

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 July 26, 2012.

Its purpose is to give an account of the membership of the Board of Directors of the Company, 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.

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

The Company refers to the AFEP/MEDEF Code of Corporate Governance for Listed Companies, for guidance. 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. These documents are presented in the "Other Information - Governance" section of the Annual Report.

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 200 of its shares.

1.2. MEMBERSHIP AND MISSIONS

- The Board of Directors consists of eleven members: Mrs. Delphine Arnault, Mrs. Hélène Desmarais and Mrs. Ségolène Gallienne, as well as Messrs. Bernard Arnault, Denis Dalibot, Renaud Donnedieu de Vabres, Pierre Godé, Eric Guerlain, Christian de Labriffe, Jaime de Marichalar y Sáenz de Tejada and Sidney Toledano. Six of whom: Mrs. Hélène Desmarais, Mrs. Ségolène Gallienne and Messrs. Renaud Donnedieu de Vabres, Eric Guerlain, Christian de Labriffe and Jaime de Marichalar y Sáenz de Tejada are considered as independent and as holding no interests in the Company.

Personal information relating to the Directors is included in the section "Other information — Governance" of the Annual Report.

- During the fiscal year that began on January 1, 2012 and ended on April 30, 2012, the Board of Directors met four times as convened by its Chairman. The average attendance rate of Directors at these meetings was 75%.

The Board approved the consolidated and parent company financial statements for the year ended December 31, 2011 and reviewed the contribution of Christian Dior Couture shares held by Christian Dior SA to a company in which the latter is the sole shareholder; the change in the opening and closing balance sheet dates of the Company's fiscal year, the establishment of a bonus share plan, changes in the membership of the Board of Directors, compensation of company officers, the authorization for third-party guarantees, and the renewal of the authorization to issue bonds.

During its meeting of February 2, 2012, the Board of Directors carried out a formal analysis of its capacity to meet shareholders' expectations. It reviewed its composition, organization and modus operandi, using as a basis a questionnaire addressed to each Director prior to the meeting.

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 Board believes that:

- the Directors are satisfied with the membership of the Board in regard to the diversity and complementarity of the skills and experiences of its members;
- the Directors are also satisfied with the frequency of Board meetings and the quality of the information provided on such topics as strategic guidelines, current business activity, financial statements, budget and the three-year plan;
- the Directors consider that the Board is fulfilling its role with respect to its objectives of increasing the Company's value and protecting its interests;
- the Directors have no observations on the Board's Charter, the rules for allocating Directors' fees or the minimum number of shares that each Director must hold;
- this is also the case regarding the composition of the two committees and the quality of their work.

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.

The Board also approved continuing efforts to improve the gender balance of its membership and proposed to submit resolutions to the Shareholders' Meeting of April 5, 2012 to appoint Mrs. Delphine Arnault and Mrs. Hélène Desmarais as Directors, thus bringing the proportional representation of women on the Board to more than 20%.

The Board also amended the internal regulations for the Nominations and Compensation Committee with a view to specifying its role with respect to the compensation of the Group's executives.

- During its meeting of July 26, 2012, the Board of Directors reviewed the status of each Director, in particular with respect to the independence criteria set forth in the AFEF/MEDEF Code of Governance for Listed Companies, and noted that there had been no significant change in the status of any of the Company's Directors since February 2, 2012, the date of the previous Board of Directors' meeting having reviewed the status of each Director currently in office as well as that of each proposed appointee. In addition, on the recommendation of the Chief Executive Officer, the Board appointed Mr. Pierre Godé as Group Managing Director and determined his compensation.

1.3. EXECUTIVE MANAGEMENT

The Board of Directors decided to dissociate the roles of Chairman and Chief Executive Officer. It did not limit the powers vested in the Chief Executive Officer and the Group Managing Director.

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.

It currently consists of three members, all independent, appointed by the Board of Directors. The current members of the Performance Audit Committee are Messrs. Eric Guerlain (Chairman), Renaud Donnedieu de Vabres and Christian de Labriffe.

The Performance Audit Committee met once during the fiscal year that began on January 1, 2012 and ended on April 30, 2012, with all of its members in attendance.

This meeting was attended by the External Auditors, the Chief Financial Officer, the Company's Accounting Director and the Accounting Director of LVMH.

On the basis of presentations made by Christian Dior's Chief Financial Officer, the work of the Performance Audit Committee covered the following areas: the process for the preparation and publication of financial information; a review of the Group's operations; a detailed examination of the parent company and consolidated financial statements for the year ended December 31, 2011; and the Group's exposure to risk, risk management procedures and off balance sheet commitments. The Committee also verified the independence of External Auditors and monitored the legal audit of Christian Dior's parent company and consolidated financial statements, on the basis of presentations and summary reports by the External Auditors.

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 or member of the Executive Management of the Company or of Christian Dior Couture.

It currently consists of three members, all independent, appointed by the Board of Directors. The current members of the Nominations and Compensation Committee are Messrs. Eric Guerlain (Chairman), Christian de Labriffe and Mrs. Hélène Desmarais.

The Committee met twice during the fiscal year that began on January 1, 2012 and ended on April 30, 2012. The majority of the Committee's members were in attendance at both of these meetings, as one member was not able to attend. In particular, the Committee issued proposals on the variable compensation to be received by the Chief Executive Officer in respect of the 2011 fiscal year, on the fixed compensation and benefits in kind to be awarded in respect of the 2012 fiscal year by Christian Dior Couture to Mr. Sidney Toledano as its Chief Executive Officer, and on the allocation of performance shares to the Chairman of the Board of Directors, to the Chief Executive Officer, and to Mrs. Delphine Arnault, within the scope of her employment contract with Christian Dior Couture. It also issued an opinion on the appointments submitted for the approval of the Shareholders' Meeting of April 5, 2012 and made recommendations concerning the gender balance of the Board of Directors' membership.

It examined the recommendations made by the Nominations and Compensation Committee of LVMH in favor of the Directors of LVMH that are company officers at Christian Dior as well as the decisions of LVMH's Board of Directors. The committee also issued an opinion on the nominations of Directors to be put to a vote at the Shareholders' Meeting.

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

Lastly, the Committee requested more detailed information on compensation and incentive plans for the Group's senior executives.

Prior to the meeting of the Board of Directors held on July 26, 2012, the Committee issued an opinion on the appointment of Mr. Pierre Godé as Group Managing Director and made a proposal relating to his compensation package.

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.

There are currently no Advisory Board members.

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 Articles 17 to 23 of the Bylaws (see the "Other information — Governance" section of the Annual Report).

1.8. INFORMATION THAT COULD HAVE A BEARING 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" section of the Annual Report.

1.9. 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.

This amount is divided among the members of the Board of Directors, 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;
- (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 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.

A portion of Directors' fees to be paid to its members is 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 fiscal year that began on January 1, 2012 and ended on April 30, 2012, Christian Dior granted a total gross amount of 38,605 euros in Directors' fees to the members of its Board of Directors. For the calculation of these Directors' fees, the annual amount allocated by the Shareholders' Meeting was reduced on a pro rata basis.

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 executives and managers of the Company and its main subsidiaries or operational departments is based on the attainment of both financial and qualitative targets. For the Chief Executive Officer, quantitative and qualitative objectives 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 120% of the fixed portion for the Chief Executive Officer.

The breakdown of compensation and benefits awarded to the Chairman of the Board of Directors and the Chief Executive Officer is presented in the "Management report of the Board of Directors" included in the Annual Report.

A non-competition indemnity, authorized by the Board of Directors on February 8, 2008, pursuant to Article L. 225-42-1 of the French Commercial Code, is set forth in the employment contract – currently suspended – entered into by Mr. Sidney Toledano with Christian Dior Couture, under the terms of which, in the event of his departure, he would receive, over a period of twenty-four months, an indemnity equivalent to

the gross average monthly salary received over the previous twelve months.

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 share purchase options or the definitive allocation of performance shares.

Company officers are eligible for stock option or performance share plans instituted by the Company. The information relating to the allocation terms and conditions of these plans is presented in the "Management report of the Board of Directors" included in the Annual Report.

Certain senior executives of the Group, and where applicable also company officers are entitled to a supplementary pension provided that they liquidate any pensions acquired under external pension plans immediately upon terminating their duties in the Group. This is not required however if they leave the Group at the latter's request after the age of fifty-five and resume no other professional activity until their external pension plans are liquidated. 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. The increase in provisions for these supplemental retirement benefits as of April 30, 2012 is included in the amount shown for post-employment benefits under Note 30.3 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

The Christian Dior group uses an internal reference guide which is consistent with COSO principles (Committee of Sponsoring Organizations of the Treadway Commission) and which the *Autorité des Marchés Financiers* (French market regulator – AMF) has taken as the basis for its Reference Framework.

Under the impetus of the Board of Directors, the Performance Audit Committee and Executive Management, the purpose of the risk management and internal control procedures that are applied within the Group is to provide reasonable assurance that the following objectives will be achieved:

- 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 management bodies of Group companies reflect a fair view of these companies' activity and financial position.

One of the objectives of the risk management and internal

control procedures 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's risk management and internal control procedures take into consideration the Group's specific structure. Christian Dior is a holding company that controls two main assets: a 40.9% 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. This section of the Report of the Chairman of the Board of Directors deals first with procedures relating to LVMH, followed by those relating to Christian Dior Couture, and then those relating to the holding company, Christian Dior. As they have not changed since December 31, 2011, the risk management and internal control procedures implemented by LVMH and described below are identical to those presented in the "Report of the Chairman of the Board of Directors" included in LVMH's 2011 Reference Document.

2.1. LVMH

This section of the report draws upon the 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 the first internal control reference guide, LVMH has reviewed in 2010 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 Report of the Chairman of the Board of Directors.

2.1.1. 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 composed of companies of varying sizes owning prestigious brands, which are the parent companies of subsidiaries operating worldwide.

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

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

- the parent company, LVMH SA, is responsible for its own risk management and internal control systems, and acts 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 formally in place 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 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 of representation attesting to the implementation of risk management and internal control procedures are supplemented by the signing of annual letters of representation certifying the entity's financial reporting, 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 transactions comprised within LVMH group's financial consolidation.

In 2011, a new yearly cycle starting July 1 and ending on June 30 the following year was adopted for the internal control and risk management process, so that it would be aligned more effectively with the budgeting and strategic planning cycle. The representation letters on financial reporting of December 31 are maintained at that date and constitute a major step in the process as outlined above.

This change in the timing of the internal control and risk management cycle has been approved by our Statutory Auditors.

The internal control and risk management mechanism covers a total of 123 entities, guaranteeing a coverage of almost 80% of Group revenue. This total included both production and services companies, the regional holding companies as well as eight central financial functions: Finance and Treasury, Tax, Consolidation, Financial Statements Closing, Interest and Exchange Rate Monitoring, Information Systems, Financial Communication, and Insurance. Lastly, in line with European directives and the Order of December 2008, after an initial pilot process in 2009, in 2010 the Group initiated 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 since 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 in 2010 and widely applied in 2011 (see §2.1.2. below);
- the availability since April 2010 of an application that centralizes all risk and internal control data and provides a framework for a structured articulation of these two fields (see §2.1.2. below).

2.1.2. Main risk management principles

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, not solely to the financial realm, but also to the support of the longevity and excellence of our brands. It is a powerful management tool requiring the involvement of all Group

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 and the values of the brands;
- ensure that all employees embrace a shared vision of the main risks and challenges faced by our business activities.

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, 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 pursued a project launched in 2010 that seeks to create a formal framework for risk management and internal control called ERICA, which is discussed 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.).

Establishment of formal procedures for the ERICA system

After a first 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.

This project was deployed at all of the LVMH group's significant activities in 2011 using an intentionally pragmatic approach, whereby each business group and our regional holding companies in the USA and Japan selected four major risks among the 42 that LVMH has identified, with the objective of deploying action plans by June 30, 2012. The chairmen and chief financial officers of each business unit sent a letter to the LVMH group's Chief Financial Officer to formally present their commitment to reducing these four risks and their roadmap for addressing them by June 30, 2012.

By synthesizing these letters we have been able to focus our efforts more effectively and accelerate the exchange of best practices for the most frequently cited risks. This approach will also be applied to two additional risks as of July 2012.

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 the Group. 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.

This coordination between these two systems has been reflected in both:

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

2.1.3. General internal control principles

Definition and objectives

The LVMH 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 their subsidiaries and as specified in this reference guide, internal control implies a set of resources, behaviors, procedures and actions adapted to the individual characteristics of each Group company 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 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 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; as 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 LVMH group.

Limits of internal control

No matter how well designed and applied, the internal control system cannot provide an absolute guarantee that the LVMH 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.

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;
- a 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 place.

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 LVMH 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, in the Houses, 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, which 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", which is for the use of Group Human Resources.

Special attention was paid in 2011 to strengthening our business continuity plans (BCP). Round table meetings were held to (i) present what was learned from the Japanese Crisis of March 2011, (ii) explain and promote the use of LVMH's BCP Tool kit made generally available in 2008, and (iii) exchange best practices.

Risk management

The risk management system is described in §2.1.2. "Main risk management principles".

Control activities, procedures and documentation

Internal control practices and procedures are implemented by the companies' internal control managers under 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 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, delegations of authority, 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 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, so as to ensure consistent quality over time, regardless of the person implementing them.

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 of the Group's core entities (see below, "Continuous monitoring of the internal control system").

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.

Information and communication systems

The strategic plans in terms of information and communication systems are coordinated by the Information Systems 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 tool 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 and 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 that monitors the development of risks affecting information systems and implements adequate defenses depending on the likelihood of a given type of risk and its potential impact. A structured approach to identifying and monitoring IT security risks has been determined and an initial pilot test to deploy this process within a significant entity of the Selective Retailing business group is scheduled for the first quarter of 2012.

The Group and its internal control managers in the Houses ensure the implementation of 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, so as to ensure consistent quality over time, regardless of the person implementing them.

Continuous monitoring of the internal control system

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

Ongoing monitoring of the processes

Monitoring is organized by the operational departments 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 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 §2.1.1.);
- by LVMH Internal Audit and by 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 (*eaux-de-vie* and Vineyard Land for Wines and Spirits, End-of-Season Operations for Fashion and Leather Goods, Concessions for Duty-Free businesses).

In addition, at the level of the parent company LVMH SA and the Group, the eight key processes listed in §2.1.1. are analyzed to determine the related risks, action plans are subsequently defined and followed-up, so as to remediate any weaknesses.

The self-assessment approach applied at each of the 131 significant entities identified in 2011 was simplified this year. Until 2010 the scope of self-assessment was determined by each brand and included the following:

- 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.

With the implementation of the ERICA project, with effect from 2011 the scope of self-assessment was harmonized for all entities and now consists of a single list of the 83 key controls that Group Internal Control has identified.

Changes only affected the scope. The methodology is the same:

- a review of shortcomings and a follow-up by the entity's senior managers of the measures implemented to remediate 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, which has also been adopted by other CAC 40 companies;
- the signing of the letter of representation by the Management of each entity.

The letters of representation are consolidated and "cascaded", 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. 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.

2.1.4. 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 Group's business groups.

The Risk Management and Insurance Department

Apart from the operational managers, who are responsible for the risks inherent to their businesses, the Risk Management and Insurance 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 and Insurance 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, 2011, 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. As planned, in 2011 there was a particular focus on China, Latin America (Brazil and Mexico), and on employee remuneration systems.

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 each 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, quality of local management, etc.) 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 in 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 managers' 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 internal control team at the level of the LVMH group 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.

2.1.5. Risk management and internal control procedures related to financial and accounting information

Organization

Risk management and internal control procedures relating to 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 and Treasury, Tax and Financial Communication.

- **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 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 by entity.

- **Corporate Finance and Treasury** is responsible for applying the Group's financial policy, efficiently managing the balance sheet and financial debt, improving the financial structure and implementing a prudent policy for managing solvability, liquidity and counterparty risks. Within this department, International Treasury focuses particularly on Group cash pooling, and cash forecasts on the basis of quarterly updates prepared by the companies involved and responds to subsidiaries' liquidity and financing requirements. It is also responsible for applying a centralized foreign exchange risk management strategy.

The Markets department, which is also in this department, is delegated the responsibility of implementing the policy of hedging 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, combined with an independent control team reporting to the 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**, which 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.
- **The Financial Communication 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 perspectives 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, head of accounting, consolidation manager, 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.

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.

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.

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 prior year data, and to foster ongoing communication between companies and the Group - an essential feature of the financial internal control mechanism.

A team of controllers at LVMH 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 controls.

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 LVMH group, on the basis of the work that they performed during their review and audit assignments.

2.1.6. 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, since 2010 the LVMH group has been rolling out the ERICA project, and in line with its objective involved all significant entities in this approach in 2011.

2.2. CHRISTIAN DIOR COUTURE

Christian Dior Couture (hereafter the Company) creates, produces and distributes all of the brand's products internationally. It also engages in retail activities in the various markets through its 56 subsidiaries.

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

2.2.1. Definition of internal control and risks

The purpose of the internal control procedures that are applied, in line with the COSO framework, is to provide reasonable

assurance that the following objectives will be achieved:

- control over its activities and processes, the efficiency of its operations and the efficient use of its resources;
- the reliability of financial and accounting information;
- compliance with applicable laws and regulations.

This involves, therefore, ensuring that management-related 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.

It also involves ensuring 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.

Moreover, the Company has defined as an additional objective the protection of assets (with a particular emphasis on the brand).

The Company has launched a process for the formalization of risk management procedures in line with the AMF Reference Framework issued in 2010.

2.2.2. Limits of internal control

No matter how well designed and applied, the internal control system cannot provide an absolute guarantee that the Company'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.

2.2.3. Components of internal control and risk management

The internal control system is based on the definition and identification of the following components:

- a general control environment;
- a risk assessment system;
- appropriate controls;
- an information and communication system that enables responsibilities to be exercised efficiently and effectively.

The risk management system identifies and assesses the major risks likely to affect to a material extent the achievement of the operational and financial objectives, as well as the objectives relating to compliance with the laws and regulations in force.

Major risks are classified by category (strategic, operational, financial, legal and intangible) and key process.

An initial mapping of major risks was established in 2011 and is updated each year, in accordance with their intensity and the controls put in place. Controls devised for these risks are put in place in order to mitigate their impact, although their absolute elimination cannot be guaranteed.

The internal control system makes use of the mapping of risks to identify risks unable to be transferred (e.g., via insurance) that must therefore be managed in the course of the Group's operations.

The internal control system thus consists of procedures and controls designed to guarantee the continuity of business activities exposed to the identified risks.

In 2011, the Company put in place a mechanism for the signing of letters of representation attesting to the implementation of risk management and internal control procedures, for all of its main subsidiaries, thus supplementing the signing of annual letters certifying the entity's financial disclosures.

As an example of action plans within the Group, a business continuity plan (BCP) has been established for its logistics activities, while IT staff have completed the preparation of their disaster recovery plan (DRP).

2.2.4. Internal control stakeholders

- The Legal Department conducts upstream checks:
 - prior to the signing of any substantial agreement negotiated by the head office or subsidiaries,
 - on the length of time third-party designs and brands have been in existence.
- Executive Management and the Finance Department closely monitors management information so that it can intervene in the process of defining objectives then oversee their realization through:
 - three-year strategic plans,
 - the annual budget,
 - monthly reports on actual data compared with budget with in-depth and formalized analyses of any discrepancies.
- Executive Management and the Finance Department are also responsible for training all of the Group's financial personnel (internal or external administrative departments) in order to ensure the strict application of IFRS and Group rules;
- Christian Dior Couture's executives maintain a regular presence at subsidiaries and on their management bodies, in particular at Board level;
- Store Committees have been set up to formally authorize the signature of commercial leases and investments in the distribution network. They are made up of the Chairman, the Chief Executive Officer in charge of the network, the Chief Financial Officer, the Management Control Director, the Chief Legal Officer and the architects;
- Internal audit covers the following main areas:
 - points of sale: review of the main processes of store management (sales, pricing, cash flow, inventories, administration and security, personnel, external purchases, supplies),
 - country headquarters: review of main cycles (purchases of goods, external purchases and expense claims, human resources, inventories and logistics, information systems, investments, accounting and finance),
 - the accounts departments of countries responsible for producing subsidiaries' financial reports: audit of financial reports prepared by back offices and monitoring of the application of the Christian Dior Couture group's accounting principles.

On completion of audit assignments, reports containing recommendations are presented to the Chairman and to the management of the subsidiaries. An annual review verifies the implementation of recommendations made.

- Lastly, each subsidiary's executive management undertakes a commitment each year, by signing a letter of representation attesting to the subsidiary's implementation of risk management and internal control procedures. These letters, signed jointly by the chief executive officers and chief financial officers of each subsidiary or territory are analyzed, monitored and consolidated:

- at the regional management level,
- then by central management and the Group's Internal Audit function.

These letters of representation attesting to the implementation of risk management and internal control procedures are supplemented by the signing of annual letters of representation certifying the entity's financial reporting, 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 transactions comprised within the Christian Dior Couture group's financial consolidation.

2.2.5. Internal controls related to financial and accounting information

Organization

Internal controls of accounting and financial information are organized based on the cooperation and control of the following departments: Accounting and Consolidation, Management Control, Information Systems.

- **Accounting and Consolidation** is responsible for updating and distributing group-wide accounting standards and procedures. It oversees their application and establishes appropriate training programs. It is in charge of producing consolidated and individual company financial statements on a half-yearly and annual basis;
- **Management Control** is responsible for coordinating the budget process and its revisions during the year as well as the three-year strategic plan. It produces the monthly operating report and all reviews required by Executive Management; it also tracks capital expenditures and cash flow, as well as producing statistics and specific operational indicators;
- **Information Systems** disseminates the technical standards of the Christian Dior Couture group, which are indispensable given the decentralized structure of its equipment, applications, networks, etc., and identifies any potential synergies. It develops and maintains a telecommunications system in use across the entire Christian Dior Couture group. It coordinates policies for system and data security and the preparation of emergency contingency plans.

2.3. CHRISTIAN DIOR

2.3.1. The 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 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 at the Board meetings and Shareholders' Meetings of the subsidiaries,

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.

Management reports

Each year, all of the consolidated entities of the Christian Dior Couture group produce a three-year 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 prior year data, and to foster ongoing communication between subsidiaries and Christian Dior Couture headquarters – an essential feature of the financial internal control mechanism.

A team of controllers at the parent company, specialized by geographic region and product category, is in permanent contact with the subsidiaries, thus ensuring better knowledge of performance and management decisions as well as appropriate control.

2.2.6. Outlook

- Formalization of the internal control self-assessment process for the most significant entities;
- Cross-functional review tasks, with the objective of reinforcing the standardization of processes and controls applied at the headquarters and in the subsidiaries;
- Continuation of the three-year audit plan launched in 2011, with the aim of covering the majority of the Group's most significant subsidiaries by the end of this period: the plan can be modified in response to changes in the political or economic environment or internal strategic realignments;
- Continued migration of accounting applications within an ERP solution (SAP), which will facilitate the monitoring of cost commitments, while also making the period-end closing process more efficient, among other benefits.

- monitoring of dividends paid by the subsidiaries,
- control of the subsidiaries' financial performance,
- providing accurate financial information, in line with applicable laws, given its status as a listed company.

Given the limited number of tasks described above, and the fact that it belongs to 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.

Christian Dior

Report of the Chairman of the Board of Directors
Implementation of risk management and internal control procedures

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 capacity on behalf of Christian Dior Couture and LVMH.

2.3.2. Risk management

Risk management is based first and foremost on a regular review of the risks incurred by the Company so that internal control procedures can be adapted.

2.3.3. Control activities

Key elements in 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 the Company's organization:

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

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 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 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,
- monthly meetings to analyze performance.

2.3.4. Information and communication systems

The strategic plans in terms of information and communication systems of the parent company Christian Dior are coordinated by the Finance Department.

Aspects of internal control, such as the segregation of duties or access rights, are integrated when employing new information systems.

2.3.5. 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.

This report, based on the contribution of the above-mentioned internal control and risk management stakeholders, was conveyed in its draft form to the Performance Audit Committee for its opinion and approved by the Board of Directors at its meeting of July 26, 2012.

Statutory Auditors' report

PREPARED IN ACCORDANCE WITH ARTICLE L. 225-235 OF THE FRENCH COMMERCIAL CODE, ON THE REPORT PREPARED BY THE CHAIRMAN OF THE BOARD OF DIRECTORS OF CHRISTIAN DIOR

To the Shareholders,

In our capacity 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 on the report prepared by the Chairman of your Company in accordance with Article L. 225-37 of the French Commercial Code for the four-month fiscal year ended April 30, 2012.

It is the Chairman's responsibility to prepare and submit for the Board of Directors' 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 any matters as to the information contained in the Chairman's report in respect of the internal control and risk management procedures relating to the preparation and processing of the accounting and financial information,
- 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 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 and risk management 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 weaknesses 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 are properly disclosed in the Chairman's report.

On the basis of our work, we have no matters to report on the information relating to 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.

Courbevoie and Paris-La Défense, July 30, 2012

The Statutory Auditors

MAZARS

Simon Beillevaire

ERNST & YOUNG et Autres

Olivier Breillot

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.