

Christian Dior

IMPLEMENTATION OF IFRS

ANNUAL REPORT 2004
(Part 2)

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INTRODUCTION

The Christian Dior Group will apply IAS/IFRS standards from the year commencing January 1, 2005, pursuant to the European Commission regulation 1606/2002.

On December 30, 2003, the Committee of European Securities Regulators (CESR) issued a recommendation on communication of the transition between national accounting standards and IFRS, which was adopted in France by the *Autorité des Marchés Financiers* (AMF) in February 2004. The following information constitutes the implementation of these recommendations; it specifically includes the following items:

- a memo on the Group's first application of the IFRS accounting principles, in particular on the methods of application of IFRS 1 "first adoption of IFRS", and the presentation formats chosen for the balance sheet and income statement;
- a memo summarizing the impact of IFRS on the accounting principles followed by the Group;
- reconciliation tables under French standards and IFRS for the following statements:
 - shareholders' equity at January 1 and December 31, 2004;
 - balance sheets at January 1 and December 31, 2004;
 - income statement for the 2004 financial year;
- a memo of comments on the tables.

This information has been presented to the Audit Committee and the Board of Directors.

The data contained in this document has been established on the basis of the standards and interpretations in force when this document was prepared; in this respect, they are preliminary in nature; in effect, if these standards and interpretations were modified by current and future tests and samples, the calculated data that will be presented when the Group publishes its first statements under IFRS could differ from the data contained in this document.

1. FIRST APPLICATION OF IFRS PRINCIPLES

1.1 REFERENTIAL FRAMEWORK

The transition tables presented have been compiled in accordance with IAS/IFRS standards and SIC/IFRIC interpretations published in the Official Journal of the European Union up to March 9, 2005 (EC regulations 1725/2003, 707/2004, 2086/2004, 2236/2004, 2237/2004, 2238/2004 and 211/2005).

IAS 32 and IAS 39 have been applied by Christian Dior Group since January 1, 2004.

In addition, IFRIC interpretations 2 to 5, although not formally adopted by the European Union, have been applied since January 1, 2004.

1.2 APPLICATION OF IFRS 1 “FIRST ADOPTION OF IFRS”

IFRS 1 defines the methods for establishing the first balance sheet according to IFRS. The general principle is the retrospective application of all standards in force at December 31, 2005, with the impact of changes to the accounting principles being booked as retained earnings at the transition date of January 1, 2004.

However, application of IAS 39 to the accounting for cash flow hedging must be forward-looking; this results in the booking of the impact of the resulting changes to the relevant accounting principles in the revaluation reserve and not retained earnings.

Given the practical difficulties posed by a totally retrospective application, IFRS 1 provides for certain optional statements; the choices made by the Christian Dior Group in this respect are the following:

- consolidation of businesses: exemption from retrospective application of IFRS 3 has not been applied; the consequences of this are described in Note 2.1;
- valuation of tangible and intangible assets: the option to value these assets at fair value at the transition date has been applied only for one building;
- employee benefits: deferred actuarial differences under French standards at the transition date have been booked;
- conversion of the foreign subsidiaries' accounts: the conversion reserves relating to the consolidation of subsidiaries in foreign currencies were eliminated at January 1, 2004 and deducted from retained earnings;
- payment in shares: IFRS 2 on payments in shares has been applied by the Christian Dior Group to all its stock option schemes in existence at the transition date, including those established before November 7, 2002, the date prior to which application was optional.

1.3 IFRS PRESENTATION FORMAT FOR THE FINANCIAL STATEMENTS

1.3.1 *Presentation of the balance sheet*

According to French standards, the Christian Dior Group balance sheet presents assets and liabilities under two main headings, “current” and “non-current”.

“Current” includes assets and liabilities derived from the operating cycle, independently of their payment date, as well as other assets and liabilities due in less than one year at their date of entry on the balance sheet, except for cash, which is presented separately.

“Non-current” assets and liabilities include other assets and liabilities, i.e. assets and liabilities due in more than one year that are not derived from the operating cycle.

Subject to certain presentation reclassifications described in section 2.15, the application of IFRS does not therefore lead to a change in the structure of the balance sheet that was used for French standards.

1.3.2 Presentation of the income statement

According to French standards, the income statement for the Christian Dior Group is presented by function and not by type of expense; nevertheless, items on the income statement which, due to their type or frequency, cannot be considered as forming part of operating income or financial income, are classified under “other income and expenses”.

According to IFRS, income statement expenses have to be classified as operating income or financial income; thus, within operating income, other operational income and expenses must identify specific or non-recurring items in order to determine the level of "income from current operations".

Subject to the foregoing, the impact of which is described in section 4.9, the income statement according to IFRS remains similar to the statement presented by the Group under French standards.

2. IMPACT OF IFRS ON THE ACCOUNTING PRINCIPLES FOLLOWED BY THE CHRISTIAN DIOR GROUP

The purpose of the following notes is to specify the types of divergence that exist at the time of publication of this document under French standards and IFRS, as applied by the Christian Dior Group, and, when necessary, the methods of application of IFRS by the Group.

The numbers of these notes correspond to those shown in the reconciliation tables under the heading “Notes”.

2.1 RESTATEMENTS OF ACQUISITIONS SINCE 1988

Pursuant to the option opened by IFRS 1, the Christian Dior Group has retrospectively restated the acquisitions made since 1988, the date of the first LVMH consolidation.

This decision results in the retrospective application of IFRS 3 Business combinations, IAS 38 Intangible Assets and IAS 36 Depreciation of assets.

The application of IFRS 3 considers compliance with IFRS of the determination of the acquisition cost, the allocation of this cost to identifiable assets and liabilities, to restate this allocation accordingly, and to identify the effects of this restatement on the items remaining in the balance sheet of January 1, 2004 for this initial allocation. In this context, the brands remain unchanged; in effect, they were not considered to have a different value in the IFRS reference.

2.1.1 *Type of restatements*

The restatement of acquisitions made consists primarily in neutralizing the effect of certain provisions recognized under French standards in the allocation of the acquisition cost.

This mainly consists of provisions for restructuring the acquired company (“restructurings” in a broad sense, both corporate and commercial, including terminating agents’ contracts, closing stores, etc); as these restructurings are the buyer’s decision, they cannot be used in IFRS in the allocation of the acquisition cost.

2.1.2 *Treatment of goodwill*

The retrospective restatement of acquisitions since 1988 had the following consequences for the initial accounting and subsequent valuations of goodwill:

- the restatements made in the accounting of each of the acquisitions (allocation of the acquisition cost to acquired assets and liabilities, systematic recognition of deferred tax liabilities on intangible assets, etc.) find their contra primarily in the amount of the goodwill;
- This goodwill is not amortized under IFRS; they have been subjected to impairment tests and, if necessary the recurring amortization accounted for under French standards has been partially or totally replaced by a depreciation under IFRS.

The retrospective application of IFRS 3 had led, in certain cases, to recognition of badwill. This badwill was recognized in the net opening position, in accordance with IFRS 3, which does not allow it to be progressively booked to income.

2.2 BRANDS AND TRADE NAMES

2.2.1 *Deferred tax on brands and trade names*

Under French standards, the Christian Dior Group does not account for deferred tax on differences on first consolidation assigned to brands and trade names, pursuant to the exception of Regulation CRC 99-02; this exception concerns the brands and trade names that cannot be disposed of separately from the companies that hold them.

IAS 12 does not provide for this exception. Consequently, a deferred tax liability is calculated on the difference between the acquisition by Christian Dior Group of these brands and trade names and their value, often nil, in the accounts and tax position of the acquired company that owns the brand or trade name. ‘

The income tax rate used is that which would have been theoretically applied to the capital gain in the event of separate disposal of the brand or trade name, if this gain is not amortized. In the case of amortization, the normal rate is applied.

As explained in Note 2.1.2, the retrospective restatement of acquisitions led to booking a portion of these deferred assets as a contra entry:

- to goodwill for the portion belonging to the Group,
- to minority interests in shareholders’ equity for the portion of minority shareholders.

The impact of the change in the rate since the acquisition date has been charged against equity capital on the opening balance sheet.

2.2.2 *Amortization of brands and trade names*

Under French standards, brands are not amortized.

Under IFRS, pursuant to IAS 38, intangible assets with a specified life are amortized over their useful life, according to the straight-line method. Assets of indefinite life are not amortized but are subject to an annual impairment test.

The classification of a brand or trade name as an asset of indefinite life results from the following indicators in particular:

- the global positioning of the brand or trade name on its market in terms of volume of activity, international presence, and reputation;
- prospects for long-term profitability;
- the degree of exposure to circumstantial risks;
- a major event occurring in the activity sector that might affect the future of the brand or trade name;
- the age of the brand or trade name.

The amortization expense and any depreciation expense are included in operating income.

Upon first application of IFRS, amortization is calculated retroactively from the date of acquisition.

Until January 1, 2004, brands and trade names considered as amortizable under IFRS are principally the Fashion and Leather Goods brands (apart from Louis Vuitton), and Perfumes start-ups. As of January 1, 2004, the brands below continue to be amortized. The amortization periods in years are as follows:

Newton	30	Thomas Pink	20
Mountadam	30	Kenzo ⁽¹⁾	40
Fresh	15	Stefano Bi	40
Make Up for Ever	15	Omas	20
L'Eléphant	15	Samaritaine	20

(1) including Perfumes

2.3 GOODWILL

IFRS 3 introduced the following changes:

2.3.1 *Non-depreciable character*

By contrast with French standards, goodwill is not amortizable under IFRS, but is subject to an annual impairment test; where applicable, a goodwill depreciation expense is recognized in operating income.

2.3.2 *Restatements related to certain brands*

Pursuant to IAS 38, certain intangible items (trade names, distribution rights or licenses) included in goodwill under French standards are reclassified as intangible fixed assets under IFRS.

This restatement has two consequences:

- as goodwill only represents the Group share, the amount recorded in intangible fixed assets under IFRS is higher than that recorded in goodwill under French standards, the difference due to the share of minority interests in the reclassified items;
- the amount transferred to intangible fixed assets comes into the deferred tax asset base for brands and trade names.

2.3.3 *Goodwill in currencies*

Under French standards, until 1999, goodwill resulting from the consolidation or equity-accounting of foreign entities could be accounted for in euros at the exchange rate on the date of acquisition, or in the operational currency of the acquired entity.

Under IFRS, goodwill is always accounted for in the operational currency of the acquired entity.

In practice, the goodwill recorded prior to 1999 and determined in euros under French standards principally relates to DFS.

2.4 PURCHASING COMMITMENTS ON MINORITY INTERESTS

The minority shareholders of certain subsidiaries benefit from commitments to purchase their shares granted by the Christian Dior Group.

Under French standards, such commitments are shown as off-balance sheet commitments.

Pending the standard or the specific interpretation of the IASB on this issue, the Christian Dior Group has booked these commitments in the balance sheet according to the standards in force as follows:

- the commitment to purchase minority shares, for its amount at the closing date, appears in other non-current liabilities;
- the corresponding minority interests are reclassified in the above amount;
- the difference between the amount of the commitment and the reclassified minority interests is recorded in goodwill, with the amount varying in relation to the amount of the commitment.

This accounting method has no impact on the presentation of the minority interests in the statement of income. However, it calls for the following remark: some interpretations of these accounting principles result in accounting for goodwill as a deduction from shareholders' equity; under other interpretations, goodwill is maintained under assets but for a sum determined at the time of acquisition, with subsequent variations being recorded in results. .

2.5 REVALUATION OF REAL ESTATE AND FIXED ASSETS

IAS 16 authorizes the revaluation of a complete category of tangible assets at their market value. Subsequent changes in value, positive or negative, are recorded in shareholders' equity in the amount of their original historic value; below that value, i.e. if the market value becomes lower than the historic value, the change is recorded in results.

The Group has opted for the revaluation of its vineyards; the main impact concerns those located in the Champagne region.

Vine stocks, for champagne, cognac and other wines produced by the Group are biological assets as defined by IAS 41. As valuation at market value differs little from that recognized in historic value under French standards, no revaluation has been made.

Given the recent character of acquisitions of buildings and building constructions, in particular the acquisition of the La Samaritaine, Belle Jardinière, and Bon Marché buildings in Paris (France), and the construction of the "LVMH Tower" in New York (USA), no revaluation of these assets has been booked. Only the building owned by Christian Dior Couture that has belonged to the Group for a long time has been revalued pursuant to IFRS 1.

In addition, the application of IAS 16 has enabled the deduction of a residual value from the amortizable base, thus reducing the amortization expense under IFRS compared with its amount under French standards (see Note 2.14).

2.6 EXCHANGE AND INTEREST RATE HEDGING

As the financial instruments used by the Group are for hedging and not speculative purposes, the impact of the differences between French standards and IFRS mainly affects balance sheet valuations, and to a more limited extent the income statement, once the effectiveness of the hedges is verified in accounting terms.

2.6.1 Exchange rate hedging

Under French standards, exchange rate hedges in existence at the year-end are revalued on the basis of the exchange rate on that date. The impact of this revaluation is recorded in operating income for the year ended if the instruments concern receivables or debts in the period.

Under IFRS, foreign currency derivatives are revalued at their market value at the year-end. The booking of this revaluation differs according to the allocation of the derivative and according to whether the hedge produced by the derivative is deemed effective or ineffective.

Effectiveness of the hedge in accounting terms is verified by the ratio of variations in the value of the derivative and the underlying hedged item; this ratio should lie in a range between 80 and 125%.

If the derivative instrument is allocated to billing in foreign currencies for subsequent years, and is deemed to constitute an effective hedge in accounting terms, the impact of the revaluation is deferred and booked on the balance sheet against shareholders' equity, for its total amount, or where applicable, only for the portion that is deemed effective.

If the derivative instrument is allocated to operations for the year ended, or if the instrument is allocated to future operations but is not deemed effective in accounting terms, or if this effectiveness is only partial, the impact of the revaluation is booked in financial expenses for the period, in full or, where applicable, for the amount deemed to be ineffective.

If the derivative instrument is allocated to operations for the year ended, the impact of the revaluation is booked in operating income, for the amount of the effective portion.

Under French standards, the ineffective portion is booked in operating income, and is not treated separately from the portion deemed effective in accounting terms.

In addition, differences in value linked to the swap point for futures and the time value for option contracts, are systematically deemed as an ineffective portion under IFRS and classified in financial income; under French standards, only swap points are classified in financial income.

2.6.2 Financial debt and interest-rate hedging

Under French standards, financial debt is presented on the balance sheet at its nominal value; the associated financial instruments are recorded off the balance sheet, and their impact is booked in the income statement on a time-proportionate basis.

Under IFRS:

- financial debt that is not hedged is booked at the amortized cost calculated using the effective interest rate;
- if the fluctuation of the value of the debt is hedged as an interest-rate risk, the hedged financial debt and the associated hedging instruments are shown on the balance sheet at their market value at the year-end date; the impact of these revaluations is booked as financial income for the period;
- if the future interest rate is hedged, the financial debt for which flows are hedged continues to be booked at nominal value, with the fluctuation in value of the effective portion of the hedging instrument being recorded in shareholders' equity.

In the absence of a hedging relationship, or for the ineffective portion of hedges, fluctuations in value of the derivative instruments are recorded in financial income.

2.7 FINANCIAL INVESTMENTS

Under French standards, unconsolidated listed equity interests are valued at the year-end by reference to various indicators, including the stock market price.

Under IFRS, unconsolidated listed equity interests classified as financial investments are systematically valued by reference to the year-end stock market price: unrealized gains or losses in relation to the acquisition price are recorded in shareholders' equity until the date of disposal. However, where depreciation is deemed definitive, the corresponding amount is recorded on the income statement, and the net book value of the equity interest after depreciation replaces the acquisition price.

Non-listed equity interests are valued by reference to their useful value; the booking of fluctuations in this value is identical to that described in the previous paragraph for listed equity interests.

2.8 LVMH AND CHRISTIAN DIOR SHARES

Under French standards, LVMH and Christian Dior shares held by the Group, apart from shares considered as fixed assets, are recorded as balance sheet assets. The results of disposal and variations in provisions for depreciation are recorded on the income statement.

Under IFRS, treasury shares are always considered as unissued shares, and they are deducted from shareholders' equity under a specific heading; the results of disposal are also recorded in shareholders' equity.

In the absence of clarification and converging interpretations of the texts, there was no difference in the treatment of the Christian Dior and LVMH treasury shares. The holding of treasury shares by LVMH in consolidation results in an increase of Christian Dior's percentage in LVMH.

This classification, which has an impact on the calculation of earnings per share, is applied whether the shares are held for stock option plans or for a share buy-back program approved by the AMF.

2.9 SECURITIZATION OF CUSTOMER RECEIVABLES

Under French standards, customer receivables transferred to a third party under a securitization contract are reclassified as cash, in the amount for which the risk of non-recovery is definitively transferred to the third party.

Under IFRS, the conservation of a fraction of the risk of non-recovery does not allow this accounting form to be used, especially when the cost of claims would lead to reducing, in the future, the portion of risk transferable to the third party. Consequently, the reclassification of securitized receivables as cash is replaced by an increase in financial debt.

2.10 INVENTORIES: ASSIGNING MARKET VALUE TO THE GRAPE HARVEST

Under French standards, the grape harvest in stock is valued at production cost.

Under IAS 41, the grape harvest is valued at market value, as if the grapes in stock had been purchased. This means that in the year of the harvest, the grapes are recorded as a positive or negative item, resulting from the difference between the production price and the market price of the grapes.

At January 1, 2004, the impact of assigning a market value to the portion of grapes harvested prior to 2004 still held in stock at that date is a gain booked to retained earnings.

2.11 SOCIAL COMMITMENTS: ACCOUNTING FOR DEFERRED ACTUARIAL DIFFERENCES

In the context of accounting for pension commitments, both under French standards and IFRS, differences between actuarial estimates and actual data are not systematically recorded (the “corridor” method).

In the context of the opening IFRS balance sheet, all deferred actuarial differences on that date are recorded, thus increasing the provisions booked for these commitments by the amount in question offsetting a reduction in shareholders’ equity.

2.12 RECORDING OF NET SALES

Under French standards, the accounting of net sales is mainly related to legal considerations. IFRS focus on the substance of the operations. This results in a number of reclassifications although these have no significant impact on operating income.

- Some services billed to the Christian Dior Group by clients (listing rights, advertising services...) classified as commercial expenses under French standards, are accounted for under IFRS as discounts, and deducted from net sales.
- Billed items for which the Group is responsible only for collection on behalf of a third party (tax on alcohol), is not shown under IFRS, either in net sales or in cost of sales.
- Sales conducted by the Group on behalf of a third party (operations as an “agency”), for which the Group only retains the net margin or commission under French standards, are accounted for under IFRS as purchases, and as sales if the Group assumes the risks of ownership on the stock.
- Net sales realized by the Group under the trade names of Bon Marché and La Samaritaine include a share of the “franchised” business. Under these contracts, the department store provides services of a variable nature (e.g. rental of space, cash collection) but does not usually assume all the risks associated with ownership of the stock. Accounting for the operations as purchases and sales, established under French standards as if the department store assumed the risks of ownership on the stock, is thus replaced under IFRS by income from the provision of services; however, this accounting method is based on an interpretation of the accounting methods that is likely to change in the future.

2.13 STOCK OPTIONS

Under French standards, the cost of stock option plans which involve the purchase of existing shares is based on the difference between the price paid by the Christian Dior Group for the acquisition of the corresponding shares and the exercise price of the option by the beneficiary; stock option plans for new shares do not entail an accounting charge.

Under IFRS, the charge for stock option plans for existing shares is comprised of the anticipation of a gain for the beneficiaries of the plans, calculated according to the Black and Scholes methods, on the day the options were granted by the Board of Directors. This charge is spread across the acquisition period of the rights (3 or 4 years). As it is recorded against an increase in reserves, it has no effect on the total amount of shareholders’ equity, since the increase in reserves offsets the reduction in earnings.

2.14 OTHER BALANCE SHEET AND INCOME STATEMENT RESTATEMENTS

Other restatements are mainly associated with tangible and intangible fixed assets, excluding brands and trade names:

- IFRS prescribe the inclusion of residual values for the calculation basis for amortization. Amortization prior to January 1, 2004 on the value of the Bon Marché and Belle Jardinière buildings, and some La Samaritaine buildings have thus been eliminated. The recognition of residual values in calculating amortization will be maintained in future years for these same buildings, and for all the real estate held by Christian Dior Couture.
- Capitalization of the financial expense borne during the period of construction of buildings, admissible according to IAS 23, has not been retained. The net book value of expenses capitalized at December 31, 2003 under French standards has thus been eliminated, and offset against retained earnings.
- According to IAS 38, the portion of costs related to the development of new products is capitalized in intangible fixed assets and amortized over a period not exceeding 3 years; these costs are recorded directly as expenses under French standards.
- Under IFRS, long-term financial receivables with little or no remuneration must be updated to bring their book value in line with market value; this principally concerns the guarantee deposits paid to owners of stores leased by the Group. Under French standards, these receivables are recorded at nominal value.

2.15 RECLASSIFICATIONS ON THE BALANCE SHEET AND INCOME STATEMENT

2.15.1 *Reclassifications on the balance sheet*

Although the structure of the IFRS balance sheet retained by the Christian Dior Group is close to that presented under French standards, some reclassifications on the assets or liabilities sides of the balance sheet have nonetheless been rendered necessary by IFRS, as well as transfers between assets and liabilities. The main reclassifications and transfers are explained below:

- business assets, as defined by French trade regulations, and amounts paid to agents for retailing the Group's products entrusted to them (amounts classified as "distribution rights"), are classified under French standards as goodwill; under IFRS, business assets and distribution rights have, like trade names, been reclassified under intangible fixed assets;
- provisions for product returns, comprised of commitments to agents and distributors for the return of damaged, obsolete or surplus products, are classified under French standards as provisions for liabilities and charges; under IFRS, these provisions are classified as a deduction from customer accounts, since they involve the partial cancellation of sales recorded in the year;
- accrued interest not due on borrowings and financial debts are recorded under French standards as "other creditors", as the line "borrowings and other financial debts" only records the residual debt at nominal value. Under IFRS, accrued interest not due is reclassified in "borrowings and financial debts", as a constituent item of financial liabilities;
- under French standards, deferred tax is presented in "current assets and liabilities" where it is presumed it will be repaid in less than one year, and in "non-current assets and liabilities" where it will not; this is offset in the overall presentation on the balance sheet in order to distinguish between net balances of more and less than one year.

Under IFRS, deferred tax is systematically recorded on the balance sheet under non-current assets and liabilities; in addition, it is offset within each tax entity, in other words for each subsidiary or tax consolidation grouping, to the extent that this offsetting is legally possible and likely to be realized.

2.15.2 Reclassifications on the income statement

The main reclassification on the income statement involves “other income and expenses”.

Under French standards, other income and expenses are composed of items on the income statement which, due to their nature or frequency, cannot be considered as inherent to the Group's operational activity, the corresponding item thus being presented beneath operating income/expense.

Under IFRS, these items of a non-current nature are classified in a specific heading under operating income, which also includes significant non-recurrent items of an operational nature, as well as amortization and depreciation of brands and goodwill.

2.15.3 Reclassifications on the balance sheet and income statement

Some reclassifications are common to the balance sheet and income statement; these are mainly interests in companies accounted for by the equity method.

Under French standards, the goodwill resulting from equity-accounting for investments is presented by the Christian Dior Group on the balance sheet as “goodwill”, with the amortization charge classified on the income statement as “amortization of goodwill”.

According to IAS 28, this goodwill is classified on the balance sheet under “shares in equity-accounted companies”; any depreciation is accounted for on the income statement in “income/(loss) from equity-accounted companies”.

3. RECONCILIATION TABLES BETWEEN FRENCH STANDARDS AND IFRS FOR FINANCIAL STATEMENTS

SHAREHOLDERS' EQUITY AT JANUARY 1, 2004

(in millions of euros)	Total	Group	Minority interests
Shareholders' equity under French standards	12,579	3,879	8,700
Restatement of acquisitions prior to 2004	(1,515)	(688)	(827)
Commitments to purchase minority interests	(1,502)	(19)	(1,483)
Revaluation of the vineyards	275	101	174
Application of IAS 39 – Exchange and interest rate risks	170	74	96
Unrealized capital gains and losses on financial investments	61	27	34
Reclassification of treasury shares	(886)	(267)	(619)
Assigning market value to grape harvests	42	12	30
Inclusion of deferred actuarial differences	(31)	(12)	(19)
Other	23	78	(55)
Shareholders' equity under IFRS	9,216	3,185	6,031

SHAREHOLDERS' EQUITY AT DECEMBER 31, 2004

(in millions of euros)	Total	Group	Minority interests
Shareholders' equity under French standards	13,034	4,118	8,916
Restatement of acquisitions prior to 2004	(1,219)	(563)	(656)
Commitments to purchase minority interests	(1,545)	(7)	(1,538)
Revaluation of the vineyards	329	121	208
Application of IAS 39 – Exchange and interest rate risks	119	56	63
Unrealized capital gains and losses on financial investments	93	41	52
Reclassification of treasury shares	(1,029)	(322)	(707)
Assigning market value to grape harvest	59	17	42
Inclusion of deferred actuarial differences	(30)	(12)	(18)
Other	(27)	15	(42)
Shareholders' equity under IFRS	9,784	3,464	6,320

BALANCE SHEET AT 1 JANUARY 2004

	French standards	IFRS	Variance French standards/ IFRS prior to 2004	Restatement of acquisitions prior to 2004	Commitments to purchase minority shares	Revaluation of vineyards	IAS 39 – Exchange and interest rate risks	Cancellation of customer securitization	Financial investments	Reclassification of treasury stock	Mark to market of grape harvests	Recognition of deferred actuarial differences	Others	Reclassifications
(in millions of euros)														
Notes				2.1; 2.2; 2.5; 4.1	2.4; 4.2	2.5; 4.5	2.6; 4.4	2.9	2.7; 4.5	2.8; 4.6	2.10	2.11; 4.11	2.14; 4.11	2.15
ASSETS														
Brands and other intangible assets	8,705	10,581	1,876	1,875									(25)	26
Goodwill	3,195	4,208	1,013	(415)	1,590								59	(21)
Tangible assets	3,975	4,599	624	31		501							68	24
Equity interests	52	105	53	53									(11)	22
Other non-current assets	1,609	1,594	(215)	(215)			149		31	(404)	(4)	(2)	47	361
Deferred tax assets	3	488	485	44			3		27	(6)		13		
Total non-current assets	17,539	21,375	3,836	1,588	1,590	501	152		58	(410)	(4)	11	138	412
Inventories and work in progress	3,517	3,575	58	1							65		(11)	3
Trade receivables and related accounts	1,423	1,481	58	58			6	160					(8)	(100)
Other current assets	2,016	1,621	(395)				(13)		3	(549)			(6)	170
Deferred tax assets	452	—	(452)											(452)
Total current assets	7,408	6,677	(731)	1			(7)	160	3	(549)	65		(25)	(379)
Cash and cash equivalents	855	889	34											34
Total assets	25,802	28,941	3,139	1,589	1,590	501	145	160	61	(959)	61	11	113	67
LIABILITIES AND SHAREHOLDERS' EQUITY														
Capital	363	363	—											
Premiums	2,205	2,205	—											
Treasury shares	—	(520)	(520)							(520)				
Currency translation	(267)	—	267											267
Revaluation reserves	—	219	219			155	69		(7)				2	
Reserves	1,578	918	(660)	(688)	(19)	(54)	5		34	253	12	(12)	76	(267)
Shareholders' equity - group share	3,879	3,185	(694)	(688)	(19)	101	74		27	(267)	12	(12)	78	0
Minority interests	8,700	6,031	(2,669)	(827)	(1,483)	174	96		34	(619)	30	(19)	(55)	
Total equity capital	12,579	9,216	(3,363)	(1,515)	(1,502)	275	170		61	(886)	42	(31)	23	0
Long-term financial debt	4,465	4,884	419				39						12	368
Other long-term liabilities	1,156	4,086	2,950	(1)	2,892		17			(71)		42	44	27
Deferred tax liabilities	160	3,537	3,377	3,107		226	83			3	19		36	(97)
Long-term debt	5,761	12,507	6,746	3,106	2,892	226	139			(68)	19	42	92	298
Short-term financial debt	3,538	3,328	(10)				4	159					12	(185)
Trade accounts and related accounts	1,688	1,695	7				1						(12)	18
Income taxes	69	229	160										(1)	161
Other short-term liabilities	2,367	1,966	(401)	(2)			(169)	1		(5)			(1)	(225)
Short-term debt	7,462	7,218	(244)	(2)			(164)	160		(5)			(2)	(231)
Liabilities total	25,802	28,941	3,139	1,589	1,590	501	145	160	61	(959)	61	11	113	67

BALANCE SHEET AT 31 DECEMBER 2004

	French standards	IFRS	Variance French standards/IFRS	Restatement of acquisitions prior to 2004	Commitments to purchase minority shares	Revaluation of vineyards	IAS 39 – Exchange and interest rate risks	Cancellation of customer securitization	Financial investments	Reclassification of treasury shares	Mark to market of grape harvests	Recognition of deferred actuarial differences	Others	Reclassifications
(in millions of euros)				2.1; 2.2; 2.3; 4.1	2.4; 4.2	2.5; 4.3	2.6; 4.4	2.9	2.7; 4.5	2.8; 4.6	2.10	2.11; 4.11	2.14; 4.11	2.15
ASSETS														
Brands and other intangible assets	8,624	10,495	1,871	1,872	1,468	573								30
Goodwill	3,015	4,555	1,540	(107)	1,468									4
Tangible assets	4,103	4,798	695	35		573								66
Equity interests	117	117	—											21
Other non-current assets	1,257	1,583	146	40			216		83	(173)		(1)	(14)	35
Deferred tax assets	57	278	221				7		7	(5)	(6)	12	30	136
Total non-current assets	17,153	21,426	4,273	1,840	1,468	573	223		90	(178)	(6)	11	55	197
Inventories and work in progress	3,630	3,723	93								90		(6)	9
Trade receivables and related accounts	1,367	1,419	52				4	165					(22)	(95)
Other current assets	2,337	1,461	(876)				(21)		8	(914)			(13)	64
Deferred tax assets	339	—	(339)											(339)
Total current assets	7,673	6,603	(1,070)				(17)	165	8	(914)	90		(41)	(361)
Cash and cash equivalents	1,047	1,066	19											19
Total assets	25,873	29,095	3,222	1,840	1,468	573	206	165	98	(1,092)	84	11	14	(145)
LIABILITIES AND SHAREHOLDERS' EQUITY														
Capital	363	363	—											
Premiums	2,205	2,205	—											
Treasury shares	—	(601)	(601)							(601)				
Currency translation	(331)	(91)	240	(35)					6	(3)				5
Revaluation reserves	—	250	250			176	62		9					3
Reserves	1,417	790	(627)	(648)	(7)	(55)	6		34	263	12	(12)	47	(267)
Result for the period	464	548	84	120			(12)		(8)	19	5		(40)	
Shareholders' equity - group share	4,118	3,464	(654)	(563)	(7)	121	56		41	(322)	17	(12)	15	
Minority interests	8,916	6,520	(2,396)	(656)	(1,538)	208	63		52	(707)	42	(18)	(42)	
Total equity capital	13,034	9,784	(3,250)	(1,219)	(1,545)	329	119		93	(1,029)	59	(30)	(27)	
Long-term financial debt	5,035	5,092	57				131							11
Other long-term liabilities	1,069	4,132	3,063	(1)	3,013		34			(56)		41		31
Deferred tax liabilities	198	3,389	3,191	3,060		244	50		6	1	25		13	(208)
Long-term debt	6,302	12,613	6,311	3,059	3,013	244	215		6	(55)	25	41	55	(292)
Short-term financial debt	2,651	2,984	333				(66)	165						(16)
Trade accounts and related accounts	1,644	1,629	(15)				1							(16)
Income tax	95	203	110				(63)		(1)	(8)				(3)
Other liabilities	2,149	1,882	(267)				(128)	165	(1)	(8)			21	(216)
Short-term debt	6,537	6,698	161				(128)	165	(1)	(8)			(14)	147
Liabilities total	25,873	29,095	3,222	1,840	1,468	573	206	165	98	(1,092)	84	11	14	(145)

INCOME STATEMENT FOR FISCAL YEAR 2004

	French standards Published	Reclassification of net sales	Reclassification of other income and expenses	Amortization and depreciation of intangible assets	Stock options	Mark to market value of grape harvests	Impact of IAS 39	Treasury shares	Financial investments	Other restatements and reclassifications	IFRS
Notes		2.12; 4.8	1.3; 4.9	2.1; 2.2; 2.3; 4.1	2.13	2.10	2.6; 4.10	2.8; 4.6	2.7; 4.5	2.14; 2.15; 4.11	
Net Sales	13,201	(146)								5	13,060
Cost of goods sold	(4,708)	86	(7)	3		25	13			3	(4,585)
Administrative and sales and marketing expenses	(6,032)	53	(19)	(1)	(55)					(10)	(6,064)
Income from operations	2,461	(7)	(26)	2	(55)	25	13			(2)	2,411
Other incomes and expenses	–		(167)	(16)			(36)			15	(204)
Operating income	2,461	(7)	(193)	(14)	(55)	25	(23)			13	2,207
Net financial income	(217)	6	(1)	(9)			(24)		(4)	(14)	(265)
Other net income and expenses	(146)		166					11	(23)	(8)	–
Income tax	(563)					(8)			9	58	(488)
Income from equity companies	(15)										(15)
Goodwill amortization	(274)		28	246						–	–
Net income	1,246	(1)		223	(55)	17	(31)	11	(18)	49	1,441
Minority interests	(782)	1		(126)	30	(12)	19	(6)	10	(28)	(893)
Net income – group share	464	–	–	97	(25)	5	(12)	5	(8)	21	548

4. COMMENTS ON THE RECONCILIATION TABLES BETWEEN FRENCH STANDARDS AND IFRS FOR BALANCE SHEETS AND INCOME STATEMENT

4.1 BRANDS, TRADE NAMES AND GOODWILL

The changeover to IFRS has produced significant changes regarding the amount of intangible fixed assets and goodwill, in particular:

- the restatement under IFRS of acquisitions for the period 1988 to 2003 (IFRS 3);
- the obligation to recognize deferred tax on brands (IAS 12), recorded against goodwill for the portion reverting to the Group;
- the recording of purchasing commitments on minority interests against goodwill;
- lastly, but to a limited extent, amortization of brands and trade names.

The cessation of amortization of goodwill produces a significant impact on net income; on the balance sheet, the cessation of amortization has been recorded retrospectively, from acquisition, but usually replaced by depreciation of a similar amount.

- Analysis of the change in brands and trade names:

(in millions of euros)	Net book value at January 1, 2004
Brands and trade names under French standards	8,705
– transfer of goodwill, business assets and other to brands and trade names	2,144
– retroactive amortization of certain brands and trade names	(249)
– other, net	(19)
Brands and trade names under IFRS	10,581

Goodwill under French standards, transferred to brands and trade names under IFRS, corresponds to the trade names of DFS, Samaritaine and Sephora France.

Goodwill associated with other trade names acquired by Sephora Europe, in particular in France and Italy, has not been reclassified as these trade names were replaced by the name Sephora after acquisition.

N.B. As described in Note 2.3.2, the amount transferred to trade names under IFRS is higher than that deducted for goodwill under French standards; the difference is due to the share of minority interests in the value of the brands.

- Analysis of the change in goodwill

(in millions of euros)	Net book value at January 1, 2004
Goodwill under French standards	3,195
– transfers to brands and trade names	(1,543)
– impact of restatement of previous acquisitions	(239)
– offsetting deferred tax on brands, net of depreciation	1,261
– impact of commitment to purchase minority interests	1,390
– retrospective elimination of amortization, net of depreciation	113
– other, net	31
Écarts d'acquisition en IFRS	4,208

4.2 PURCHASING COMMITMENTS ON MINORITY INTERESTS

Under French standards, the commitment is recorded in off-balance sheet information.

Under IFRS, the commitment is recorded on the balance sheet against cancellation of minority interests and recognition of goodwill.

As the contra entry of a change in the commitment or in minority interests is found in the amount of goodwill, neither shareholders' equity – Group share or the results are affected by these changes; this is not the case for depreciation of the goodwill.

For 2004, contractual commitments and changes to them are recorded on the balance sheet in the following amounts:

(in millions of euros)	January 1, 2004	December 31, 2004
Contractual commitments	2,892	3,013
Reserves, Group share	(19)	(7)
Minority interests	(1,483)	(1,538)
Amount deducted from shareholders' equity	(1,502)	(1,545)
Goodwill	1,390	1,468

Contractual commitments principally involve the promise to purchase made by LVMH to Diageo, in connection with its 34% interest in Moët Hennessy.

4.3 REVALUATION OF THE VINEYARDS

According to the option offered by IAS 16, the vineyards are revalued at their market value. The difference between the historic cost and the market value is recorded in shareholders' equity, net of deferred tax, with no impact on the result.

The change in the revaluation reserve over fiscal 2004 breaks down as follows:

(in millions of euros)	January 1, 2004	Change in the revaluation reserve	December 31, 2004
Champagne Houses	463	74	537
Other vineyards	38	(2)	36
Deferred tax	(226)	(18)	(244)
Impact on shareholders' equity	275	54	329

4.4 IMPACT OF IAS 39 ON THE BALANCE SHEET AND ON NET FINANCIAL DEBT

4.4.1 *Impact on the balance sheet*

Under French standards, the balance sheet records financial debt at its nominal value, while derivative instruments comprising commercial exchange rate hedges on future transactions are revalued at the year-end price and the result of this revaluation is deferred. There is no impact on the total of shareholders' equity in either case.

Under IFRS, hedged financial debt is valued at market value, as are the associated hedging instruments; the amount of this revaluation is recorded in the results for the period.

Similarly, the effective portion of derivative instruments for commercial exchange rate hedges on future transactions is valued at market value, with their revaluation on the balance sheet being recorded against shareholders' equity.

At January 1, 2004, the transition date, this amount also includes the impact of updating to market value the derivative instruments that, under IFRS, are no longer qualified as hedging as they are under French standards.

These revaluations are recorded net of deferred tax.

The impact of these differences on shareholders' equity at the transition date can be summarized as follows:

(in millions of euros)	January 1, 2004
Currency derivatives	
– mark to market of the effective share of currency hedges	249
– classification differences	8
	<u>257</u>
Mark to market value:	
– of financial debt	(44)
– of related derivatives	36
	<u>249</u>
Deferred taxes	(79)
Impact on equity	<u>170</u>

4.4.2 Impact of net financial debt

Under French standards, net financial debt is comprised of short and long term financial debt at nominal value, after deduction of cash and cash equivalents.

Under IFRS, net financial debt is adjusted for the following:

- Valuation differences:

Under IFRS, hedged borrowings and financial debts are recorded at market value, not nominal value; consequently the associated hedging instruments are included in the calculation of net financial debt, at their market value.

- Differences in assessment basis:

Under French standards, accrued interest not due is presented as an expense to be paid; under IFRS, it is attached to the borrowings and debts in question, as part of their market value described above.

Also, securitization of customer receivables is reflected under French standards by cancellation of the amount of securitized receivables, subject to the guarantee deposit, offset against the increase in cash accounts; in the context of the existing securitization agreement, cancellation of the amount of secured receivables is replaced under IFRS by an increase in debt.

These items are summarized in the following table:

(in millions of euros)	January 1, 2004	December 31, 2004
Net financial debt under French standards	6,320	6,201
Valuation differences:		
– Mark to market value of debt	36	106
– Mark to market value of hedging instruments	(44)	(100)
Differences in assessment basis:		
– Transfer of interest accrued not due	114	74
– Cancellation of impacts of customer securitization	159	165
– Other, net	34	8
Net financial debt under IFRS	6,620	6,453

4.5 FINANCIAL INVESTMENTS

According to IAS 39, financial investments are valued at fair value. The difference between market value and historic cost, whether positive or negative, is directly recorded in shareholders' equity, net of deferred tax, with no impact on the results.

If the loss is deemed to be definitive, an allowance is made in the results for depreciation. Unlike the French standards, any subsequent increase in value of listed shares does not generate a write-back of the provision in the income results, but an increase in the revaluation reserve.

The resulting difference between French standards and IFRS for 2004, breaks down as follows:

(in millions of euros)	January 1, 2004	Difference	December 31, 2004
Revaluation of financial investments	34	58	92
Deferred tax	27	(26)	1
Impact on shareholders' equity	61	32	93
of which:			
Currency translation	–	6	6
Reserves – Group share	27	16	43
Income Results for the year – Group share	-	(8)	(8)
Minority interests	34	18	52
	61	32	93

4.6 LVMH AND CHRISTIAN DIOR SHARES

Under French standards, LVMH and Christian Dior shares are recorded in “non-current assets” and “current assets”, depending on whether they are earmarked as marketable securities or to stock option plans, and in the latter case, depending on the exercise period of the underlying options; where applicable, allowance is made for provisions for depreciation or liabilities and charges, based on the market value of the shares or the exercise price of the options.

Under IFRS, all these amounts are transferred as a deduction from shareholders’ equity:

- the gross value of the shares is carried forward as a dedicated item,
- provisions for depreciation or for liabilities and charges at January 1, 2004 are reclassified as retained earnings,
- changes in these provisions and the results of disposal in 2004 are eliminated in the results and transferred to retained earnings.

As a result, the following reclassifications have been made on the balance sheet and income statement:

(in millions of euros)	January 1, 2004	December 31, 2004
Other long-term assets	(404)	(173)
Other short-term assets	(549)	(915)
Deferred tax	(9)	(5)
Other non-current liabilities	71	56
Other current liabilities	5	8
Reclassifications as shareholders’ equity	(886)	(1 029)
Reserves – Group share	(267)	(321)
Minority interests	(619)	(707)
Impact on shareholders’ equity	(886)	(1,029)

4.7 DEFERRED TAX

The impact of IFRS on the balances of deferred taxes on the balance sheet fall into two groups:

- Reclassification of all asset totals – non-current liabilities,
- Extension of the assessment base, taking account of the restatements specific to IFRS that give rise to deferred tax.

(in millions of euros)	January 1, 2004	December 31, 2004
Deferred tax net, French standards	295	198
Deferred tax:		
– on brands	(3,063)	(3,019)
– on the revaluation of the vineyards	(226)	(244)
– on the revaluation of hedging instruments	(80)	(43)
– on other restatements, net	25	(3)
Deferred tax net, IFRS	(3,049)	(3,111)

4.8 NET SALES

IAS 18 mainly results in reclassifications, by addition or deduction, between net sales, the cost of sales and sales, marketing and administrative expenses as presented under French standards (see Note 2.12); the impact of these reclassifications on operating income is not material.

The amount of these reclassifications is detailed below:

(in millions of euros)	Result 2004
Net sales under French standards	13,201
• Sales and marketing expenses under French standards, to be restated under IFRS	(146)
• Net "concession" sales from department stores limited to services	(64)
• Elements of net sales collected for third parties	(28)
• "Agency" operations	76
• Other	21
Net sales under IFRS	13,060

4.9 OTHER INCOME AND OPERATING EXPENSES

Other income and operating expenses, which is a component of operating results under IFRS, is composed of the following:

- Other income and expenses recorded under French standards in operating results, except for items reclassified under IFRS in shareholders' equity or financial income;
- Other income and expenses of an operational nature, recorded under French standards in operating results.

The reconciliation between these two amounts for 2004 is detailed below:

(in millions of euros)	Result 2004
Other income and expenses under French standards	(146)
Amounts reclassified as equity capital:	
• for treasury shares	11
• for Bouygues shares	(21)
• Other	5
Amount transfers to other operating income and expenses	(151)
Reclassification in operating income of non-recurring income and expenses	(9)
Impact of intangible assets:	
• Reclassification of the depreciation of goodwill recorded under French standards	(28)
• Amortization of brands and other specific intangible assets under IFRS	(16)
Other operating income and expenses under IFRS	(204)

The reclassifications within operating income include the effects of the first application of IAS 39. The ineffective portion of the derivative instruments for commercial hedging assigned to future cash flow is recorded immediately under IFRS, whereas it is deferred under French standards. The amount shown in other income and expenses thus corresponds to the amount deferred at December 31, 2003 under French standards, which would have been included in financial income under IFRS if these standards had been applied in 2003.

4.10 FINANCIAL INCOME

Reconciliation between the amounts of financial income under French standards and IFRS is composed of the following:

- Impacts of the application of IAS 39 regarding exchange and interest rates

Regarding exchange: this is mainly concerned by the recording in financial income of items recorded under French standards in operating income, either as derivative instruments losing their hedging qualification under IFRS, or as the portion of these hedges deemed ineffective; under French standards this portion would have been recorded in operating income 2004 or deferred to future years, except for the carry-back/carry-forward on futures transactions, recorded in financial income.

Regarding rates: the differences mainly arise from assigning a market value in IFRS financial income for derivative instruments that were qualified as hedges under French standards, and for which the impact on the financial expenses was taken into account on a time proportionate basis over the term of the hedge.

- Impact of the application of IAS 39 on capital expenditure or financial investments

Under IFRS, financial income does not record changes in provision for depreciation of investments, if the loss in value is not definitive; moreover, IFRS financial income records fluctuations in the market value of investments, these changes were not systematically recognized in the results under French standards.

- Other impacts

These impacts are mainly associated with current value accounting for receivables and long-term debts, or reclassification of financial discounts akin to a discount on the sale price as a deduction from net sales.

All these impacts are summarized in the following table:

(in millions of euros)	Result 2004
Financial income under French standards	(217)
Effects of the application of IAS 39:	
• On currency hedges	(18)
• On rate hedges	(6)
• On financial investments and placements	(4)
	<u>(28)</u>
Other effects (discounting, etc.), net	(18)
Financial income (loss) under IFRS	<u>(263)</u>

4.11 OTHER RESTATEMENTS

The impact of the main restatements described in Notes 2.11 and 2.14 break down as follows:

(in millions of euros)	January 1 2004	Result	December 31, 2004
Social commitments: accounting of deferred actuarial variances	(31)	1	(30)
Charging of residual values for calculating amortization of intangible assets	7	5	12
Cancellation of interest on constructions	(8)	2	(6)
Capitalization of development costs	2	1	3
Discounting of long-term receivables and liabilities	(5)	(2)	(7)

In addition, the IFRS tax charge is less than that calculated under French standards; this difference comes from the reduction of the French tax rate in 2004, reducing deferred tax on brands assessed under IFRS.

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Member of Compagnie
Régionale de Paris

Statutory Auditor
Member of Compagnie
Régionale de Versailles

Special Report of the Auditors on the IFRS reconciliation statements for 2004

To the Shareholders,

Pursuant to the request made and in our capacity as auditors of Christian Dior, we audited the reconciliation statements showing the impact of the changeover to IFRS as adopted in the European Union on shareholders' equity and the consolidated results of the company, for the year ended December 31, 2004 (the "IFRS reconciliation tables"), as they are attached to this report.

The IFRS reconciliation tables have been prepared under the responsibility of the Board of Directors, as part of the passage to IFRS as adopted in the European Union for the establishment of the consolidated financial statements for 2005, based on the consolidated financial statements for the year ended December 31, 2004 prepared in accordance with French accounting rules and principles (the "consolidated statements"), which we audited in accordance with generally accepted practices in France. Our audit led us to express an opinion without reservation on said consolidated statements. It is our responsibility, on the basis of our audit, to express an opinion on the IFRS reconciliation tables.

We conducted our audit in accordance with generally accepted standards in France; those standards require that we plan and perform the audit to obtain reasonable assurance that the IFRS reconciliation tables are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the data contained in these tables. It also consists of assessing the accounting principles used and the significant estimates made to establish them and assess their overall presentation. We believe that our controls provide a reasonable basis for the opinion expressed below.

In our opinion, the IFRS reconciliation tables were prepared, in all significant aspects, in accordance with the rules described in the attached notes, which explain how IFRS 1 and the other international accounting standards adopted in the European Union were applied and indicates the standards, interpretations, accounting rules and methods which, according to management, should apply for the establishment of the consolidated financial statements for fiscal year 2005 under IFRS as adopted in the European Union.

Without calling into question the opinion expressed above, we draw your attention to the paragraph that introduces the section "Implementation of the IFRS" which explains the reasons why the IFRS reconciliation tables for 2004 presented in the consolidated statements for 2005 may differ from the IFRS reconciliation tables attached to this report.

Moreover, we remind you that, in order to prepare for the transition to IFRS as adopted in the European Union for the preparation of the consolidated statements for 2005, the IFRS reconciliation tables do not constitute consolidated statements established under IFRS as adopted by the European Union, which give, under these standards, a fair image of the holdings, financial position and earnings of the entity formed by the companies included in the consolidation.

Paris-La Défense, April 21, 2005

The Auditors

MAZARS & GUERARD
Denis Grison



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Christian Mouillon



Christian Dior

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