

Christian Dior

REPORT OF THE CHAIRMAN OF THE BOARD OF DIRECTORS ON INTERNAL CONTROL PROCEDURES

This report, which has been drawn up in accordance with the provisions of Article L. 225-37 of the French Commercial Code, is designed to give an account of the preparation and organization of the tasks of the Company's Board of Directors, and the internal control procedures it has put in place.

I. PREPARATION AND ORGANIZATION OF THE TASKS OF THE BOARD OF DIRECTORS

The Board of Directors has a Charter, which sets out the composition, tasks, functions and responsibilities of the Board of Directors.

The Board of Directors has appointed two committees amongst its members, the composition, role and tasks of which are set out in internal rules and regulations.

The Charter of the Board of Directors and the committees' internal rules and regulations are sent to any candidate for appointment as Director and to any permanent representative of an entity, before they assume their duties.

Board of Directors

The Board of Directors is a strategic body of the Company which is primarily responsible for enhancing the Company's value, ensuring that its underlying strategy is adopted and overseeing its implementation, verifying the truth and fairness of information concerning it and protecting its assets.

The Board of Directors of Christian Dior acts as guarantor of the rights of each of its shareholders and ensures that shareholders fulfill all their duties.

It consists of ten members, three of whom are independent directors who hold no interests in the Company.

No director exercising management duties within the Company can hold a position in a company if one of its senior executives is a member of the Board of Directors of Christian Dior.

The Board of Directors met three times during the 2007 fiscal year at the written invitation of its Chairman sent to each of the directors at least a week before the date of the meeting. The average attendance level of directors at these meetings was 80%.

The Board of Directors' tasks included approving for publication the annual and half-yearly financial statements, documents requiring shareholders' approval at the annual Shareholders' Meeting, the issuance of bonds, and the implementation of stock option plans. The documents and information needed to perform their duties were communicated to the directors at each meeting.

The Board of Directors decided to assign the roles of Chairman and Chief Executive Officer to different persons. It did not place any limits on the powers vested in the Chief Executive Officer.

Christian Dior

Performance Audit Committee

The main tasks of the Performance Audit Committee are to ensure that the Company and Group's accounting policies comply with generally accepted accounting principles and to review the individual company and consolidated financial statements before they are submitted to the Board of Directors.

Its members and Chairman are appointed by the Board of Directors.

The Performance Audit Committee met twice in 2007, with at least two of its members present. All of the meetings were attended by the Company's Statutory Auditors, Chief Financial Officer and Accounting Director, as well as the Accounting Director of the main subsidiary, LVMH.

The Committee's work mainly related to examining the individual company and consolidated financial statements, and risk monitoring and hedging.

Nominations and Compensation Committee

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

- proposals on the allocation of directors' fees paid by the Company, as well as on compensation, benefits in kind and subscription or purchase options for the Chairman of the Board of Directors and the Chief Executive Officer;
- opinions on candidates for the positions of director, Advisory Board member or member of executive management of the Company's main subsidiaries, on compensation and benefits in kind allocated to the directors and Advisory Board members by the Company or its subsidiaries, and on the systems of fixed or variable, immediate or deferred compensation and incentives for directors of the Group.

Its members and Chairman are appointed by the Board of Directors.

The Committee met once during the 2007 fiscal year, with all members in attendance. It issued proposals on the allocation of share purchase options to the Chairman of the Board of Directors, the Chief Executive Officer and a director of the Company. It issued an opinion on the compensation awarded to the Chairman by one of the Company's subsidiaries.

Advisory Board

The Shareholders' Meeting may appoint a maximum of three Advisory Board members based on the proposal of the Board of Directors.

Advisory Board members are appointed for a term of three years ending at the close of the Ordinary Shareholders' Meeting convened to approve the accounts of the previous fiscal year and held in the year during which their term of office expires.

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.

There were no Advisory Board members as of December 31, 2007.

Compensation policy for company officers

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

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

Christian Dior

This amount is divided among the members of the Board of Directors and, if applicable, the members of the Advisory Board on the recommendation of the Nominations and Compensation Committee.

The Nominations and Compensation Committee can recommend that all or part of the directors' fees be allocated based on the attendance rate of the members at the meetings of the Board of Directors.

Directors' fees paid in 2007 totaled 104,830 euros. These fees were distributed among the Directors in accordance with allocation rules defined by the Board of Directors that take into account the duties performed on the Board.

- Other compensation

Exceptional compensation may be paid to some directors for special assignments and on the basis of the guidance or leadership role they assume on the various committees of the Board of Directors. The amount shall be determined by the Board of Directors and reported to the company's Statutory Auditors.

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

Subject to certain conditions, notably the correct performance of their duties, Group directors and where applicable Company officers, may benefit from a contractual indemnity on leaving the company, in addition to the partial or total maintenance of their right to exercise any stock options that they received prior to their departure.

Upon their retirement, Group directors and where applicable Company officers may receive, as part of their employment contract, a supplemental retirement benefit provided that they assert at the same time their entitlement to their basic retirement benefits under compulsory pension schemes. This supplemental payment corresponds to a specific percentage of the beneficiary's salary, to which a ceiling is applied on the basis of the reference salary determined by the French social security scheme.

Provisions recognized in 2007 for these supplemental retirement benefits are included in the amount shown for post-employment benefits under Note 30.3 of the consolidated financial statements.

II. INTERNAL CONTROL PROCEDURES

The purpose of the internal control procedures at Christian Dior is as follows:

- to ensure that management and operations-related measures, as well as the conduct of personnel, are consistent with the definitions contained in the guidelines applying to the Company's activities by its management bodies, applicable laws and regulations, and the Company's internal values, rules, and regulations;
- to ensure that the accounting, financial, and management information communicated to the Company's management bodies reflect a fair view of the Company's activity and financial position.

One of the objectives of the internal control system is to prevent and control risks resulting from the Company's activity and the risk of error or fraud, particularly in the areas of accounting and finance. As with any control system, however, it cannot provide an absolute guarantee that these risks are completely eliminated.

Christian Dior

Christian Dior's internal control takes into consideration the Group's specific structure. Christian Dior is a holding company that controls two main assets: a 42.5% equity stake in LVMH, and a 100% equity stake in Christian Dior Couture. LVMH is a listed company, whose Chairman is also Chairman of Christian Dior, with several directors serving at both companies. Christian Dior Couture has a board of directors whose composition is similar to that of Christian Dior.

The sections below on internal control deal with procedures relating to Christian Dior Couture, followed by those relating to the holding company, Christian Dior SA. Procedures relating to LVMH are described in the report filed by that company, which may be consulted as a supplement to this report.

Christian Dior Couture

Christian Dior Couture creates, produces and distributes all of the brand's products internationally. It also engages in retail activities in the various markets through its 50 subsidiaries.

Given this dual role, internal control is applied directly to Christian Dior Couture SA, and in an oversight capacity to all subsidiaries.

The purpose of the internal control measures that have been implemented is to mitigate the risks of error and fraud.

They specifically provide for the following:

- limited, precise, structured delegation of powers regarding both expenses and payment commitments, which are known by staff involved;
- prior legal control:
 - before any significant agreement negotiated by headquarters or subsidiaries is signed, carried out by the Legal Department and, as applicable, by advisers on local law,
 - regarding the prior existence of third-party models and trademarks;
- a segregation of the expense and payment procedures;
- procedural rules known to potential users;
- internal controls (internal audits performed by headquarters at the headquarters' departments, as well as Group subsidiaries) and external controls (particularly Statutory Auditors);
- very rigorous monitoring of management information used in the process of defining objectives and monitoring performance through three-year strategic plans, the annual budget and monthly reporting;
- the regular presence of senior managers at the subsidiaries and the subsidiaries' management bodies, particularly their boards of directors;
- a consolidation manual updated in 2007;
- training on accounting standards and the Group's internal controls provided to subsidiaries' finance directors.

For retail activities, these measures are reinforced thanks to:

- information given to point of sale managers on all applicable procedures, collated in a specific, regularly updated operating manual for the boutiques;

Christian Dior

- integrated point of sale management software (rolled out in Europe and Asia), which standardizes the rules for auditing boutiques and allows headquarters to obtain detailed information on the sales of each boutique in the network;
- “boutique committees”, which formally authorize the signing of commercial leases and investments in the retail network.

Finally, these measures are controlled by internal audits that cover the points of sale, country headquarters and accounting back offices. These assignments form the basis for reports and recommendations presented to the Chairman and sent to each subsidiary. Implementation of recommendations is regularly monitored.

Regarding the preparation of financial information, a chart of accounts defines specific accounting rules applicable to all companies in the Christian Dior Couture Group for closing out the consolidated financial statements. Consolidated financial statements are prepared quarterly, at which time exhaustive controls are carried out by the headquarters' consolidation department, particularly on intra-group accounting entries and the application of consolidation standards, to ensure the integrity of the information.

Christian Dior

1. Internal control environment

As noted above, Christian Dior is a holding company whose assets are essentially limited to two equity holdings: Christian Dior Couture and LVMH.

The business of Christian Dior SA is therefore essentially dedicated to:

- protecting the legal title of these two equity holdings;
- exercising the rights and authority of a majority shareholder, notably by its:
 - presence on the boards and at the meetings of the subsidiaries,
 - monitoring of dividends paid by the subsidiaries,
 - control of the subsidiaries' financial performance;
- providing accurate financial information, in line with applicable laws, given Christian Dior's status as a listed company.

Given the limited number of tasks described above, and its membership of a Group with the necessary administrative skills, Christian Dior uses the Group's specialized services in the areas specific to a holding company, namely legal, financial and accounting matters. An assistance agreement has been entered into with Groupe Arnault SAS.

Regarding the Group's external services, the Shareholders' Meeting of Christian Dior appointed two first-tier accounting firms as Statutory Auditors, one of which also serves in the same role at Christian Dior Couture and LVMH.

2. Risk control

2.1 Key elements of internal control procedures

Given the nature of the Company's activity, the primary objective of internal control systems is to mitigate risks of error and fraud in accounting and finance. The following principles form the basis of our organization:

- very limited, very precise delegation of powers, which are known by the counterparties involved, with sub-delegations reduced to a minimum;

Christian Dior

- upstream legal control before signing agreements;
- separation of the expense and payment functions;
- secured payments;
- procedural rules known by potential users;
- integrated databases (single entry for all users);
- frequent audits (internal and external).

2.2 Legal and operational control exercised by the parent company over the subsidiaries

► Asset control

Securities held by the subsidiaries are subject to a quarterly reconciliation between the Company's Accounting Department and the Securities departments of the companies concerned.

► Operational control

Christian Dior SA exercises operational control over its subsidiaries through the following:

- legal bodies, boards of directors and shareholders' meetings, at which the Company is systematically represented;
- management information used by managers of Christian Dior SA in the process of defining objectives and monitoring their fulfillment:
 - three-year and annual budget plans;
 - monthly reporting presenting results compared to budget and variance analysis;
 - quarterly meetings to analyze performance.

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

The individual company and consolidated financial statements are subject to a detailed set of instructions and a specially adapted data submission system designed to facilitate complete and accurate data processing within suitable timeframes.

The exhaustive controls performed at the sub-consolidation levels (LVMH and Christian Dior Couture) guarantee the integrity of the information.

Financial information intended for the financial markets (financial analysts, investors, individual shareholders, market authorities) is provided under the supervision of the Finance Department. This information is strictly defined by current market rules, specifically the principle of equal treatment of investors.

4. Conclusion

Over and above its existing internal control mechanism, in 2007 the Christian Dior Group reinforced continuing efforts to improve its internal control.

Christian Dior

STATUTORY AUDITORS' REPORT,
PREPARED PURSUANT TO ARTICLE L. 225-235
OF THE COMMERCIAL CODE, ON THE REPORT OF THE CHAIRMAN
OF THE BOARD OF DIRECTORS OF CHRISTIAN DIOR
CONCERNING INTERNAL PROCEDURES RELATING TO THE PREPARATION
AND PROCESSING OF ACCOUNTING AND FINANCIAL INFORMATION
FISCAL YEAR ENDED DECEMBER 31, 2007

MAZARS & GUERARD
Tour Exaltis
61, rue Henri Regnault
92400 Courbevoie
S.A. with share capital of €8,320,000

Statutory auditors
Member of the Versailles
regional organization

ERNST & YOUNG AUDIT
Faubourg de l'Arche
11, allée de l'Arche
92037 Paris-La Défense Cedex
S.A.S. with variable share capital

Statutory auditors
Member of the Versailles
regional organization

To the Shareholders,

As Statutory Auditors of Christian Dior 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, 2007.

In his Report, the Chairman reports, in particular, on the conditions for the preparation and organization of the Board of Directors' work and the internal control procedures implemented by the Company.

It is our responsibility to report to you our observations on the information set out in the Chairman's report on the internal control procedures relating to the preparation and treatment of financial and accounting information.

We have performed our work in accordance with the professional guidelines applicable in France. These guidelines require that we plan and perform procedures to assess the fairness of the information set out in the Chairman's report on the internal control procedures relating to the preparation and treatment of the financial and accounting information. These procedures notably consisted of:

- obtaining an understanding of the objectives and general organization of internal control, as well as the internal control procedures relating to the preparation and treatment of financial and accounting information, as set out in the Chairman's Report;
- obtaining an understanding of the work underlying the information set out in the report;
- assessing whether major deficiencies related to internal control procedures and treatment of financial and accounting information have been appropriately reported in the Chairman's Report, if any.

Christian Dior

On the basis of the procedures we have performed, we have nothing to report with regard to the information concerning the internal control procedures of the Company relating to the preparation and treatment of the financial and accounting information, as included in the Report of the Chairman of the Board of Directors, prepared in accordance with the Article L. 225-37 of the French Commercial Code.

Courbevoie and Paris-La Défense, March 10, 2008

The Statutory Auditors

MAZARS & GUERARD

ERNST & YOUNG AUDIT

Denis Grison

Jeanne Boillet