

Report of the Chairman of the Board of Directors

Drawn up in accordance with the provisions of Article L. 225-37 of the French Commercial Code, this report was approved by the Board of Directors at its meeting on February 9, 2017.

Its purpose is notably 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 reliability and fair presentation 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.

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

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

The Charter of the Board of Directors and the internal rules governing the two committees are communicated to all candidates

for appointment as Directors and to all permanent representatives of a legal entity before assuming their duties. These documents are presented in full in the Other information – Governance section of the Annual Report. They are regularly amended to take into account changes in laws and regulations and good governance practices.

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 formal judicial inquiry, 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 and 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. CODE OF CORPORATE GOVERNANCE – IMPLEMENTATION OF RECOMMENDATIONS

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 website: www.afep.com.

The Company applies the recommendations of that code, subject,

- in the case of the assessment of Directors' independence, to criteria set in abstracto concerning length of service, as specified in §1.3 Membership and missions;
- for authorizations to issue options or bonus shares, to setting a cap on allocations to senior executive officers in the resolutions, as specified in §1.11 Compensation policy for company officers.

1.3. MEMBERSHIP AND MISSIONS

- At its meeting of February 9, 2017, the Board of Directors (i) examined the appointments of Bernard Arnault, Pierre Godé and Sidney Toledano, expiring at the end of the Shareholders' Meeting of April 13, 2017, and (ii) decided to submit at said Meeting a proposal to renew the appointments of Bernard Arnault and Sidney Toledano, as well as to appoint Maria Luisa Loro Piana as a Director. The appointment of Pierre Godé as an Advisory Board member was also proposed.

Directors are appointed for three-year terms, as stipulated in the Bylaws. To make the renewal of Directors' appointments as egalitarian as possible, and in any event to make them complete for each three-year period, the Board of Directors set up a system of rolling renewals that has been in place since 2010.

Since the Company meets the conditions laid down in the French Commercial Code making it eligible for the exemption applicable to holding companies, it is not subject to the requirement to appoint Directors representing employees.

- Subject to decisions made at the Shareholders' Meeting of April 13, 2017, the Board of Directors will thus consist of nine members: Delphine Arnault, Hélène Desmarais, Ségolène Gallienne, Maria Luisa Loro Piana, Bernard Arnault, Denis Dalibot, Renaud Donnedieu de Vabres, Christian de Labriffe and Sidney Toledano.

At the end of the Shareholders' Meeting of April 13, 2017, since each gender will be represented by at least 40% of Board members, the composition of the Board will comply with the provisions of the French Commercial Code relating to gender equality on boards of directors.

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

Bernard Arnault (Chairman of the Board of Directors) and Sidney Toledano (Chief Executive Officer) do not hold more than two directorships in non-Group listed companies, including foreign companies.

During its meeting of February 9, 2017, the Board of Directors reviewed the status of each Director currently in office as well as each proposed appointee, in particular with respect to the independence criteria set forth in the AFEP/MEDEF Code, and (i) noted that no changes had occurred in the situations of the Directors in office since October 13, 2016, when the last Board meeting reviewed the personal situation of each Director, and (ii) considered that:

- (i) Hélène Desmarais satisfies all criteria;
- (ii) Ségolène Gallienne should be considered an Independent Director notwithstanding her position on the Board of Directors of Château Cheval Blanc. In this case, the Board has departed from the criterion related to the business relations resulting from the joint and equal ownership of Château Cheval Blanc by the LVMH group and the Frère-Bourgeois group, of which she is a Director, considering that these relations are not material in view of the size of the two groups and are not likely to call into question her independence;
- (iii) Renaud Donnedieu de Vabres should be considered an Independent Director notwithstanding his membership on the Board of Directors of La Fondation d'Entreprise Louis Vuitton, a non-profit institution intended to pursue cultural public interest initiatives not falling within the scope of application of the AFEP/MEDEF Code, which only applies to offices held in companies. Furthermore, no compensation is paid to him under this appointment;
- (iv) Christian de Labriffe should be considered an Independent Director notwithstanding his membership on the Board of Directors of the Company for more than twelve years and his term of office on the Board of Directors of Christian Dior Couture SA, a subsidiary of Christian Dior, firstly because of his personal circumstances and secondly because no conflicts of interest seem likely to arise between Christian Dior SE and Christian Dior Couture SA, the latter's share capital being wholly controlled by the former and no compensation being paid to the interested party under his appointment at Christian Dior Couture.

In this instance, the Board has departed from the criteria set forth by the AFEP/MEDEF Code of Corporate Governance relating, on the one hand, to the number of years of service on

the Board and, on the other hand, to relations with the Company's management, considering that these are not likely to cloud the critical faculties or color the judgment of the Directors in question, given both their experience and status as well as their current personal and professional circumstances. Moreover, their in-depth knowledge of the Group is an invaluable asset during major strategic decision-making.

Subject to decisions made at the Shareholders' Meeting of April 13, 2017, four out of the nine Directors who make up the Board of Directors are thus considered to be independent and to hold no interests in the Company. With respect to the criteria set out in the AFEP/MEDEF Code, 44.4% of the members of the Board of Directors may be considered independent, thus exceeding the Code's recommendation for controlled companies that one-third of Board members be independent.

- During the fiscal year that started July 1, 2016 and ended December 31, 2016, the Board of Directors met three times, convened by its Chairman. Directors' attendance rate at these meetings averaged 81.48%.

The Board approved the annual consolidated and parent company financial statements as of 30 June, 2016; it also reviewed the Company's consolidated financial statements for the period from January 1 to June 30, 2016. The Board expressed its opinions on subjects including the establishment of bonus share and performance share plans and of a share repurchase program.

It renewed the authorizations granted to (i) the Chief Executive Officer to give sureties, collateral and guarantees to third parties and (ii) the Chairman and the Chief Executive Officer to issue bonds. It reviewed previously authorized regulated agreements that remained current during the 2015/2016 fiscal year.

It conducted a formal evaluation of its capacity to meet the expectations of shareholders using a questionnaire issued to each Director prior to the meeting. It reviewed its composition, organization and modus operandi.

The Board also examined the supplementary pension put in place by LVMH SE for Bernard Arnault, Chairman of the Board of Directors, and noted, as did the Board of Directors of LVMH SE, that given the defined-benefit pension plan set up by LVMH SE and the fact that Bernard Arnault's personal circumstances no longer entitled him to receive additional annual benefits, the requirement that the vesting of annual benefits under this plan be subordinated to the fulfillment of performance conditions did not apply.

- At its meeting on February 9, 2017, the Board of Directors reviewed its composition, organization and modus operandi. The Board concluded that its composition is balanced with regard to the proportion of External Directors, given the ownership of the Company's share capital, and with regard to the diversity and complementarity of its members' expertise and experience.

The Board noted that:

- overall, the Directors are satisfied with the frequency of Board meetings and the quality of the information provided on such topics as strategic guidelines, current business activity, the financial statements, the budget and the three-year plan,
- the attendance of the Directors, slightly down compared to the level observed during the 2015/2016 fiscal year, remains high for the six-month period ending December 31, 2016,
- the gender balance, presence of non-French nationals and Directors' areas of expertise ensure a wide range of approaches and views, as is essential to a global group,
- the Board is fulfilling its role with respect to its missions and objectives of increasing the Company's value and protecting its interests;

- overall, the Directors have no observations on the amount or 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.

It also amended (i) the internal rules of the Performance Audit Committee in order to bring its duties and responsibilities in line with new regulatory provisions and to amend the procedures for appointing the Committee's Chairman as well as the length of his/her term of office and (ii) the internal rules of the Nominations and Compensation Committee, expanding its remit to include appointing the Chairman of the Performance Audit Committee. The Committee also renewed the appointment of the Chairman of the Performance Audit Committee.

The Board of Directors also reviewed the Group's policy to protect against the impact of future economic and financial developments.

1.4. EXECUTIVE MANAGEMENT

Pursuant to regulatory provisions applicable to the holding of multiple appointments, the Board of Directors decided to dissociate the roles of Chairman of the Board of Directors and Chief Executive Officer. Bernard Arnault is Chairman of the Board of Directors and Sidney Toledano is Chief Executive Officer. It did not limit the powers vested in the Chief Executive Officer.

The balance of powers within the Board of Directors is ensured by (i) the provisions of the Charter of the Board of Directors and the rules governing the two Committees it has formed, which specify the missions of each of these bodies, and (ii) their composition. More than a third of the Directors on the Board are Independent Directors. In addition, two-thirds of the members of both the Performance Audit Committee and the Nominations and Compensation Committee are Independent Directors.

1.5. 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 Statutory Auditors. The Committee oversees the procedure for the selection of Statutory Auditors and ensures their independence.

It consists of three members appointed by the Board of Directors: Christian de Labriffe (Chairman), who served as Managing Partner at Lazard Frères & Cie and at Rothschild & Cie Banque; Renaud Donnedieu de Vabres; and Denis Dalibot, who notably served as Chief Financial Officer at Groupe Arnault. By virtue of their professional experience (see also the "Principal positions and offices of members of the Board of Directors" section of Other Information – Governance) and their familiarity with financial and accounting procedures applicable to corporate groups, Christian de Labriffe, Independent Director, and Denis Dalibot have the specific expertise necessary to fulfill their responsibilities.

Two-thirds of the Committee's members are Independent Directors, as recommended by the AFEP/MEDEF Code.

The Performance Audit Committee met three times during the fiscal year that began on July 1, 2016, and ended on December 31, 2016, twice with all of its members in attendance and once with two-thirds of its members in attendance.

The meetings to review the financial statements were held in sufficient time before the review of the financial statements by the Board of Directors. These meetings were also attended by the Statutory Auditors, the Chief Financial Officer, the Deputy Chief Financial Officer, the Company's Accounting Director, and the Deputy Chief Financial Officer 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 audit of the parent company and consolidated financial statements as of June 30, 2016; a review of the consolidated financial statements and reports on the Group's operations for the period from January 1 to June 30, 2016; an assessment of the Group's exposure to risk, risk management procedures and off-balance sheet commitments; and the Christian Dior share repurchase program. The Committee also verified the independence of the Statutory Auditors and monitored the statutory audit of Christian Dior's parent company

and consolidated financial statements, on the basis of presentations and summary reports by the Statutory Auditors; the Committee met several times with the Statutory Auditors without the members of the Group's Executive Management being present. In addition, the Performance Audit Committee took note of the impact of the audit reform on the Statutory Auditors' work, the contents of their reports, and the expanded role of the Performance Audit Committee, based on presentations by the Statutory Auditors and the Finance Department. In particular, it pre-approved the use of current non-audit services required by professional standards or business practices, as well as the limit applicable to such services. The Statutory Auditors also presented to the Audit Committee the additional report on the performance of their duties, pursuant to the audit reform and concerning, for the first time, the fiscal year from July 1, 2016 to December 31, 2016. This report sets out, in particular, the approach adopted in auditing the parent company and consolidated financial statements, key stages and materiality thresholds.

Furthermore, the Performance Audit Committee held a meeting specifically dedicated to monitoring the effectiveness of internal control and risk management systems and internal audit within Christian Dior Couture, which was notably attended by the Chief Financial Officer and the Internal Audit Manager of this company.

As part of the review of the parent company and consolidated financial statements, the Statutory Auditors gave a presentation covering, in particular, internal control, major events, and the main audit issues identified and accounting treatments adopted.

It was given the Statutory Auditors' independence declaration as well as the amount of the fees paid to the Statutory Auditors' network by companies controlled by the Company or the entity that controls it, in respect of services not directly related to the Statutory Auditors' engagement, and was informed of the services provided in respect of work directly related to the Statutory Auditors' engagement.

1.6. NOMINATIONS AND COMPENSATION COMMITTEE

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

- proposals on compensation, benefits in kind, bonus share awards 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 apportionment 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 SA.

It consists of three members appointed by the Board of Directors: Hélène Desmarais (Chairman), Denis Dalibot and Christian de Labriffe.

Two-thirds of the Committee's members are Independent Directors, a proportion that complies with the recommendation of the AFEP/MEDEF Code, which recommends a majority of independent members.

The Committee met twice during the fiscal year that began on July 1, 2016 and ended on December 31, 2016, with all of its members in attendance. In particular, it (i) issued proposals on the allocation of performance shares to the Chairman of the Board of Directors and the Chief Executive Officer and the requirement to retain possession of a portion of their shares which may have vested, and (ii) gave its opinion on performance shares to be granted by the Company to a Director.

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. It also offered an opinion on the renewal of the terms of office of Directors ending at the close of the Shareholders' Meeting of December 6, 2016.

Prior to the Board meeting of February 9, 2017, the Committee:

- reviewed the compensation policy for senior executive officers and decided that no changes were necessary. It also reviewed the fixed compensation paid to executive company officers; the Chairman of the Board of Directors, the Chief Executive Officer do not receive any fixed compensation for their appointments at Christian Dior. It examined the criteria established for determining the amount of variable compensation to be allocated by Christian Dior Couture SA to Sidney Toledano in his capacity as Chairman and Chief Executive Officer of the company and issued recommendations, particularly on his variable compensation for 2016, as well as on his fixed compensation for 2017 in his capacity as Chairman and Chief Executive Officer of Christian Dior Couture SA;
- reviewed all the terms of office due to expire and expressed a favorable opinion on the renewal of the Director's appointments of Bernard Arnault and Sidney Toledano; the appointment of Pierre Godé as an Advisory Board member; the candidacy of Maria Luisa Loro Piana as a Director, to be put to a vote at the Shareholders' Meeting of April 13, 2017; and the renewal of the appointments of the Chairman of the Board of Directors and the Chief Executive Officer. In addition, it issued an opinion on the renewal of the appointment of the Chairman of the Performance Audit Committee, subject to the Board of Directors' adoption of the change in this position's term of office.

1.7. VICE-CHAIRMAN OF THE BOARD OF DIRECTORS

The Vice-Chairman is responsible for chairing the meetings of the Board of Directors or the Shareholders' Meeting in the absence of the Chairman of the Board of Directors. Sidney Toledano has been Vice-Chairman of the Board of Directors since December 1, 2015.

1.8. ADVISORY BOARD

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

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

Subject to decisions made at the Shareholders' Meeting of April 13, 2017, the Advisory Board will consist of two members: Pierre Godé and Jaime de Marichalar y Sáenz de Tejada.

1.9. 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).

1.10. 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 – Christian Dior parent company.

1.11. COMPENSATION POLICY FOR COMPANY OFFICERS

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

The shareholders vote at a Shareholders' Meeting to set the total amount of directors' fees allocated to the members of the Board of Directors.

This total, annual amount has been set at 147,715 euros since the Shareholders' Meeting of May 15, 2008. It is divided among the members of the Board of Directors and members of the Advisory Board, in accordance with the rule defined by the Board of Directors, based on the proposal of the Directors' Nominations and Compensation Committee, namely:

- (i) two units for each Director or member of the Advisory Board;
- (ii) one additional unit for serving as a Committee member;
- (iii) two additional units for serving as both a Committee member and a Committee Chairman;
- (iv) two additional units for serving as 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 of directors' fees to be distributed by the total number of units to be distributed.

A portion of the 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 Committee meetings the Director in question does not attend.

In respect of the fiscal year that began July 1, 2016 and ended December 31, 2016, Christian Dior granted a total gross amount of 67,566 euros in directors' fees to the members of its Board of Directors.

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

Other compensation

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

Compensation and benefits awarded to senior executive 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 the Company's senior executive officers and those of 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 as compared to the budget, with each of these items representing one-third of the total determination. The qualitative criteria have been precisely established but are not made public for reasons of confidentiality. The variable portion is capped at 150% of the fixed portion for the Chief Executive Officer. Moreover, certain senior executive officers may benefit from medium-term incentive plans based on achieving objectives relating to profit from recurring operations.

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 – Christian Dior parent company.

A non-competition payment, 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 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, compensation equivalent to the gross average monthly salary received over the previous twelve months. Sidney Toledano's employment contract is currently suspended but has been maintained, due to its longstanding nature (1994) and his personal circumstances; in 2002, while maintaining his operational responsibilities at the head of Christian Dior Couture, Sidney Toledano was appointed Chief Executive Officer of Christian Dior SE, but did not sign an employment contract with the latter company.

Notwithstanding this clause, no other senior executive officers of the Company benefit from provisions granting them specific compensation upon leaving the Company or exemption from rules governing the exercise of share purchase options or the vesting 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 – Christian Dior parent company. In the resolutions submitted to a vote by the shareholders, the Board of Directors decided not to include a cap on the allocation of options or bonus performance shares to senior executive officers, considering that the Nominations and Compensation Committee – which is mainly composed of Independent Directors and is tasked with making proposals on

the granting of options or bonus performance shares to senior executives – ensures an adequate degree of control over the allocation policy. The bonus performance shares allocated to senior executive officers in 2016 represent 32% of total allocations. This percentage is below the ceiling of 40% of the total allocation of bonus shares granted under these plans, which is the ceiling recommended by the Nominations and Compensation Committee. This percentage reflects the lack of regular compensation, fixed or variable, for the Chairman of the Board of Directors and the Chief Executive Officer of the Company and the small number of plan recipients, given that the LVMH group has its own plan.

In relation to options granted under plans set up since 2007 and bonus performance shares granted under plans set up since 2010, if the Chairman of the Board of Directors or the Chief Executive Officer decide to exercise their options or if their shares vest, they are required to retain possession, in pure registered form and until the conclusion of their respective terms in office, of a number of shares under the terms and conditions defined by the plans and detailed in the Management report of the Board of Directors – Christian Dior parent company.

Furthermore, the Charter of the Board of Directors forbids senior executive officers from using hedging transactions on their share purchase or subscription options or their performance shares until the end of the holding period set by the Board.

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 supplementary pension payment corresponds to a specific percentage of the recipient's salary, to which a ceiling is applied on the basis of the reference salary determined by the French social security system. On the basis of compensation paid to senior executive officers in 2016, the supplementary pension benefit payable to them would not exceed 45% of the amount of their last annual compensation, in accordance with the recommendations set out in the AFEF/MEDEF Code. The increase in provisions for these supplementary retirement benefits as of December 31, 2016 is included in the amount shown for post-employment benefits under Note 33.4 to the consolidated financial statements.

Exceptional compensation may be awarded to certain Directors with respect to any specific mission with which they have been entrusted. The amount shall be determined by the Board of Directors and reported to the Company's Statutory 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 indirectly controls two main assets: a 41% equity stake in LVMH, and a 100% equity stake in Christian Dior Couture. LVMH is a listed company, whose Chairman is also Chairman of the Board of Directors of Christian Dior, with several Directors serving at both companies; Christian Dior Couture has a Board of Directors whose members also serve on the Board of Directors of Christian Dior. This section of the Report of the Chairman of the Board of Directors deals first with procedures relating to LVMH – as presented in the Report of the Chairman of the Board of Directors included in LVMH's 2016 Reference Document – followed by those relating to Christian Dior Couture, and then those relating to the holding company, Christian Dior.

2.1. LVMH

2.1.1. Definitions and objectives of risk management and internal control

Framework

This section of the report and plan draw 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.

With more specific regard to internal control, the LVMH group uses an internal reference guide that is consistent with COSO principles, in its new version (2013).

Definitions and objectives of risk management

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. The LVMH group has defined "major" risks as risks with the potential to jeopardize the continuity of operations, the attainment of its strategic objectives or its reputation.

The objectives of risk management are to:

- protect the value, assets and reputation of the Group and, in particular, its brands;
- enhance the security of decision-making and operational processes, by providing a comprehensive, objective and shared view of the Group's potential threats and opportunities;

- ensure that all employees embrace a shared view of the principal risks and challenges surrounding the Group's business activities.

Definitions and objectives of internal control

Internal control refers to a set of control procedures and actions that apply to the specific characteristics of each LVMH group company and which:

- contribute to the management and effectiveness of the Group's operations and the efficient use of its resources;
- must take appropriate account of material operational, financial and legal risks.

Internal control aims to provide reasonable assurance with respect to the achievement of the following objectives:

- compliance with applicable laws and regulations;
- implementation of instructions and guidelines laid down by the Group's Executive Management and the management of operational units (Group companies or brands and their subsidiaries);
- the proper functioning of internal processes, especially those relating to the protection of assets and brand value;
- the reliability and integrity of financial and operational information.

Limits

No matter how well designed and applied, the risk management and internal control system can only provide reasonable (not absolute) assurance that the Group's overall risks and objectives are properly managed. Internal control is subject to inherent limitations as a result of uncertainties in the international environment, the judgment required to choose between costs and opportunities, and potential problems caused by human error or failure.

The structure of the LVMH group, consisting of a large number of subsidiaries of varying sizes, is a particular risk factor.

2.1.2. Organization and stakeholders of the risk management and internal control systems

Organization of the system

LVMH comprises five main business groups: Wines and Spirits, Fashion and Leather Goods, Perfumes and Cosmetics, Watches and Jewelry, and Selective Retailing. Other activities mainly consist of the media business unit, luxury yacht building and marketing, hotel and real estate activities, and holding companies. The business groups are composed of companies of varying sizes owning prestigious brands, established on every continent. The autonomy of the brands, decentralization and the responsibilities of senior executives are among the fundamental principles underlying the Group's organization.

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

- the holding companies – including the parent company LVMH SE – are responsible for their own risk management and internal control system. LVMH SE also acts as leader and coordinator on behalf of all LVMH group companies; it makes available to them the single reference guide and methodology to be applied as well as a computer platform that centralizes all risk and internal control data (see below);
- the President of each Group company is responsible for risk management and internal control at all subsidiaries that contribute to brand development worldwide; each subsidiary's President is similarly responsible for that subsidiary's own operations.

Elements of the overall compliance framework

The LVMH group's ethical values

The LVMH group has always expressed its commitment to integrity and ethical behavior in its relationships with customers, suppliers, employees and other business partners; it demands 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 governance principles are set out in the LVMH Code of Conduct, the Supplier Code of Conduct and the LVMH Environmental Charter, all of which are available

from the corporate website, www.lvmh.com. These charters and codes serve as a common foundation and a source of inspiration for all of the Group's brands. The Group oversees the proper application of these principles at Group companies and the implementation of their own codes of conduct, supplier charters, procedures for declaring conflicts of interest, and delegation matrices that outline the responsibilities and powers of each employee.

At the initiative of the Chairman and Executive Management, a working group, bringing together the relevant departments of the holding company, was formed in 2016. The aim of this working group is to anticipate future legal and regulatory developments and to establish ever more stringent ethical and governance standards for the LVMH group. The working group's leaders will in future play a central role in the definition, rollout, adoption, supervision and control of systems designed to ensure that all LVMH group activities are standards-compliant.

Skills and talent management

Skills management is a significant aspect of internal control. LVMH devotes special care to matching employee profiles and responsibilities, formalizing annual performance reviews, developing skills through continuing training, and promoting internal mobility.

Fraud prevention

Over the past few years, fraud risk has undergone dramatically transformed, with an upsurge in fraud through identity theft and an increase in attacks using social engineering to attempt to gain access and steal data. The LVMH group and its companies have stepped up their vigilance, adapting their internal procedures, awareness campaigns and training programs to the changing scenarios encountered or that might reasonably be predicted.

Given the large number of controls intended to prevent and detect this risk, the internal control framework is the backbone of the Group's fraud prevention mechanism.

Another essential component of this system is the obligation for each entity to report any instances of actual or attempted fraud to the Audit and Internal Control Director: as well as supervising actions and decisions in response to each reported case, the Director endeavors to draw lessons from incidents so as to relay them, once anonymized, to the chief financial officers of all Group companies.

The Audit and Internal Control Department has therefore introduced a program to raise awareness of the risk of fraud through periodic communiqués identifying scenarios of actual and attempted fraud within the Group. For each scenario a prevention plan is presented. Group companies and subsidiaries must check that appropriate measures are in place to prevent such scenarios. These communiqués are disseminated widely within the Group to ensure ongoing awareness among those staff most exposed to this risk.

Internal standards and procedures

Through its Finance Intranet, the Group provides access to all rules and procedures concerning accounting and financial information and applicable to all subsidiaries: notably procedures applying to accounting policies and standards,

consolidation, taxation, investments, reporting (budget and strategic plan), cash management and financing (cash pooling, foreign exchange and interest rate hedging, etc.); these procedures also specify the format, content and frequency of financial reporting.

The Finance Intranet is also used for the dissemination of internal control principles and best practices:

- a concise guide, “Internal Control Essentials”, which sets out the foundations of the general environment and the salient features of key processes: Sales, Retail Sales, Purchases, Inventory, Financial Statements Closing and Information Systems (general IT controls);
- the LVMH internal control reference guide, which covers 12 key business processes: Sales, Retail Sales, Purchases, Licenses, Travel and Movements, Inventory, Production, Cash Management, Fixed Assets, Human Resources, Information Systems and Financial Statements Closing. Special processes have been developed to reflect the specific characteristics 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). This reference guide details the expected key controls for each risk;
- best practice and tools relating to issues that the Group considers important: fraud, conflicts of interest, delegations of authority, business continuity planning, IT disaster recovery planning, IT security policies and guidelines, segregation of duties, control of media spend, and in-store best practices.

The “Major Risks” section of the Finance Intranet brings together procedures and tools for assessing, preventing and protecting against such risks. Best practices for the operational risk families selected are also available on the site. These materials may be accessed by all personnel involved in the application of the Group’s risk management.

In addition, on the LVMH Voices website, the Group’s Legal Affairs Department provides an overview of legislation in place within the Group’s principal markets, relating both to the prevention of money laundering and to limitations applicable to cash payments, as well as US, European and Swiss regulations on embargoes and economic sanctions. These summaries are consistent with the procedure established by the Group’s Executive Management requiring advance disclosure and approval by the Group of any transaction involving any of the countries covered by these regulations.

Information and communication systems

Strategic plans related to the LVMH group’s information and communication systems are coordinated by the Information Systems Department, which ensures the standardization of the solutions implemented as well as business continuity. Aspects of internal control (segregation of duties, access rights, etc.) are integrated when implementing new information systems and then regularly reviewed.

Information and telecommunications systems and their associated risks (physical, technical, internal and external security, etc.) are covered by special procedures: a methodology toolkit called “Business Continuity Plan” has been disseminated within the

LVMH group to define, for each significant entity, the broad outline of a business continuity plan as well as a Disaster Recovery Plan. A Business Continuity Plan and a Disaster Recovery Plan have been developed and tested at the level of the French holding companies.

All significant entities have appointed a Chief Information & Security Officer (CISO). The activities of the CISOs are coordinated by the Group CISO; together they constitute a vigilance network to monitor the development of risks affecting information systems, and implement adequate defenses depending on the likelihood of a given type of risk and its potential impact.

An overall approach of intrusion testing has also been applied to evaluate internal and external threats as well as third-party risk. Action plans are followed by the Group Information Systems Department.

In April 2015, LVMH set up an operations center to monitor and assess information systems security on behalf of all Group companies.

System stakeholders

Stakeholders are presented according to the three-lines-of-defense model, with the control and supervision of systems provided by governing bodies.

Group governing bodies

The Performance Audit Committee monitors the effectiveness of internal control and risk management. It examines the results of the Internal Audit work and approves Internal Audit program strategy with respect to geographic, business and risk coverage.

The Board of Directors contributes to the general control environment through the expertise and responsibility of its members and the clarity and transparency of its decisions. The Board is kept informed on a regular basis of the maturity of the internal control system, and oversees the effective management of major risks, which are disclosed in its Management Report.

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 Ethics and Sustainable Development Committee, established in 2016, ensures that the LVMH group’s practices reflect the highest standards of integrity, corporate social and environmental responsibility, and respect for the Group’s business partners.

The Executive Committee, which consists of the Group’s operational and functional executives, lays down strategic objectives within the framework of the direction set by the Board of Directors, coordinates their implementation, ensures that the organization adapts to changes in the business environment, defines executives’ responsibilities and delegated authority, and ensures that the latter are properly applied.

First line of defense

All Group employees help to support and enrich the internal control system.

Operational management: a key aspect of the internal control system applied to business processes is the appropriation of internal control within each entity by the operational managers; each day they implement suitable controls on the processes they are responsible for and pass on appropriate information to the second line of defense.

The Management Committees of Group companies and subsidiaries are responsible for implementing and ensuring the smooth running of internal control systems across all operations within their scope. The Management Committees of the Group companies are also in charge of the system for managing major risks; they review the risk mapping each year, assess the level of control and the progress of risk coverage strategies and the associated action plans.

Second line of defense

The **Group's Legal Affairs Department** is responsible for the LVMH group's legal strategy and for managing all legal and judicial issues faced by Group companies. It supports the Group's development by conducting negotiations relating to acquisitions, disposals and partnerships. It ensures compliance with applicable regulations, particularly in the areas of corporate law, securities law and competition law. It determines the LVMH group's legal strategy in major disputes in which Group companies become involved. Lastly, through its Intellectual Property team, it helps protect trademarks and patents, which are among the Group's key assets.

The role of the **Corporate Affairs Department** is to protect and promote the business model of the Group and its companies as well as to seize, as far as possible, any opportunities that may arise from discussions of or changes in policies and regulatory frameworks. To this end, the department analyzes relevant policies and legislation, considers the strategic issues at stake, coordinates actions in support of the Group's external positioning, and participates, in conjunction with LVMH's regional divisions, in the decision processes of authorities in Europe, the Americas and Asia, notably in the following fields: intellectual property, the digital economy, competition, corporate governance, culture and creative industries, and access to markets.

The **Environment Department** works to ensure that the Group and all its companies deliver an outstanding environmental performance, in line with the Charter signed by the LVMH group's Chairman, covering the nine strategic priorities of the LVMH Initiatives For the Environment (LIFE) program.

The **Group Risk Management and Insurance Department**, alongside operational managers responsible for risks inherent in their businesses, is particularly involved at Group level in cataloguing risks, preventing losses and determining the risk coverage and financing strategy.

The **other functional departments** (see "Organization and stakeholders") contribute to risk management related to financial and accounting information.

The **Internal Control Department**, which reports to the Group Audit and Internal Control Director, coordinates the implementation of internal control and risk management

systems. It monitors and anticipates regulatory changes in order to adapt mechanisms. It coordinates a network of internal controllers responsible, within the Group companies and under the responsibility of their Management Committees, for ensuring compliance with the Group's internal control procedures and preparing controls tailored to their business. They also spearhead various projects related to the internal control and risk management systems and promote the dissemination and application of guidelines.

Furthermore, the **Employee Safety Committee** meets regularly to analyze the effectiveness of systems designed to ensure the safety of travelers and employees of the Group abroad, and make any decisions required in exceptional situations;

Equivalent departments in the brands or business groups: the organization described above at Group level has its equivalent in the main business groups and Group companies.

Third line of defense

The **Audit and Internal Control Department**, whose purview extends across the entire LVMH group, applies a multi-year audit plan, updated annually. The audit plan allows the degree to which expected control activities have been understood and correctly applied to be monitored and reinforced. 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; it can be modified during the year in response to changes in the political and economic environment or internal strategy. The audit plan is also prepared with a view to covering all Group companies.

The audit teams conduct internal control assessments covering various operational and financial processes. They also undertake accounting audits as well as audits of cross-functional issues within a given business segment. Follow-ups on recommendations resulting from past audits are backed up by systematic on-site inspections at those subsidiaries with the most significant issues.

Internal Audit reports on its conclusions to management of the entity concerned and to Executive Management of the LVMH group by way of an Executive Summary and a detailed report explaining its recommendations and setting out managers' commitments to apply them within a reasonable period of time. Internal Audit sends copies of the reports that it issues to the Statutory Auditors and meets with them periodically to discuss current internal control issues. The main features of the audit plan, the primary conclusions of the current year and the follow-up of the principal recommendations of previous assignments are presented to the Performance Audit Committee and to the business groups concerned.

External stakeholders

The external auditors and the various certifying bodies (RJC, ISO 14001, etc.) help to reinforce the current system through their work and recommendations.

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

Organization and stakeholders

Risk management and internal controls of accounting and financial information are the responsibility of the following departments, which are all part of the LVMH group's Finance Department: Accounting and Consolidation, Management Control, Information Systems, Corporate Finance and Treasury, Tax, and Financial Communications.

Accounting and Consolidation are responsible for preparing and producing the individual company accounts of LVMH SE and the holding companies that control the Group's equity holdings, the consolidated financial statements, and interim and annual results releases, including in particular the Interim Financial Report and the Reference Document. To this end, the Accounting Standards and Practices team defines and disseminates the Group's accounting policies, monitors and enforces their application and organizes any related training programs that may be deemed necessary. The Consolidation Department also coordinates the LVMH group's Statutory Auditors.

Management Control is responsible for coordinating the budget process, its revisions during the year and the five-year strategic plan, as well as the impairment testing of fixed assets. Management Control produces the monthly operating report and all reviews required by Executive Management (see "Management reporting" below); 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 structure of the reports it produces, Management Control is an essential participant in the internal control and financial risk management system.

These two departments are attached to the **Deputy Finance Director's Department**.

Information Systems designs and implements the information systems needed by the Group's central functions. It disseminates the LVMH 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, IT hosting platforms, and transversal applications shared by all entities in 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 LVMH group's financial policy, which includes effective balance sheet management, financing strategies, the monitoring of financing costs, returns on cash surpluses and investments, improvements to financial structure, and prudent management of solvency, liquidity, market and counterparty risks.

Within this department, the International Treasury team focuses more specifically on pooling the Group's surplus cash and forecasts Group companies' financing requirements on the basis of regular updates prepared by those companies, as well as meeting subsidiaries' short- and medium-term liquidity and financing requirements. It is also responsible for applying a centralized foreign exchange risk management strategy.

The Markets team, which is also part of Corporate Finance and Treasury, is delegated the responsibility of implementing the policy of hedging market risks generated by Group companies. In that respect, it is responsible for applying a centralized interest rate risk and counterparty risk management strategy, designed to limit the negative impact of interest rate fluctuations and counterparty credit risk in financial transactions and investments.

To this end, strict procedures and a management policy 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 Deputy CFO, allow for a greater segregation of duties. The backbone of this organization is an integrated information system that allows hedging transactions to be monitored in real time. The hedging mechanism is periodically presented to the Performance Audit Committee. Hedging decisions are made according to a clearly established process that includes regular presentations to the Group's Executive Committee and detailed communication.

Tax coordinates the preparation of tax returns and ensures compliance with applicable laws and regulations, advises the various business groups and companies and proposes tax solutions appropriate to the LVMH group's operational requirements. It organizes appropriate training courses in response to major changes in tax legislation and coordinates the uniform reporting of tax data.

Financial Communications is responsible for coordinating all information issued to the financial community so as to provide the latter with a clear, transparent and accurate understanding of the Group's performance and outlook. 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 is responsible for ensuring the quality of internal control in its own area of activity via **the finance departments of business groups, companies and subsidiaries**, which are in turn responsible for similar functions within 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 control relating to accounting and management data.

Accounting and management policies

Subsidiaries adopt the accounting and management policies communicated by the LVMH group for the purposes of the published consolidated financial statements and internal reporting; they all use the same framework (the LVMH chart of accounts and manual of accounting policies) and the accounting and management reporting system administered by the Group, thus ensuring consistency between internal and published data.

Consolidation process

The account consolidation process is covered by regular detailed instructions; a specially adapted data submission system facilitates consistent, comprehensive and reliable data processing within the appropriate timeframes. The Chairman and Chief Financial Officer 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.

Sub-consolidations are carried out at Group company and business group level, which act as primary control filters and help ensure consistency.

At the level of the LVMH group, the teams in charge of consolidation are organized 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.

The quality of financial information, and its compliance with standards, are also guaranteed through ongoing exchanges with the Statutory Auditors whenever circumstances are complex and open to interpretation.

Management reporting

Each year, all of the LVMH group's consolidated entities produce a strategic plan, a complete budget and annual updates. 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 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.

Specific meetings to close out the half-yearly and annual financial statements are attended by the Finance Department teams concerned; during those meetings the Statutory Auditors

present their conclusions with regard to the quality of the financial and accounting information and the assessment of the internal control of the different companies of the LVMH group.

2.1.4. Formalization and management of the risk management and internal control systems

ERICA

In line with European directives and the ordinance of December 2008, the Group introduced its Enterprise Risk and Internal Control Assessment (ERICA) approach, a comprehensive process for improving and integrating systems for managing major risks and internal control related to its ordinary activities.

The Group's companies and business groups acknowledge their responsibility in relation to this process each year by signing two letters of representation:

- an ERICA letter of representation concerning risk management and internal control systems, signed on June 30. By signing the letter, the Chairman, Chief Financial Officer and/or members of the Management Committee confirm their responsibility for these systems, and give their assessment of them, identifying major weaknesses and the corresponding remediation plans. The letters are analyzed, followed up on and "consolidated" at each higher level of the Group's organizational structure (region, Group company, business group); they are forwarded to the Finance Department and to the Group Audit and Internal Control Department. They are also made available to the Statutory Auditors;
- the annual letter of representation on financial reporting, including a paragraph devoted to internal control, mentioned above ("Consolidation process").

Since 2013, depending on the circumstances, Presidents of Group companies have been required to present the Performance Audit Committee with an update on achievements, action plans in progress and the outlook for their area of responsibility.

The Performance Audit Committee decided in 2013 to implement the ERICA system across all LVMH group entities by 2015; recently acquired entities are allowed two years to implement this approach once the integration process has been completed.

The ERICA system operates as follows:

- it has been rolled out to all Group entities;
- the Group applies the central system across a scope that is reviewed annually;
- Group companies have complete latitude to apply the system across whatever scope they deem most appropriate;
- all internal control and major risk assessment data are input by each entity and centralized in a database application managed by the holding company.

Management of major risks and of the internal control system

Major risks relating to our brands and business activities are managed at the level of each of our business groups and Group companies. 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 identified and evaluated, and formalized in specific chapters.

Once an acceptable risk level has been determined and validated, risks are handled via preventive and protective measures; the latter include business continuity plans (BCP) and crisis management plans in order to organize the best response to risks once they have arisen. Finally, depending on the types of risk to which a particular brand or entity is exposed and the amount of residual risk, the entity may decide, in collaboration with the Group, to use the insurance market to transfer part or all of the residual risk and/or assume this risk.

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.), as well as the financial risks relating to the effects of climate change and the measures taken to reduce them.

Ongoing monitoring of the internal control system and periodic reviews of its functioning are carried out on a number of levels:

- managers and operational staff at Group companies are given the responsibility, with the support of internal control personnel, of assessing the level of internal control on the basis of key controls, identifying weaknesses and taking corrective action. Exception reports all for the enhancement of detective controls in addition to preventive measures;
- a formal annual self-assessment process with a list of key controls taken from the internal control framework, integrated into the ERICA system (see above);
- the Statutory Auditors are kept informed of this approach, as is the Performance Audit Committee, by means of regular briefings;
- reviews are carried out by Group Internal Audit and the Statutory Auditors, the results and recommendations of which are passed on to the management of the entities and the Executive Management of the Group;
- a review of the ERICA system and the quality of self-assessment is an integral part of the work of the Internal Audit team at all audited entities.

Recent actions taken to reinforce the risk management and internal control system

With regard to Internal Control, numerous initiatives were taken in a variety of areas. For example:

- the introduction or renewal of robust certification processes (ISO 14001, Responsible Jewellery Council, etc.);
- the strengthening of payment security by Group companies and awareness-raising actions amid the resurgence and worldwide spread of the business e-mail compromise (BEC) scam whereby a schemer assumes the identity of a company's CEO, attorney, or trusted vendor to send an employee a fraudulent request for an urgent wire transfer;
- the tightening of data security requirements imposed on the Group's service providers;
- the addition to the Group's reference framework of business-specific fundamental controls in the Fashion and Leather Goods, Watches and Jewelry, Perfumes and Cosmetics, Wines and Spirits business groups; each of the companies concerned will choose to disseminate some or all of these new standards in 2017 alongside the rollout of the ERICA self-assessment process.

In terms of major risks, the ERICA approach that was rolled out three years ago has been raising Group companies' awareness of the need to identify and manage risks that may threaten their strategy, business or brand. The principal risks actively managed by Group companies are media risk; safety and security risk for Group employees and its various audiences; risk of critical IT systems failure, including production systems; risk of loss of sensitive data; risk of major site incidents; risk of property damage, loss or theft; risk of a default by a strategic supplier; supply risk; and social and environmental risk.

At the instigation of the Group Audit and Internal Control Department, the Group's brands have worked to implement and maintain business continuity plans (BCPs); regular sessions are held to provide training and share best practice. At the end of 2015, the Group started a process for the independent assessment of the business continuity plans of its ten most significant companies. Since 2016, these assessments have been carried out with the assistance of an outside firm and will continue through to the end of 2017. They focus on three essential factors with the potential to impair business continuity: key personnel, information systems, and critical infrastructure and partners across the entire supply chain.

The Group exercises specific vigilance with regard to the legal environment and increasingly stringent compliance demands. At the initiative of Executive Management, the LVMH group and its companies are pursuing robust initiatives to anticipate regulatory developments and, as stated above ("Elements of the general compliance framework"), meet the requirements of the Sapin II Law in France and of the EU's General Data Protection Regulation (GDPR).

2.2. CHRISTIAN DIOR COUTURE

Christian Dior Couture (hereinafter 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 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 with respect to the achievement of the following objectives:

- the protection of assets, inventories and brands, in particular;
- the reliability of financial and accounting information;
- the efficiency of its operations and the efficient use of its resources;
- compliance with applicable laws and regulations.

This therefore involves 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, such as management bodies, applicable laws and regulations, or 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.

It also includes checking that the processes implemented provide sufficient protection for core assets, inventories and brands, in particular.

Please note the Company is in the 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, particularly due to external uncertainties, 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.

A mapping of these major risks, established in 2011, is reviewed annually, on the basis of their severity, frequency and the controls put in place. Related controls (preventive actions or detective controls) are put in place in order to mitigate their impact, although their absolute elimination cannot be guaranteed.

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

It is further bolstered by a formal self-assessment procedure that covers both the general control environment of Christian Dior Couture group entities and a detailed review of the key controls to apply for operational and financial processes. The main steps are as follows:

- a fully documented formal review of shortcomings by each subsidiary's management;
- the drafting of action plans by these managers, and shared prioritization with the Audit and Internal Control Department;
- formal monitoring on a regular basis of local implementation, reported to the Audit and Internal Control Department;
- a review during audit assignments of the actual level of progress, and taking this criterion into account in the overall audit assessment.

Launched in 2013, this approach now covers all Christian Dior Couture group entities.

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 monitor management information so that they can intervene in the process of defining objectives and oversee the achievement of these objectives through:
 - three-year strategic plans,
 - the annual budget,
 - monthly reports on actual versus budget data, including in-depth and documented 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 IFRSs and Group accounting policies.
- 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 Architecture Department.
- The Audit and Internal Control Department completes audit assignments that cover all the Group's activities:
 - 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 policies,
 - manufacturing facilities: review of main cycles (inventory management, strategic purchases, investments, personnel management, cost monitoring),
 - head office-specific activities.

On completion of these assignments, a summary report and a detailed report containing recommendations to be implemented, specifying the management's commitment to applying these recommendations within a reasonable period of time, are

presented to the Chairman and to the management of the subsidiaries. This implementation is checked at annual follow-ups, which are reinforced through on-site visits to companies with the most significant issues.

- Lastly, each subsidiary's 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, and then forwarded to Executive Management and the Audit and Internal Control Department.

This system is 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 are thus extended to all of the transactions comprised within the Christian Dior Couture group's financial consolidation.

- More information about the Management of Christian Dior Couture's structure and objectives relating to the general environmental policy can be found in the Management report of the Board of Directors – Workforce, Environmental and Social Report in the Annual Report, under §2.1 General environmental policy.

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.

Accounting and management policies

The 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 reporting

Each year, all of the Christian Dior Couture group's consolidated entities produce a three-year strategic plan, a complete budget, and annual updates. 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.

2.3. CHRISTIAN DIOR

2.3.1. The control environment

As noted above, Christian Dior is a holding company that indirectly controls two main assets: a 41% equity stake in LVMH, and a 100% equity stake in Christian Dior Couture.

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:
 - attending the Board meetings and Shareholders' Meetings of the subsidiaries,
 - monitoring the dividends paid by the subsidiaries,
 - controlling the subsidiaries' financial performance;
- accurate financial reporting, provided 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 SEDCS.

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

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 controls.

2.2.6. Outlook

- Continuing the risk-based approach in the determination of the audit plan.
- Strengthening cross-functional reviews to ensure that processes and controls are consistently applied at headquarters and subsidiaries.

These assignments can be modified in response to changes in the economic or political environment, or following internal strategic realignments.

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 February 9, 2017.

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 SE

To the Shareholders,

In our capacity as Statutory Auditors of Christian Dior SE 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 six-month fiscal year ended December 31, 2016.

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 pertaining 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, and
- confirm that the report also includes the other information required by Article L. 225-37 of the French Commercial Code. It should be noted that our role is not to verify the fairness of this other information.

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

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

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 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 accounting and financial information that we may 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, on in relation to the preparation and processing of the accounting and financial information contained in the Report of 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 of the Chairman of the Board of Directors also contains the other information required by Article L. 225-37 of the French Commercial Code.

Paris-La Défense, March 2, 2017

The Statutory Auditors

MAZARS

Simon Beillevaire

ERNST & YOUNG et Autres

Benoit Schumacher

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 readers. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.

