REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS

Drawn up in accordance with the provisions of Article L. 225-37 of the French Commercial Code, this report was approved by the Board of Directors at its meeting on February 3, 2011.

Its purpose is to give an account of the membership of the Board of Directors of LVMH Moët Hennessy - Louis Vuitton SA, the preparation and organization of its work, the compensation policy applied to senior executives and company officers, as well as the risk management and internal control procedures established by the Board and in particular the procedures relating to the preparation and processing of accounting and financial information.

1. CORPORATE GOVERNANCE

1.1 Board of Directors

The Board of Directors is the strategic body of the Company which is primarily responsible for enhancing the Company's value and protecting its corporate interests. Its main missions involve the adoption of overall strategic orientations of the Company and the Group and ensuring these are implemented, the verification of the truthfulness and reliability of information concerning the Company and the Group and the overall protection of the Company's assets.

The Board of Directors of LVMH Moët Hennessy - Louis Vuitton acts as guarantor of the rights of each of the shareholders and ensures that shareholders fulfill all their duties.

The AFEP/MEDEF Code of Corporate Governance for Listed Companies is applied by the Company. This document may be viewed on the AFEP/MEDEF web site: www.code-afep-medef.com.

A Charter has been adopted by the Board of Directors which outlines rules governing its membership, duties, procedures, and responsibilities.

Two Committees, the Performance Audit Committee and the Nominations and Compensation Committee, whose membership, role and missions are defined by internal rules, have been established by the Board.

The Charter of the Board of Directors and the internal rules governing the two committees are communicated to all candidates for appointment as Director and to all permanent representatives of a legal entity before assuming their duties.

Pursuant to the provisions of the Board of Directors' Charter, all Directors must bring to the attention of the Chairman of the Board any instance, even potential, of a conflict of interest that may exist between their duties and responsibilities to the Company and their private interests and/or other duties and responsibilities. They must also provide the Chairman with details of any fraud conviction, any official public incrimination and/or sanctions, any disqualifications from acting as a member of an administrative or management body imposed by a court along with any bankruptcy, receivership or liquidation proceedings to which they have been a party. No information has been communicated with respect to this obligation.

The Company's bylaws require each Director to hold, directly and personally, at least 500 of its shares.

1.2 Membership and missions

• During its meeting of February 3, 2011 the Board of Directors proposed to submit resolutions to the Shareholders' Meeting of March 31, 2011 for the appointments of Mrs. Delphine Arnault and Mrs. Marie-Josée Kravis, as well as Messrs. Nicolas Bazire, Antonio Belloni, Charles de Croisset, Diego Della Valle, Pierre Godé, and Gilles Hennessy as Directors. It also proposed a resolution for the appointment of Mr. Patrick Houël as Advisory Board Member.

• The Board of Directors, subject to the decisions of the Shareholders' Meeting of March 31, 2011, will thus consist of eighteen members: Mrs. Delphine Arnault, Mrs. Bernadette Chirac and Mrs. Marie-Josée Kravis, and Messrs. Bernard Arnault, Antoine Arnault, Nicolas Bazire, Antonio Belloni, Antoine Bernheim, Nicholas Clive Worms, Charles de Croisset, Diego Della Valle, Albert Frère, Pierre Godé, Gilles Hennessy, Felix G. Rohatyn, Yves-Thibault de Silguy, Hubert Védrine, and Lord Powell of Bayswater. Eight of whom: Mrs. Bernadette Chirac and Mrs. Marie-Josée Kravis, as well as Messrs. Antoine Bernheim, Nicholas Clive Worms, Charles de Croisset, Diego Della Valle, Yves-Thibault de Silguy, and Hubert Védrine are considered as independent and hold no interests in the Company.

Personal information relating to the Directors is included in the section "Other information – Governance" of the Reference Document.

During its meeting of February 3, 2011 the Board of Directors reviewed the status of each Director currently in office as well as each proposed appointee, in particular with respect to the independence criteria set forth in the AFEP/MEDEF Code of Governance of Listed Companies, and considered that:

(i) Mrs. Bernadette Chirac and Messrs. Charles de Croisset, Diego Della Valle, Yves-Thibault de Silguy and Hubert Védrine satisfy all criteria;

(ii) Mr. Antoine Bernheim is to be considered, given his personal situation, as an independent Director, despite having served as a board member of the Company's Board of Directors for more than twelve years and on the Boards of Directors of other companies that are subsidiaries of Groupe Arnault and LVMH group;

(iii) Mr. Nicholas Clive Worms is to be considered, given his personal situation, as an independent Director, despite having served as a member of the Company's Board of Directors for more than twelve years;

(iv) Mrs. Marie-Josée Kravis fulfills all of these criteria.

• Over the course of the 2010 fiscal year, the Board of Directors met four times as convened by its Chairman, by written notice sent to each of the Directors at least one week in advance of the meeting. The average attendance rate of Directors at these meetings was 87%.

The Board approved the annual and half-yearly consolidated and parent company financial statements and reviewed the Group's major strategic guidelines and decisions, its budget, the compensation of senior executives and company officers, the establishment of a bonus share plan, the authorization for third party guarantees and various agreements with related companies, and the renewal of the authorization to issue bonds. It also conducted an evaluation of its capacity to meet the expectations of shareholders by reviewing its membership, organization, and procedures, making the necessary changes to its Charter and the Internal Rules and Regulations of the Performance Audit Committee, in particular with regard to the setting of "blackout periods" during which no transactions involving the Company's shares by members of the Board of Directors are permitted, as well as the requirement to request an evaluation by an independent expert before entering into any significant related party transactions.

The Board of Directors also decided to make a portion of the Directors' fees paid to its members contingent upon their attendance at its meetings and at those of the Committees to which they belong, making the necessary changes to its Charter. In addition, the Board instituted procedures to ensure that renewals of Directors' appointments are more uniform over time.

• In its meeting of February 3, 2011, the Board of Directors reviewed its membership and carried out a fully documented review of its work, organization and procedures. It also amended its Charter and the Internal Regulations of its Committees, in particular so as to take into account the findings of the AMF's Report on Audit Committees as updated in July 2010.

The Board came to the conclusion that its composition is in line with regard to its percentage of external Directors, the breakdown of share capital, and with respect to the diversity and complementarity of the skills and experiences of its members. The appointment of Mrs. Bernadette Chirac as Director by the Shareholders' Meeting of April 15, 2010 and the proposed appointment of Mrs. Marie-Josée Kravis submitted for the approval of the Shareholders' Meeting of March 31, 2011 are representative of the commitment to progress towards a balanced representation of women and men on the Board of Directors.

The Board noted:

- it had received the information required for the fulfillment of its missions in timely fashion and that each Director, in addition to any discussions during Board meetings, had been able to ask questions to executive management and obtain the requested details and explanations,
- the Group's financial position was presented in a clear and detailed manner when the annual and half-yearly financial statements were submitted for the Board's approval,
- the annual budget and a three-year strategic plan were presented to the Directors and discussed with the Board,
- the Board's strategic decisions were discussed in its meetings and were put to a specific vote.

The ways in which the Group may respond to the ongoing changes in the economic and financial environment gave rise to exchanges between Directors and Executive Management.

Lastly, the broad outlines of the Group's financial communication were the subject of discussions by the Board.

1.3 Executive Management

The Board of Directors decided not to dissociate the roles of Chairman and Chief Executive Officer. It made no change in the powers vested in the Chief Executive Officer.

In response to the proposal of the Chairman and Chief Executive Officer, the Board of Directors appointed a Group Managing Director, Mr. Antonio Belloni, who was granted the same powers as the Chief Executive Officer.

1.4 Performance Audit Committee

The main tasks of the Performance Audit Committee are the monitoring of the process of preparing financial information, the effectiveness of internal control and risk management procedures, as well as the statutory audit of the individual company and consolidated financial statements by the external auditors. The Committee oversees the procedure for the selection of external auditors and ensures their independence.

The Committee currently consists of three members, two of whom are independent, appointed by the Board of Directors. The current members of the Performance Audit Committee are Messrs. Antoine Bernheim (Chairman), Nicholas Clive Worms and Gilles Hennessy.

The Performance Audit Committee met four times in 2010. All of these meetings were attended by all of the members of the Committee, with the exception of one meeting where one of the members of the Committee was unable to attend.

Attendees at these meetings also included the External Auditors, the Chief Financial Officer, the Director of Management Control, the Director of Internal Audit, the Director of Accounting, the Director of Tax, the Director of Legal Affairs, and depending on the issues discussed, the Financing and Treasury Director, the Director of Risk Management or the Director of Information Systems.

In addition to reviewing the annual and half-yearly parent company and consolidated financial statements, and in liaison with the detailed analysis of changes in the Group's business volumes and scope of consolidation, the Committee's work mainly addressed the following issues: the objectives and performance of internal audits, internal control procedures applied within the Group, the follow-up of risk management policies, currency hedging, the tax position, the valuation of brands and goodwill, as well as changes in accounting standards (IFRSs) in relation to lease agreements.

1.5 Nominations and Compensation Committee

The main responsibilities of the Nominations and Compensation Committee are to issue:

• proposals on compensation, benefits in kind, bonus shares and share subscription or purchase options for the Chairman of the Board of Directors, the Chief Executive Officer and the Group Managing Director(s) of the Company, as well as on the allocation of Directors' fees paid by the Company;

• opinions on candidates for the positions of Director, Advisory Board member, Group Executive Committee member or member of Executive Management of the Company's main subsidiaries.

It currently consists of three members, two of whom are independent, appointed by the Board of Directors. The current members of the Nominations and Compensation Committee are Messrs. Antoine Bernheim (Chairman), Charles de Croisset and Albert Frère.

The Committee met twice during the 2010 fiscal year, in the presence of all its members. It (i) issued proposals on the allocation of Directors' fees, as well as on the compensation and the allocation of performance bonus shares to the Chairman and Chief Executive Officer and to the Group Managing Director and (ii) gave its opinion on compensation, performance bonus shares and benefits in kind granted by the Company and its subsidiaries to certain Directors. It also issued an opinion on the proposed appointment of Mrs. Bernadette Chirac as Director and on the reappointment of the Directors whose terms in office were due to expire in 2010.

In addition, the Committee issued an opinion on the status of all members with regard to the independence criteria set forth within the AFEP/MEDEF Code, in particular.

Prior to the Board of Directors' meeting of February 3, 2011, the Committee issued recommendations, most notably on (i) the variable portion of compensation to be received for 2010 by the Chairman and Chief Executive Officer, the Group Managing Director, and other Directors receiving compensation from the Company or any of its subsidiaries, as well as on (ii) the fixed compensation to be received by these same individuals for 2011 and (iii) the setup of a medium term incentive scheme, which Mr. Gilles Hennessy would benefit from. The committee issued an opinion on the nominations to be put to a vote at the Shareholders' Meeting.

1.6 Advisory Board

Advisory Board members are invited to meetings of the Board of Directors and are consulted for decision-making purposes, although their absence cannot undermine the validity of the Board of Directors' deliberations.

They are appointed by the Shareholders' Meeting on the proposal of the Board of Directors and are chosen from among the shareholders on the basis of their competences.

Following the death on October 1, 2010 of Mr Killian Hennessy, the sole member of the Advisory Board, there are currently no Advisory Board members.

The appointment of Mr. Patrick Houël as Advisory Board Member will be submitted to the Shareholders' Meeting of March 31, 2011.

1.7 Participation in Shareholders' Meetings

The terms and conditions of participation by shareholders in Shareholders' Meetings, and in particular the conditions for the attribution of dual voting rights to registered shares, are defined in Article 23 of the bylaws (see the "Governance" section of the Reference Document).

1.8 Information that might have an impact on a takeover bid or exchange offer

Information that might have an impact on a takeover bid or exchange offer, as required by Article L. 225-100-3 of the French Commercial Code, is published in the "Management Report of the Board of Directors – Parent company: LVMH Moët Hennessy - Louis Vuitton SA" section of the Reference Document.

1.9 Compensation policy for company officers

Directors' fees paid to the members of the Board of Directors

The Shareholders' Meeting sets the total amount of Directors' fees to be paid to the members of the Board of Directors.

This amount is divided among the members of the Board of Directors and members of the Advisory Board, in accordance with the rule defined by the Board of Directors, based on the proposal of the Directors' Nominations and Compensation Committee, namely:

(i) two units for each Director or member of the Advisory Board;

(ii) one additional unit for serving as a Committee member;

(iii) two additional units for serving as both a Committee member and a Committee Chairman;

(iv) two additional units for serving as either Chairman or Vice-Chairman of the Company's Board of Directors;

with the understanding that the amount corresponding to one unit is obtained by dividing the overall amount allocated to be paid as Directors' fees by the total number of units to be distributed.

At its meeting of February 4, 2010, the Board of Directors decided that a portion of Directors' fees to be paid to its members would be contingent upon their attendance at meetings of the Board of Directors and, where applicable, at those of the Committees to which they belong. A reduction in the amount to be paid is applied to two-thirds of the units described under (i) above, proportional to the number of Board Meetings the Director in question does not attend. In addition, for Committee members, a reduction in the amount to be paid is applied to the additional fees mentioned under (ii) and (iii) above, proportional to the number of meetings by Committee to which the Director in question participates which he or she does not attend.

In respect of the 2010 fiscal year, LVMH paid a total gross amount of 1,040,625 euros in Directors' fees to the members of its Board of Directors.

The Nominations and Compensation Committee is kept informed of the amount of Directors' fees paid to senior executive officers by the Group's subsidiaries in which they perform the role of company officers.

Other compensation

Compensation of senior executive officers is determined with reference to principles listed in the AFEP/MEDEF Corporate Governance Code for Listed Companies.

Compensation and benefits awarded to company officers are mainly determined on the basis of the degree of responsibility ascribed to their missions, their individual performance, as well as the Group's performance and the achievement of targets. This determination also takes into account compensation paid by similar companies with respect to their size, industry segment and the extent of their international operations.

A portion of the compensation paid to senior executive officers of the Company is based on the attainment of both financial and qualitative targets. Quantitative and qualitative objectives carry an equal weighting for the purpose of determining the bonus of the Chairman and Chief Executive Officer; for the Group Managing Director, they carry the weighting of 2/3 and 1/3, respectively. The financial criteria are growth in revenue, operating profit and cash flow, with each of these items representing one-third of the total determination. The variable portion is capped at 180% of the fixed portion for the Chairman and Chief Executive Officer and at 120% of the fixed portion for the Group Managing Director.

The breakdown of compensation and benefits awarded to the Chairman and Chief Executive Officer, and the Managing Director, is presented in the section entitled "Management Report of the Board of Directors – Parent company: LVMH Moët Hennessy Louis Vuitton SA" of the Reference Document.

Pursuant to the provisions of Article L. 225-42-1 of the French Commercial Code, at its meeting of February 4, 2010, the Board of Directors approved the non-compete clause included in Mr. Antonio Belloni's employment contract - suspended during the term of his mandate as Group Managing Director: this covenant not to compete for a twelve-month period provides for the payment of a monthly compensation equal to the monthly remuneration on the termination date of his functions, which would be supplemented by one twelfth of the last bonus received.

Notwithstanding this clause, no other senior executive officer of the Company currently benefits from provisions granting them a specific compensation payment should they leave the Company or derogations from the rules governing the exercise of options or the definitive allocation of bonus shares subject to performance conditions.

Company officers are eligible for stock option or performance bonus share plans instituted by the Company. The information relating to the allocation terms and conditions of these plans is presented in the section entitled "Management Report of the Board of Directors – Parent company: LVMH Moët Hennessy Louis Vuitton SA" of the Reference Document.

Upon their retirement, members of the Executive Committee, and where applicable company officers, receive a supplemental retirement benefit provided they have been members of the Executive Committee of the Group for a period of at least six years and that they assert at the same time their entitlement to their basic retirement benefits under compulsory pension schemes. This supplemental retirement benefit is determined based on a reference remuneration amount equal to the average annual remuneration received over the three civil years preceding the retirement year, capped at 35 times the annual social security ceiling. The annual supplemental retirement benefit is equal to the difference between 60% of the reference remuneration amount (i.e. 742,392 euros as of January 1, 2011) and all pension payments made by the general social security regime and the additional ARRCO and AGIRC regimes. Increase in provisions in 2010 for these supplemental retirement benefits are included in the amount shown for post-employment benefits under Note 30 of the consolidated financial statements.

An exceptional remuneration may be awarded to certain Directors with respect to any specific mission with which they have been entrusted. The amount of this remuneration shall be determined by the Board of Directors and reported to the Company's external auditors.

2. IMPLEMENTATION OF RISK MANAGEMENT AND INTERNAL CONTROL PROCEDURES

This section of the report draws upon the new Reference Framework issued by the AMF on July 22, 2010 relating to processes for monitoring the effectiveness of risk management and internal control systems and takes into account changes in laws and regulations introduced since 2007, in particular the Law of July 3, 2008 and the Order of December 8, 2008. In line with the measures implemented since 2008 following the publication of its first internal control reference guide, the Group has reviewed the extent to which its monitoring processes are consistent with this new framework and has decided to make use of the new suggested structure for the drafting of this portion of the Chairman's report.

2.1 Scope, organizational and formalization principles

LVMH is comprised of five main business groups: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, and Selective Retailing. Other activities comprise the media division managed by Les Echos group, the yacht builder Royal Van Lent, real estate activities and holding companies. The business groups are themselves composed of companies of varying sizes owning prestigious brands, which in turn are divided into subsidiaries operating worldwide.

This organizational structure ensures that the different brands of the Group maintain their independence, while facilitating cohesion between the Group's companies, especially those with similar businesses.

The risk management and internal control policy applied across the Group is based on the following organizational principle:

- the parent company, LVMH SA, is responsible for its own risk management and internal control systems, while also acting as leader and coordinator for all Group companies;
- the President of a brand is responsible for the risk management and internal control of all the subsidiaries that contribute to developing the brand worldwide;
- each subsidiary's President is similarly responsible for their own operations.

The internal control and risk management mechanism, which has been formalized since 2003 to comply with the LSF (French Financial Security Act), has adopted a similar structure; it is both:

- decentralized at business group and brand level: the guidance and management of the mechanism is the responsibility of the Executive Management of the operational and legal entities;
- unified around a shared methodology and a single reference guide, both of which are coordinated centrally by the LVMH SA holding company and rolled out to all Group companies.

The main brands and the business groups acknowledge their responsibility in relation to these systems each year by signing letters of representation covering the assessment of risk management and internal control procedures. These letters signed by the chairman and by the chief financial officer of each subsidiary and parent company are analyzed, followed up upon, and consolidated at each superior level of the Group's organizational structure (Region, House, Business group) and then forwarded to the Finance Department and to the Audit and Internal Control Department. They are also made available to the Statutory Auditors.

These letters are signed by the Chairman and Chief Financial Officer of each entity. In 2010, on an optional basis, this signing authority was extended by certain entities to all executive committee members.

This year, a total of 117 entities submitted signed letters of representation, thus providing coverage of nearly 80% of Group revenue. This total included both production and services companies, the regional holding companies as well as nine central financial functions: Finance, Treasury and Markets, Tax, Consolidation, Financial Statements Closing, Interest and Exchange Rate Monitoring, Information Systems, Investor Relations, and Insurance.

These letters of representation attesting to the implementation of risk management and internal control procedures are supplemented by the signing of annual letters certifying the entity's financial disclosures, including a paragraph devoted to internal control. The representation concerning internal control and the assessment of financial risks is thus extended to all of the LVMH group's financial consolidation transactions.

Lastly, in line with European directives and the Order of December 8, 2008, it is worth noting that since 2009 the Group has been engaged in a process of improving and integrating risk management and internal control systems, an approach known by the acronym ERICA, "Enterprise Risk and Internal Control Assessment", which involves:

- a letter of representation that from 2010 explicitly covers all strategic, operational and regulatory risks (see above);
- an approach to the formalization of procedures for the management of major risks, introduced this year within two business groups (see §2.2.3 below);
- the availability beginning in April 2010 of an application that will centralize all risk and internal control data and provide a framework for interconnections between these two areas (see §2.2.4 below).

2.2 Main risk management principles

2.2.1 Definition and objectives

According to the definition provided by the AMF's Reference Framework, risk represents the possibility of an event occurring that could affect the Company's personnel, assets, environment, objectives or reputation.

Risk management is understood to apply in this very broad sense rather than merely to the financial realm, and is essential to support the longevity and excellence of our brands. It is a powerful management tool requiring the involvement of all of the Group's senior executives in accordance with the principle of delegation and organization presented above. The objectives of risk management are to:

- protect the value, assets and reputation of the Group and its brands;
- enhance the security of decision-making and operational processes by way of a comprehensive perspective on the Group's potential threats and opportunities;
- promote consistency between the actions of the Group and the values of its brands;
- ensure that all employees embrace a shared vision of the main risks and challenges faced in our business activities.

2.2.2 Organization and components of the risk management system

Risks relating to our brands and business activities are managed at the level of each of our business groups and Houses. As part of the budget cycle and in connection with the preparation of the three-year plan, major risks affecting strategic, operational and financial objectives are systematically identified and evaluated, and a formal account of the conclusions reached is included in the corresponding sections of the reports issued.

Risk mitigation (in frequency and severity) is achieved through preventive actions (industrial risks), internal control (risks associated with processes), or through the implementation of business continuity plans or operational action plans. Depending on the types of risk to which a particular brand or entity is exposed, the latter may decide, in collaboration with the Group, to transfer residual risk to the insurance market or instead to assume this risk.

Finally, as a complement to these processes, and in order to institute a single approach for all brands, the Group has launched a project that seeks to create a formal framework for risk management and internal control called ERICA, which is discussed in §2.2.3 below.

Specific monitoring procedures apply to some of the risks associated with the Group's businesses (damage to image or reputation, counterfeit goods and parallel markets, industrial and environmental risks, foreign currency and interest rate risk, etc.). These risks are discussed in §2 "Operational risk factors and insurance policy" of the "Management Report of the Board of Directors: LVMH group" included in the Reference Document.

2.2.3 Establishment of formal procedures for the ERICA system

As the logical outcome of the pilot study carried out in 2009, an approach to the formalization of procedures for the management of major risks was introduced in 2010 for the Wines and Spirits business group and at Parfums Christian Dior.

This project, named ERICA, provides a structure and formal guidelines for risk management within the Group by offering:

- a framework: each business group or major business unit included in the project determines its own roles and responsibilities with regard to a defined process and approach, as well as the eventual criticality;
- a process for the identification, analysis and handling of risks backed by a single Group-wide reference guide and methodology;
- a follow-up on action plans and the effectiveness of existing control systems with a regular review of the level of exposure to the identified risks.

The Group plans to extend this approach to all significant businesses in 2011.

2.2.4 Coordination of risk management with internal control

Risk management and internal control systems complement each other in exerting the necessary oversight over the Group's businesses.

The risk management system aims to identify and analyze the principal risks that could affect an entity. Risks that exceed the acceptable levels set are evaluated and, if deemed necessary, are addressed through specific action plans. These plans may call for the implementation of controls, a transfer of the financial consequences (through insurance or an equivalent mechanism) or an adaptation of the entity's organization. The controls to be implemented are part of the internal control system, which also serves to guarantee their effectiveness.

For its part, the internal control system relies on the risk management system to identify the main risks and principles that need to be controlled.

The articulation between these two systems has been reflected in both:

- the new application features added to the ERICA evaluation platform;
- and the reference guide to major risks, with a presentation for each major risk of the coverage measures in the internal control reference guide.

This articulation has been tested through the analysis of computer system failure risk and the links to the control system covering computer security and availability (Disaster Recovery Planning).

This coordination is also reflected in the "Risk factors" chapter of the Management Report: for each type of risk discussed, this report presents the evaluation approach and the control systems implemented and monitored by the Group or the brands involved.

2.3 General internal control principles

2.3.1 Definition and objectives

The Group uses an internal reference guide which is consistent with COSO principles (Committee of Sponsoring Organizations of the Treadway Commission) together with the new Reference Framework of the AMF.

Therefore, at the behest of the Board of Directors, the Performance Audit Committee, Executive Management and other senior managers of the parent companies and subsidiaries and as specified in this reference guide, internal control encompasses a set of resources, behaviors, procedures and actions adapted to the individual characteristics of each Group entity that:

- contributes to control over its activities, the efficiency of its operations and the efficient use of its resources;
- must enable the entity to appropriately assess significant operational, financial and compliance risks.

More specifically, this system aims to provide reasonable assurance with respect to the achievement of the following objectives:

- compliance with applicable laws and regulations;
- the implementation of the instructions and directions given by the Executive Management of the Group and the Management of operational units (the Houses or brands and their subsidiaries);
- the proper functioning of the entity's internal processes, especially those relating to the protection of its assets and the value of its capital;
- the reliability of financial and accounting information.

The internal control system thus comprises a range of control procedures and activities over and above those directly connected to the financial and accounting system; because it aims to ensure the control and continuity of all existing and new activities, the system must enable the management of the houses and subsidiaries to focus fully on the strategy, development and growth of the Group.

Limits of internal control

No matter how well designed and applied, the internal control system cannot provide an absolute guarantee that the Group's objectives will be achieved. All internal control systems have their limits most notably because of the uncertainty of the outside world, individual judgment or malfunctions as a result of human or other errors.

2.3.2 Internal control components

The Group's internal control system includes five closely interrelated components:

- a general control environment, based on clearly defined and appropriate roles and responsibilities;
- a risk management system;
- appropriate control activities, procedures and documentation;
- an information and communication system that enables responsibilities to be exercised efficiently and effectively;
- continual monitoring of the system.

All of these elements are centrally managed and coordinated, but they are also reviewed each year by the larger entities within the Group, through the established self-assessment procedure in force.

2.3.3 The general control environment

The internal control mechanism, which applies to all of LVMH's operations, aims primarily to create appropriate conditions for a general internal control environment tailored to the Group's specificities. It also aims to anticipate and control the risk of errors and fraud, without however guaranteeing their complete elimination.

The Group has always expressed its determination with regard to these fundamentals, which are the management's commitment to integrity and ethical behavior, the principle of honesty in relations with customers, suppliers, employees and other business partners, clear organizational structures, responsibilities and authorities defined and formalized according to the principle of the segregation of duties, regular monitoring of staff performance, and a commitment to skills management and the professional development of Group employees.

These ethical and good governance principles are included in the LVMH Code of Conduct, which has been distributed since May 2009 to all Group employees. This Code of Conduct serves as the common foundation and source of inspiration in this area for all of our brands or business lines. In particular, the Group recommends and oversees the implementation of codes of conduct, supplier charters, formalized procedures for declaring and monitoring conflicts of interest, and the implementation of delegation matrices that outline the responsibilities and powers of each employee.

In 2009, an intranet website ("LVMH Mind") was launched to better communicate internally the Group's commitment to responsible corporate citizenship. On this website, specifically devoted to social and environmental responsibility, employees can find the LVMH Code of Conduct, but also the Environmental Charter first adopted in 2001 and the Supplier Charter introduced in 2008 to ensure compliance across the entire supply chain with strict guidelines.

Skills management is a significant aspect of internal control. LVMH pays special attention to matching employees' profiles with corresponding responsibilities, formalizing annual performance reviews at individual and organizational level, ensuring the development of skills through training programs custom-designed for each level of seniority and encouraging internal mobility. Personnel reports are produced monthly by the Group's Human Resources Department, presenting changes in staff and related analyses as well as vacancies and internal movements. A dedicated Intranet site, LVMH Talents, is also for use by for the Group Human Resources.

2.3.4 Risk management

The risk management system is described in §2.2 Main risk management principles.

2.3.5 Control activities, procedures and documentation

Internal control practices and procedures are implemented by the companies' internal control managers and is the responsibility of their Management Committees.

Through its Finance Intranet, the Group disseminates all of the regularly updated procedures contributing to accounting and financial information and applicable to all the consolidated companies, covering: accounting and financial procedures and principally the accounting policies and standards, consolidation, taxation, investments, financial reporting (including budgetary procedures and strategic plans), cash flow and financing (including cash pooling, foreign exchange and interest rate hedging). The procedures available on the Finance Intranet also detail the format, content and frequency of financial reports.

The finance intranet is also used for the dissemination of Internal Control principles and best practices:

- a top-level guide, "The Essentials of Internal Control", describes the bases of the general environment and the salient features of the main processes: Sales, Retail Sales, Purchases, Inventory, Financial Statements Closing and Information Systems (general IT controls);
- in addition to this manual, the LVMH internal control reference guide covering a wide range of business processes has also been made available. This reference guide details, for each risk arising from a given process, the key control activities expected. This reference guide is regularly updated to take into account developments in information systems and procedures. Originally established in accordance with COSO principles, the reference guide covers most of the measures relating to the preparation of accounting and financial information that are also included in the Reference Framework of the AMF;
- best practices and implementation tools are available online via this intranet site, covering the issues emphasized by the Group, conflicts of interest, delegation of powers, business continuity plans, IT disaster recovery plans, policies and guidelines for information system security, exception reports, the segregation of duties and resulting conflicts relating to sensitive transactions, and the control of media expenses.

The Group and its internal control managers in the Houses ensure the implementation of the controls that are essential to achieving the key process internal control objectives, where necessary. The managers are asked to make a special effort in relation to the documentation of key activities in the form of a procedure in order to ensure consistent quality over time, regardless of who carries them out.

The activities relating to the control and remediation of internal control weaknesses are reflected, documented and tracked as part of the management process that guides all the Group's core entities (cf. § 2.3.6).

The Group's Risk Management Guidelines may also be found on the Finance Intranet, together with specially designed tools for the evaluation, prevention and coverage of risks. These materials may be accessed by all personnel involved in the application of the Group's risk management procedures.

2.3.6 Information and communication systems

The strategic plans in terms of information and communication systems are coordinated by the Group Finance Department, which ensures the standardization of the ERP (SAP) in operation as well as business continuity. Aspects of internal control (segregation of duties and access rights) are integrated when employing new information systems and these are regularly reviewed.

The information and telecommunications systems and their associated risks (physical, technical, internal and external security, etc.) are also subject to special procedures: a Business Continuity Plan methodology kit has been distributed within the Group in order to define for each significant entity the broad outline of such a plan as well as those of an IT Disaster Recovery Plan. A Business Continuity Plan and a Disaster Recovery Plan have been developed at the level of the parent company LVMH SA; both plans are tested on an annual basis.

All significant entities have appointed a head of IT Security (RSI), who reports directly to the Director of Information Systems. The activities of the RSIs are coordinated by the Group RSI. Together they constitute a vigilance network to monitor the development of risks affecting information systems and implement adequate defenses depending on the likelihood of a given type of risk and its potential impact.

2.3.7 Continuous monitoring of the internal control systems

There are several levels of monitoring, the main ones being:

Ongoing monitoring of the processes

It is organized by the Directions in charge of operations in order to anticipate or detect incidents as soon as possible. Exception reports are used to determine whether corrective actions are required based on a departure from normal operating conditions, as a complement to preventive measures, such as the segregation of duties.

Periodic monitoring of the mechanism

Periodic monitoring is performed by management staff and by the internal and external auditors:

- by management or operational staff under the responsibility of the internal control managers. The final deliverable of this supervision is the letter of representation on risk management and internal control signed by the Chairman and CFO or by each member of the Management Committee of each significant entity confirming their acceptance of responsibility for internal control in connection with the relaying of information on areas of weakness and the remedies pursued (see §2.1);
- by LVMH Internal Audit and the external auditors, who provide management of the entities and the Executive Management of the Group with the results of their review work and their recommendations.

The Management of each significant entity carries out an annual self-assessment process.

Self-assessment is based on the LVMH internal control reference guide. This reference guide covers 12 key processes: Sales, Retail Sales, Purchases, Licenses, Travel and Movements, Inventory, Production, Cash Management, Fixed Assets, Human Resources, Information Systems and Financial Statements Closing. Specific processes have been developed and evaluated to reflect the particular needs of certain activities (Distilled Alcohol and Vineyard Land for Wines and Spirits, End-of-Season Operations for Fashion and Leather Goods, Concessions for the Duty-Free businesses).

In addition, at the level of the parent company LVMH SA and the Group, the nine key processes listed in §2.1 are analyzed to determine the related risks and action plans are subsequently defined and followed-up, so as to remediate any weaknesses.

The self-assessment approach applied at each of the 117 significant entities identified in 2010 is tailored to the configuration and culture of the LVMH group and consists of:

- a review of the general control environment at the entity;
- a detailed review of key control systems selected by each brand from the reference guide to business processes depending on the materiality of these processes and the anticipated level of risk coverage; for branches having launched the integrated ERICA approach in 2010, the entities calibrated their self-assessment on a single set of 70 key controls. This list established by the Group's Internal Control department constitutes the minimum set of controls to be assessed by each entity;
- a review of shortcomings and follow-up by the entity's senior and middle managers of the measures implemented to remedy these weaknesses;
- the formal documentation of this review and assessment process as well as the resulting action plans in the internal control data modeling and guidance tool, renamed ERICA, which has been adopted by other CAC 40 companies as well;
- the signing of the letter of representation by the Management of each entity.

The letters of representation are consolidated in a "cascade", from the subsidiaries to the parent companies, and from the parent companies to the Group.

Work and assessments performed by senior executives

These internal control formalization procedures are carried out on an internal basis, with independent external validation. This approach maximizes the involvement of operational managers, capitalizing on their knowledge and facilitating the process of continuous improvement of internal control over time within the Group. The Group's external auditors are kept informed on the progress of this approach, as is the Performance Audit Committee, by means of regular reports.

2.4 Risk management and internal control stakeholders

In addition to the contribution of all Group employees to the success of these systems, the following participants fulfill specific roles with respect to internal control:

At Group level

The Board of Directors

As part of the responsibilities described above, the Board of Directors contributes to the general control environment through its underlying professional principles: the savoir-faire and responsibility of its members, the clarity and transparency of its decisions, and the efficiency and effectiveness of its controls. The Company refers to the AFEP/MEDEF Code of Corporate Governance for Listed Companies, for guidance.

The Board of Directors is kept informed on a regular basis of the specific nature of risk management and internal control systems and procedures, and ensures that major risks, which are disclosed in the "Risk factors" section of its management report, are properly taken into account.

Also at regular intervals, the Board and its Performance Audit Committee receive information on the results of the operation of these systems, any weaknesses noted and the action plans decided with a view to their resolution.

The Executive Committee

The Executive Committee, comprised of executive, operational and functional directors, defines strategic objectives on the basis of the orientations decided by the Board of Directors, coordinates their implementation, ensures that the organization adapts to changes in the business environment, and oversees both the definition and the accomplishment of the responsibilities and delegations of authority of executive management.

The Performance Audit Committee

As part of its responsibilities described above, the Performance Audit Committee controls the existence and application of internal control procedures. It also examines the results of the work of Internal Audit and approves annual and midterm internal auditing orientation in terms of resources and geographic, business and risk coverage. The Committee also receives information on the management of major risks.

The Legal Department

The Group's Legal Department is responsible for monitoring the proper application of laws and regulations in force in each of the countries where the LVMH group has operations. It also fulfils a central legal review function and provides advice on legal matters as required by each of the LVMH group's business groups.

The Risk Management Department

Apart from the operational managers, who are responsible for the risks inherent to their businesses, the Risk Management Department ensures that Group companies have access to tools and methodologies for the identification and evaluation of risks, promotes effective loss prevention practices, and advises on risk coverage and financing strategies.

The Risk Management Department collaborates with the Internal Audit team on the definition and implementation of evaluation methods and processes for handling certain major or large-scale risks.

The Audit and Internal Control Department

As of December 31, 2010, the Audit and Internal Control Department had a staff of some fifteen professionals, including two individuals specifically responsible for the coordination of Internal Control. Although this team's supervision is centralized, its members operate out of two offices in Paris and Hong Kong and are active throughout the Group.

Between thirty and forty audit assignments are carried out each year. In 2010, as planned in the context of the objectives for the year, special attention was focused on emerging countries (China, Russia, Ukraine, India) and on certain transversal risks (stock obsolescence, retirement benefit commitments, etc.).

Follow-ups on recommendations made in the context of past assignments are reinforced through systematic on-site visits to companies with the most significant issues.

The Internal Audit team applies a multi-year audit plan which is revised every year. The multi-year audit plan allows the degree to which the internal control system has been understood and assimilated to be monitored and reinforced where necessary, and ensures the appropriate application of the procedures that are in place. The audit plan is prepared on the basis of an analysis of potential risks, either existing or emerging, by type of business (such as size, contribution to profits, geographical location and quality of local management) and on the basis of meetings held with the operational managers concerned. Internal Audit intervenes in all Group companies, both in operational and financial matters. A review of the self-assessment process and its results is performed systematically for the significant entities involved.

The plan can be modified in response to changes to the political and economic environment or internal strategy.

Internal Audit reports on its work to management of the entity concerned and to Executive Management of the Group by way of an Executive Summary and a detailed report explaining its recommendations and setting out Management's commitment to apply them within a reasonable period of time. Internal Audit sends copies of the reports that it issues to the external auditors and meets with them periodically to discuss current internal control issues.

The main features of the annual and multi-year audit plan, together with the main conclusions of the year under review and the follow-up to the main recommendations of previous assignments, are presented to the Performance Audit Committee and to the business groups concerned.

Moreover, since 2003, Internal Audit has coordinated the Group's compliance with LSF (French Financial Security Act) internal control measures, and has devoted a specific team to internal controls. This team monitors and anticipates regulatory changes so that the measures can be adapted. The alignment measures implemented in response to the recommendations of the AMF's Report on Audit Committees and to its new Reference Framework were areas of particular attention during the past year.

Group internal control coordinates a network of internal controllers responsible for ensuring compliance with the Group's internal control procedures and for preparing internal controls tailored to their businesses. These internal control managers are responsible for the various projects related to the internal control and risk management system and promote the dissemination and application of guidelines.

At subsidiary level

Management Committees

The Management Committee within each subsidiary is responsible for implementing the procedures necessary to ensure an effective internal control mechanism for its scope of operations. The fact that operational managers are personally accountable for internal controls in each company and in each of the key business processes is a cornerstone of the internal control system.

The Management Committees of brands or entities are responsible for the implementation of action plans for the management of the major risks they identify and evaluate in the course of internal control self-assessment for their scope of operations.

2.5 Risk management and internal controls related to financial and accounting information

2.5.1 Organization

Risk management and internal controls of accounting and financial information are organized based on the cooperation and control of the following departments, which are all part of the Finance Team:

Accounting and Consolidation, Management Control, Information Systems, Corporate Finance, Treasury, Markets, Tax and Investor Relations.

Accounting and Consolidation is responsible for preparing and producing the individual company accounts of the holding companies and the consolidated financial statements, in particular the financial statements and financial documents published as of June 30 (the interim report) and as of December 31 (the reference document) in addition to the management reporting process.

To this end, Accounting and Consolidation defines and disseminates the Group's accounting policies, monitors and enforces their application and organizes any related training programs that may be deemed necessary. Accounting and Consolidation also ensures that an appropriate financial reporting information system is maintained, while also coordinating the work of the Group's Statutory Auditors.

Management Control is responsible for coordinating the budget process and its revisions during the year as well as the five-year strategic plan. It produces the monthly operating report and all reviews required by Executive Management (see below § 2.5.4 Management reporting); it also tracks capital expenditures and cash flow, as well as producing statistics and specific operational indicators.

By virtue of its area of competence and the high standards of the reports it produces, Management Control is a very important participant in the internal control and financial risk management system.

Information Systems designs and implements the information systems needed by the Group's central functions. It disseminates the Group's technical standards, which are indispensable given the decentralized structure of the Group's equipment, applications, networks, etc., and identifies any potential synergies between businesses while respecting brand independence. It develops and maintains a telecommunications system shared by the Group. It drives policies for system and data security and helps the brands prepare emergency contingency plans. In cooperation with the subsidiaries, Information Systems supervises the creation of three-year plans for all information systems across the Group, by business group and entity.

Corporate Finance is responsible for applying the Group's financial policy, efficiently managing the balance sheet and financial debt, improving the financial structure and executing a prudent policy for managing interest rate risks. Within this department, International Treasury focuses particularly on Group cash pooling, ensuring optimal efficiency and preparing forecasts on the basis of quarterly updates prepared by the companies involved. It is also responsible for applying a centralized foreign exchange risk management strategy.

Treasury Markets is responsible for the application of the Group's risk coverage policy, with the principal aim of covering risks generated directly or indirectly by Group companies. It is also responsible for applying a centralized interest rate and counterparty risk management strategy designed to limit the negative impact of interest rate fluctuations and credit risk on operations and investments.

To this end, a management policy and strict procedures have been established to measure, manage and consolidate these market risks. Within this team, the separation of Front office and Back office activities, coupled with an independent control team reporting to Accounting Director allow for a greater segregation of duties. This organization relies on an integrated computerized system allowing real-time controls on hedging transactions. The hedging mechanism is periodically presented to the Performance Audit Committee. Hedging decisions are taken by means of a clearly established process that includes regular presentations to the Group's Executive Committee and detailed documentation.

The Tax Team coordinates the preparation of tax returns and ensures compliance with applicable tax laws and regulations, provides advice to the different business groups and companies and defines tax planning strategy based on the Group's operational requirements. It organizes appropriate training courses in response to major changes in tax law and coordinates the uniform reporting system for tax data ("SyRUS Tax").

The Investor Relations Department is responsible for coordinating all information issued to the financial community to enable it to acquire a clear, transparent and precise understanding of the Group's performance and prospects. It also provides Executive Management with the perceptions of the financial community on the Group's strategy and its positioning within its competitive environment. It defines the key messages to be communicated in close collaboration with Executive Management and the business groups. It harmonizes and coordinates the distribution of corporate messages through various channels (publications such as the annual and half-yearly reports, financial presentations, meetings with shareholders and analysts, the website, etc.)

Each of these departments coordinates the financial aspects of the Group's internal control in its own area of activity via the finance departments of business groups, the main companies and their subsidiaries, which are in charge of similar functions in their respective entities. In this way, each of the central departments runs its control mechanism through its functional chain of command (controller, chief accountant, treasurer, etc.).

The finance departments of the main companies of the Group and the Departments of the parent company, LVMH, described above periodically organize joint finance committees. Run and coordinated by the Central Departments, these committees deal particularly with applicable standards and procedures, financial performance and any corrective action needed, together with internal controls applied to accounting and management data.

2.5.2 Accounting and management policies

Subsidiaries adopt the accounting and management policies considered by the Group as appropriate for the individual company and consolidated financial statements. A consistent set of accounting standards is applied throughout, together with consistent formats and tools to submit data to be consolidated. Accounting and management reporting is also carried out through the same system, thus ensuring the consistency of internal and published data.

2.5.3 Consolidation process

The consolidation process is laid out in a detailed set of instructions and has a specially adapted data submission system designed to facilitate complete and accurate data processing, based on a consistent methodology and within suitable timeframes. The Chairman and CFO of each company undertake to ensure the quality and completeness of financial information sent to the Group - including off-balance sheet items - in a signed letter of representation which gives added weight to the quality of their financial information.

There are sub-consolidations at business unit and business group level, which also act as primary control filters and help ensure consistency.

At Group level, the teams in charge of consolidation are specialized by type of business and are in permanent contact with the business groups and companies concerned, thereby enabling them to better understand and validate the reported financial data and anticipate the treatment of complex transactions.

2.5.4 Management reporting

Each year, all of the Group's consolidated entities produce a strategic plan, a complete budget and annual forecasts. Detailed instructions are sent to the companies for each process.

These key steps represent opportunities to perform detailed analyses of actual data compared with budget, and to foster ongoing communication between companies and the Group - an essential feature of the financial internal control mechanism.

A team of controllers at Group level, specialized by business, is in permanent contact with the business groups and companies concerned, thus ensuring better knowledge of performance and management decisions as well as appropriate control.

The half-yearly and annual financial statements are closed out at special results presentation meetings, in the presence of the Group's financial representatives and the companies concerned, during which the Statutory Auditors present their conclusions with regard to the quality of financial and accounting information and the internal control environment of the different companies of the Group, on the basis of the work that they performed during their review and audit assignments.

Conclusions

The LVMH group is pursuing its policy of constantly improving its internal controls, which it has carried out since 2003, by bolstering the self-appraisal system and its adoption by the main stakeholders.

In response to changes in regulatory requirements, the Group launched the ERICA project in 2010, an approach integrating risk management and internal control, with the objective of extending its reach to all significant entities over the course of 2011.

3. STATUTORY AUDITORS' REPORT, PREPARED IN ACCORDANCE WITH ARTICLE L.225-235 OF THE FRENCH COMMERCIAL CODE (CODE DE COMMERCE), ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF THE COMPANY LVMH MOËT HENNESSY - LOUIS VUITTON

To the Shareholders,

In our capacity as Statutory Auditors of LVMH Moët Hennessy - Louis Vuitton and in accordance with Article L. 225-235 of the French Commercial Code (Code de commerce), we hereby report to you on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the year ended December 31, 2010.

It is the Chairman's responsibility to prepare and to submit for the Board of Director's approval a report on internal control and risk management procedures implemented by the Company and to provide the other information required by Article L. 225-37 of the French Commercial Code relating to matters such as corporate governance.

Our role is to:

- report on the information contained in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information, and
- confirm that the report also includes the other information required by Article L. 225-37 of the French Commercial Code. It should be noted that our role is not to verify the fairness of this other information.

We conducted our work in accordance with professional standards applicable in France.

Information on the internal control and risk management procedures relating to the preparation and processing of accounting and financial information

The professional standards require that we perform the necessary procedures to assess the fairness of the information provided in the Chairman's report in respect of the internal control procedures relating to the preparation and processing of the accounting and financial information. These procedures consist mainly in:

- obtaining an understanding of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information on which the information presented in the Chairman's report is based and of the existing documentation;
- obtaining an understanding of the work involved in the preparation of this information and of the existing documentation;
- determining if any material weakness in the internal control procedures relating to the preparation and processing of the accounting and financial information that we would have noted in the course of our work is properly disclosed in the Chairman's report.

On the basis of our work, we have nothing to report on the information in respect of the company's internal control and risk management procedures relating to the preparation and processing of the accounting and financial information contained in the report prepared by the Chairman of the Board of Directors in accordance with Article L. 225-37 of the French Commercial Code.

Other information

We confirm that the report prepared by the Chairman of the Board of Directors also contains the other information required by Article L. 225-37 of the French Commercial Code.

Neuilly-Sur-Seine, February 16, 2011

The Statutory Auditors

DELOITTE & ASSOCIÉS

Thierry Benoit

ERNST & YOUNG et Autres

Olivier Breillot

Gilles Cohen

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 standards applicable in France.