	(718)	(537)
Effective tax rate	**28%**	**30%**	**27%**

26.2. Analysis of the difference between the theoretical and effective income tax rates

The effective tax rate for fiscal year 2006 takes into consideration the following non-recurring items:

- capitalization or utilization of prior period losses carried forward: impact of (3.3)%;
- capital gains on the disposal of non-current available for sale financial assets taxable at a reduced rate or zero: impact of (1.4)%.

27. EARNINGS PER SHARE

	2006	2005	2004
Group share of net profit *(EUR millions)*	1,879	1,440	1,194
Average number of shares in circulation during the period	489,937,410	489,937,410	489,937,410
Average number of treasury shares owned during the period	(18,035,590)	(19,731,021)	(20,984,156)
Average number of shares on which the calculation before dilution is based	**471,901,820**	**470 206 389**	**468,953,254**
Basic Group share of earnings per share *(EUR)*	**3.98**	**3.06**	**2.55**
Average number of shares on which the above calculation is based	471,901,820	470,206,389	468,953,254
Dilution effect of stock option plans	5,570,135	3,840,868	3,648,671
Other dilution effects	-	-	-
Average number of shares in circulation after dilution	**477,471,955**	**474,047,257**	**472,601,925**
Diluted Group share of earnings per share *(EUR)*	**3.94**	**3.04**	**2.53**

28. PROVISIONS FOR PENSIONS, MEDICAL COSTS AND SIMILAR COMMITMENTS

The expense for the year related to pensions, medical costs and similar defined benefits commitments breaks down as follows:

(EUR millions)	**2006**	2005	2004
Current service cost	**48**	40	38
Impact of discounting	**22**	20	21
Expected return on plan assets	**(14)**	(13)	(9)
Amortization of actuarial gains and losses	**1**	-	-
Past service cost	**2**	2	-
Changes in regime	**4**	(20)	24
Expense for the year for defined benefit plans	**63**	**29**	**74**
Effective yield/(cost) of related plan assets	**25**	22	14

29. OFF BALANCE SHEET COMMITMENTS

29.1. Purchase commitments

(EUR millions)	**2006**	2005	2004
Grapes, wines and distilled alcohol	**1,547**	997	775
Industrial and commercial fixed assets	**151**	58	77
Investments in joint venture shares and non-current available for sale financial assets	**84**	59	76

Some Wines and Spirits companies have contractual purchase arrangements with various local producers for the future supply of grapes, still wines and distilled alcohol. These commitments are valued, depending on the nature of the purchases, based on the contractual terms or known year-end prices and estimated production yields. Their increase in 2006 results from the signing of long term supply contracts.

29.2. Lease and similar commitments

In addition to leasing its stores, the Group also finances some of its equipment through operating leases. Some fixed assets and equipment were also purchased or refinanced under finance leases.

Operating leases and concession fees

The Group's future, irrevocable commitments under operating leases and concession fee agreements break down as follows:

(EUR millions)	**2006**	2005	2004
Less than one year	**609**	553	541
One to five years	**1,359**	1,508	1,389
More than five years	**778**	825	870
Commitments given for operating leases and concession fees	**2,746**	**2,886**	**2,800**
Less than one year	**20**	18	20
One to five years	**46**	44	47
More than five years	**2**	8	15
Commitments received for sub-leases	**68**	**70**	**82**

Finance leases

The Group's future, irrevocable commitments under finance lease agreements break down as follows, as of December 31, 2006:

(EUR millions)	2006		2005		2004	
	Minimum future payments	Present value of payments	Minimum future payments	Present value of payments	Minimum future payments	Present value of payments
Less than one year	27	27	32	29	16	14
One to five years	76	50	85	67	78	65
More than five years	395	76	464	81	424	78
Total future minimum payments	**498**		**581**		**518**	
Of which: financial interest	(345)		(404)		(361)	
Present value of minimum future payments	**153**	**153**	**177**	**177**	**157**	**157**

29.3. Contingent liabilities and outstanding litigation

As part of its day-to-day management, the Group is party to various legal proceedings concerning brand rights, the protection of intellectual property rights, the set-up of selective retailing networks, licensing agreements, employee relations, tax audits and other areas relating to its business. The Group believes that the provisions recorded in the balance sheet in respect of these risks, litigation or disputes, known or outstanding at year-end, are sufficient to avoid its consolidated financial net worth being materially impacted in the event of an unfavorable outcome.

29.4. Collateral and other guarantees

(EUR millions)	2006	2005	2004
Securities and deposits	56	37	29
Other guarantees	56	54	48
Guarantees given	**112**	**91**	**77**
Guarantees received	**63**	**35**	**8**

29.5. Other commitments

The Group is not aware of any significant off balance sheet commitments other than those described above.

30. SUBSEQUENT EVENTS

There were no significant subsequent events as of the date on which the accounts were approved for publication.

STATUTORY AUDITORS' REPORT

STATUTORY AUDITORS' REPORT ON THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

The accompanying condensed consolidated financial statements have been prepared based on the consolidated financial statements of LVMH Moët Hennessy – Louis Vuitton for the year ended December 31, 2006. We audited these consolidated financial statements in accordance with professional standards applicable in France and issued an opinion with no qualifications or observations in a report dated February 14, 2007.

These condensed consolidated financial statements are presented under the responsibility of the Board of Directors which approved the consolidated financial statements. Our role is to express an opinion on the consistency of the condensed consolidated financial statements with the consolidated financial statements, based on the procedures which we deemed necessary.

In our opinion, the condensed consolidated financial statements are consistent, in all material aspects, with the consolidated financial statements from which they have been prepared.

The condensed consolidated financial statements do not include all the notes required by the IFRSs as adopted by the European Union, used to prepare the consolidated financial statements of LVMH Moët Hennessy – Louis Vuitton. As a result, the condensed consolidated financial statements should not replace the consolidated financial statements.

Neuilly Sur Seine and Paris-La Défense, February 14, 2007

The Statutory Auditors

DELOITTE & ASSOCIES

Thierry BENOIT

Alain PONS

ERNST & YOUNG AUDIT

Jeanne BOILLET

Gilles GALIPPE

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

LVMH MOËT HENNESSY-LOUIS VUITTON S.A.

SIMPLIFIED ACCOUNTING INFORMATION

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INCOME STATEMENT

(EUR millions - French accounting principles)	**2006**	2005	2004
Income from investments and other revenue	**1,123**	818	961
Operating income before tax	**672**	463	598
Net exceptional items	**455**	851	136
Income taxes	**(100)**	133	277
Net profit	**1,027**	1,447	1,011

CHANGE IN EQUITY

(EUR millions - French accounting principles)	Share capital and share premium	Reserves and regulated provisions	Other reserves	Interim dividend	Retained earnings	Net profit	Total equity
As of December 31, 2005 before appropriation of 2005 income	**1,883**	**388**	**195**	**(122)**	**1,494**	**1,447**	**5,285**
Appropriation of 2005 net income	-	-	-	-	1,447	(1,447)	-
Dividend 2005	-	-	-	122	(563)	-	(441)
Dividend 2005 (treasury shares)	-	-	-	-	16	-	16
Interim dividend 2006	-	-	-	(147)		-	(147)
Interim dividend 2006 (treasury shares)	-	-	-	5		-	5
Net profit for the year	-	-	-	-	-	1,027	1,027
As of December 31, 2006 before appropriation of 2006 income	**1,883**	**388**	**195**	**(142)**	**2,394**	**1,027**	**5,745**

LVMH

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