Report of the Chairman of the Board of Directors

This report was drawn up in accordance with the provisions of Article L. 225-37 of the French Commercial Code and was approved by the Board of Directors at its meeting on October 16, 2014.

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 website: www.afep.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 of Directors.

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

- At its meeting of October 16, 2014, the Board of Directors voted to submit a proposal to the Shareholders' Meeting of December 9, 2014 to renew the appointments of Bernard Arnault, Pierre Godé and Sidney Toledano.

  Directors are appointed for a term of three years, as specified in the Bylaws. In order to allow a renewal of Directors' terms which is as equally distributed as possible and in any case complete for each period of three years, the Board of Directors set up a system of rolling renewals that has been in place since 2010.

- The Board of Directors, subject to the decisions of the Shareholders' Meeting of December 9, 2014, will thus consist of eleven members: Delphine Arnault, Hélène Desmarais, Ségolène Gallienne, 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 these Directors – Hélène Desmarais, Ségolène Gallienne, 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. Moreover, three of the eleven members of the Board of Directors, or more than a quarter of its members, are women.

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

During its meeting of October 16, 2014 the Board of Directors reviewed the status of each Director currently in office as well as each proposed appointee, in particular with respect to the independence criteria set forth in the AFEP/MEDEF Code of Governance of Listed Companies, and considered that:

(i) Hélène Desmarais satisfies all criteria;

(ii) Ségolène Gallienne, given her personal circumstances, should be considered an independent Director notwithstanding her term of office on the Board of Directors of Château Cheval Blanc, an entity of the LVMH group;

(iii) Renaud Donnedieu de Vabres, given his personal circumstances, should be considered an independent Director notwithstanding his membership on the Board of Directors of La Fondation d'Entreprise Louis Vuitton;

(iv) Eric Guerlain, given his personal circumstances, 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 Guerlain, an entity of the LVMH group;

(v) Christian de Labriffe, given his personal circumstances, 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, a subsidiary of Christian Dior;

(vi) Jaime de Marichalar y Sáenz de Tejada, given his personal circumstances, should be considered an independent Director notwithstanding his term of office on the Board of Directors of Loewe, an entity of the LVMH group, and his capacity as Advisor to the Chairman of LVMH for Spain;

In the matter of these individuals, the Board has departed from the criteria set forth by the AFEP/MEDEF code of corporate governance relating to the number of years of service on the Board and to membership on the Board of Directors of a consolidated company, considering that these elements are not likely to color the judgment of the Directors concerned, given their experience and status as well as their current personal and professional circumstances. Moreover, their in-depth knowledge of the Group is an incalculable asset during major strategic decision making.

Over the course of the 2013/2014 fiscal year, the Board of Directors met four times as convened by its Chairman. The average attendance rate of Directors at these meetings was 82%.

The Board approved the annual (fiscal years ended April 30, 2013 and June 30, 2013) and half-yearly (December 31, 2013) consolidated and parent company financial statements; it reviewed the Company's consolidated financial statements for the periods from January 1, 2013 to June 30, 2013 and from January 1, 2013 to December 31, 2013. The Board expressed its opinions on subjects including the compensation of company officers, the establishment of bonus share and performance share plans, the implementation of the share repurchase program, the authorization to modify various regulated agreements with related companies or with companies in which certain Directors hold Executive Management positions, the renewal of the authorization to issue bonds, and the draft terms of the Company's conversion into an SE. It also conducted an evaluation of its capacity to meet the expectations of shareholders, reviewing its membership, its organization, and its procedures. It amended the Charter of the Board of Directors so as to (i) permit Directors to take part in Board of Directors' meetings by videoconference or other means of telecommunication and (ii) clarify provisions relating to blackout periods affecting transactions carried out by Directors. It amended the specific holding period requirements applying to performance shares granted to the Chairman and Chief Executive Officer and to the Group Managing Director under the plans set up between 2010 and 2012. It was informed of the sale of a building in London owned by the LVMH group to a subsidiary of Christian Dior Couture.

During its meeting of October 16, 2014, the Board of Directors reviewed its composition, organization and modus operandi. The Board came to the conclusion that its composition is balanced with regard to its percentage of external Directors, considering the breakdown of share capital, and with regard to the diversity and complementarity of the skills and experience of its members.

The Board noted that:

- 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, financial statements, budget and the three-year plan;
- the fact that more than a quarter of the members of the Board of Directors are not French nationals ensures a wide range of visions and various sensitivities essential to a Group with a worldwide dimension;
- the fact that more than a quarter of the members of the Board of Directors are women, thus exceeding the required ratio of 20%, ensures a wide range of visions and various sensitivities essential to a Group with a worldwide dimension;
- 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 Board of Directors also reviewed the Group's policy to protect against the impact of future economic and financial developments.

Lastly, the Board of Directors decided to submit a proposal to the Shareholders' Meeting of December 9, 2014 to renew the appointments of Bernard Arnault, Pierre Godé and Sidney Toledano.

1.3. EXECUTIVE MANAGEMENT

The Board of Directors decided to combine the roles of Chairman and Chief Executive Officer. Upon the recommendation of the Chairman and Chief Executive Officer, the Board of Directors appointed a Group Managing Director, Sidney Toledano, who was granted the same powers as the Chairman and Chief Executive Officer.

It did not limit the powers vested in the Chairman and Chief Executive Officer or 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 Statutory 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 Christian de Labriffe (Chairman), Renaud Donnedieu de Vabres and Eric Guerlain, all of whom have, by virtue of their professional experience and their familiarity with financial and accounting procedures applicable to corporate groups, the expertise necessary to fulfill their responsibilities.

The Performance Audit Committee met five times in the 2013/2014 fiscal year, with a majority of its members in attendance.

Meetings are held in the presence of 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 examination of the parent company and consolidated financial statements as of April 30, 2013, June 30, 2013 and the half-year financial statements as of December 31, 2013; a review of the consolidated financial statements and reports on the Group's operations for the periods from January 1, 2013 to June 30, 2013 and from January 1, 2013 to December 31, 2013; an examination of the financial statements; an assessment of the Group's exposure to risk, risk management procedures and off-balance sheet commitments; renewal of the mandates of the Statutory Auditors; Christian Dior share repurchase program. The Committee also verified the independence of Statutory 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 Statutory Auditors; the Committee met several times with the Statutory Auditors, without the members of the Group's Executive Management being present.

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

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 Eric Guerlain (Chairman), Christian de Labriffe and Hélène Desmarais.

The Committee met three times in the 2013/2014 fiscal year, with all of its members in attendance. It (i) issued proposals on the variable remuneration in respect of the 2013 calendar year and the fixed remuneration and benefits in kind to be allocated in respect of the 2014 calendar year by Christian Dior Couture to Sidney Toledano in his capacity as Chief Executive Officer, as well as on the allocation of performance shares to the Chief Executive Officer and the Group Managing Director, and (ii) gave its opinion on performance shares to be granted by the Company to a Director. Lastly, it expressed an opinion on the appointment of Christian de Labriffe as Chairman of the Performance Audit Committee.

It examined the recommendations made by the Nominations and Compensation Committee of LVMH in favor of LVMH Directors performing the duties of company officers at Christian Dior, and the decisions of the Board of Directors of LVMH. The Committee also issued an opinion on the Directors' appointments to be put to a vote at the Shareholders' Meeting. The Committee received more detailed information, as requested, on compensation and incentive plans for the Group's senior executives.

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.

Prior to the Board meeting of October 16, 2014, the Committee issued an opinion on the reappointments of Directors to be put to a vote at the Shareholders' Meeting of December 9, 2014.

1.6. ADVISORY BOARD

Advisors 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 upon the recommendation 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 – Christian Dior parent company 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 commencing July 1, 2013 and ended June 30, 2014, Christian Dior granted a total gross amount of 129,747 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 code of corporate governance 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 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 Group Managing Director, 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 120% of the fixed portion for the Group Managing Director. 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 and Chief Executive Officer, and the Group Managing Director, is presented in the Management report of the Board of Directors – Christian Dior parent company section of 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 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. 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, but did not sign an employment contract with the latter company. Moreover, Article 22 of the AFEP/MEDEF code, which recommends terminating the employment contract of an employee who becomes a senior executive officer, does not apply to the position of Group Managing Director occupied by Sidney Toledano since December 20, 2012.

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 – Christian Dior parent company section of 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 pension 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 June 30, 2014 is included in the amount shown for post-employment benefits under Note 31.3 of 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 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, directly or indirectly, 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 and Chief Executive Officer 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, 2013, the risk management and internal control procedures implemented by LVMH and described below are the same as those presented in the Report of the Chairman of the Board of Directors included in LVMH's 2013 Reference Document.

2.1. LVMH

LVMH 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, including its general principles and application guidelines on the internal control of financial and accounting information. It takes into account changes in laws and regulations introduced since 2007, in particular the Law of July 3, 2008 and the Decree 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. 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 parent company, LVMH SA, is responsible for its own risk management and internal control systems and acts as leader and coordinator on behalf of all Group companies. It makes available to all Group companies the single reference guide and methodology to be applied as well as a computer platform that centralizes all risk and internal control data and provides a framework for the structured coordination of these two fields (see §2.1.2 below);
- 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.

In line with European directives and the Decree of December 8, 2008, the Group introduced changes in 2010 to the approach in use since 2003: this revised approach, known by the acronym ERICA, for Enterprise Risk and Internal Control Assessment, is a comprehensive process to improve and integrate risk management and internal control systems across the Group.

The main brands and business groups acknowledge their responsibility in relation to this process and the implemented systems each year by signing two letters of representation:

- a letter of representation covering both risk management and internal control procedures, signed on June 30. 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. The June 30 deadline enables better integration into the planning cycle (strategic plan and budget);
- the annual letter of representation on 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.

Since 2013, and depending on circumstances, entity Presidents have been required to provide information to the Performance Audit Committee on progress made in functions and activities under their supervision, achievements and benefits derived, as well as current action plans and the outlook for the following year.

In 2013, the Performance Audit Committee decided that the roll-out of this system to all entities of the LVMH group would be completed by June 30, 2015. A two-year grace period was granted to recently acquired entities to ensure that the new approach would only be applied once the integration process is complete. Accordingly, Loro Piana will be included in the scope of this assessment approach in 2015.

As of June 30, 2013, this self-appraisal system covered 69% of its operating entities and nearly 82% of Group revenue. This total includes both production and services companies, the regional holding companies as well as 11 central financial functions: Finance and Treasury, Tax, Consolidation, Financial Statements Closing, Interest and Exchange Rate Monitoring, Group Information Systems, Holding Company Information Systems, Financial Communication, Insurance, Management Control, and Mergers and Acquisitions.

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. The Group has defined a "major" risk as a risk with the potential to jeopardize either the continuity of operations or the attainment of its strategic objectives.

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, internal control actions, 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.

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.).

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.

Establishment of formal procedures for the ERICA system

The ERICA project provides structure and formal guidelines for risk management within the LVMH group, by offering:

- a framework: each business group or business unit included in the project determines its own roles and responsibilities with regard to a defined 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;
- action plan coordination and implementation with the aim of setting up or reinforcing coverage mechanisms;
- a follow-up on the effectiveness of existing control systems with a regular review of the level of exposure to the identified risks.

This project will be implemented at all LVMH group entities as of June 30, 2015. The approach is intentionally pragmatic and gradual, beginning with an in-depth focus on several major risks, with action plans rolled out to brands and subsidiaries according to the nature of the risks selected: to date, the Management Committees of each business unit and of the regional holding companies have selected an average of six major risks among the 42 identified in the LVMH risk framework.

To reinforce the system's effectiveness, the Performance Audit Committee has decided that each business unit should include six other key risks in its risk map (media risk, supplier risk, supply shortage risk, site accident risk, sensitive data loss or theft risk, and property damage or theft of merchandise).

Discussion forums are organized by the Internal Control department for the main risk categories selected by most of the participants. These forums bring together risk managers, operational staff and internal control managers and have thus helped facilitate the sharing of best practices across the Group.

Coordination of risk management with internal control

Risk management and internal control systems jointly exert the necessary oversight over risks linked to the LVMH 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 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 3 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, internal control 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.

The structure of the Group, which comprises a large number of subsidiaries with widely varying missions and purposes, some of which are relatively small in size, is a specific risk factor.

Internal control components

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

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

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

The Group's commitment to social and environmental responsibility is promoted in house via an Intranet website ("LVMH Mind") where registered users can consult recommendations, procedures, tools and best practices. On this website employees can also find the LVMH Code of Conduct, 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. These charters and codes of conduct are available on the LVMH website.

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", exists for use by Group Human Resources.

Since 2011, at the initiative of the Audit and Internal Control Department, the Group's brands have worked to strengthen their business continuity plans (BCPs). In 2012 and 2013, a questionnaire was disseminated to all of the Group's significant entities; training sessions and exchanges of BCP best practices have been held at the majority of Group companies. Sustained efforts will be required to further develop these procedures and ensure that they continue to meet the Group's requirements.

Furthermore, sessions for the sharing of best practices were organized in 2012 and 2013 on a range of issues: delegations of authority, payment processes (approval of payments, segregation of duties, signatures and banking delegations, secure payment flows), and the system for managing and controlling staff arrivals and departures.

Risk management

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

Since the launch of the Group's new approach to risk, all executive-level personnel responsible for risk management procedures across the Group have had access via the Finance Intranet to procedures and tools designed for the assessment, prevention and coverage of risks, together with the information provided by the Risk Management and Insurance Department.

Employees involved in risk management issues also take part in a community dedicated to these concerns on the Group's enterprise collaboration portal.

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: fraud, 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, the control of media expenses, and best practices in store.

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 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.

Employees involved in internal control issues also take part in a community dedicated to these concerns on the Group's enterprise collaboration portal.

Information and communication systems

The strategic plans related to 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 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 LVMH group in order to define, for each significant entity, the broad outline of such a plan as well as those of a Disaster Recovery Plan. A Business Continuity Plan and a Disaster Recovery Plan have been developed at the level of the LVMH SA parent company and both plans have been tested.

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 risks. Action plans are followed by the Group Information Systems Department.

Continuous monitoring of the internal control systems

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 auditors and Statutory 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; it is 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. Scope, organizational and formalization principles);
- 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 overall review of the ERICA system and the qualitative analysis of self-assessments is an integral part of the audits conducted by the Internal Audit team at all audited entities.

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 eleven 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 involves a single list of 83 key controls drawn up by the Group's Internal Control team and extracted from the internal control framework described above. Each entity follows the same methodology, which has been in use since 2006:

- 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 LVMH group. The Group's External Auditors are kept informed of 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 its Management Report, are properly taken into account (see the section entitled "Business risk and insurance policy").

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 LVMH group's Legal Department is responsible for monitoring the proper application of laws and regulations in force in each of the countries where the Group has operations. It also fulfils a central legal review function and provides advice on legal matters as required by each of LVMH 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, 2013, the Audit and Internal Control Department had a staff of some fifteen professionals, including two individuals responsible for the management 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 forty and fifty audit assignments are carried out each year. As planned, nearly 80 entities were covered in 2013, divided equally between regions and business groups, with slightly increased coverage of Fashion and Leather Goods and the Asia region in 2013.

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 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 LVMH 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 Statutory 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, Internal Audit has coordinated the Group's compliance with LSF (French Financial Security Act) internal control measures, and has devoted a specific management team to internal controls. This team monitors and anticipates regulatory changes so that the measures can be adapted.

The LVMH group's internal control management team 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.

Auditors and internal control managers at our brands

The most significant business groups and business units have dedicated in-house auditors or internal control managers whose role is to ensure compliance with the LVMH group's internal control rules and reference guide by the organization of parent companies and their subsidiaries.

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

Organization

Risk management and internal controls of accounting and financial information are organized based on the cooperation and control of the following departments, which are all part of the Finance Team: Accounting and Consolidation, Management Control, Information Systems, Corporate Finance 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).

  To this end, Accounting and Consolidation defines and disseminates the LVMH 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 "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 high standards of the reports it produces, Management Control is an important and inevitable 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 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, International Treasury focuses particularly on pooling the Group's surplus cash and forecasts the financing requirements of Group companies on the basis of quarterly updates prepared by these companies, while meeting the short- and medium-term liquidity and financing requirements of subsidiaries. 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 market risks generated directly or indirectly 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 of counterparty credit risk in financial transactions 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 LVMH 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 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 LVMH 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.

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 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 the 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, the LVMH group has been rolling out the ERICA project since 2010: an approach integrating risk management internal control, which has been extended to reach to all entities since 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 65 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:

- 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.

A mapping of these major risks, established in 2011, is reviewed annually, on the basis of their severity or frequency and the controls put in place. Related controls (prevention and reinforcement of internal 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.

Furthermore, it is bolstered by a formal self-assessment procedure that covers the general control environment at Group entities and includes a detailed review of the controls considered key to operational and financial processes.

This self-assessment procedure was in the process of being rolled out in 2013/2014 and now concerns all the Group's significant markets. It is based on a methodology with three main thrusts:

- a fully documented formal review of shortcomings by each subsidiary's management;
- the drafting of action plans by this management, and prioritization in agreement with the Audit and Internal Control Department;
- the introduction of formalized, regular monitoring of these plans, the progress level of which is formally presented to Executive Management.

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 compared with 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 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.
- The Audit and Internal Control Department completes audit assignments that notably cover:
  - 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 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 delay, 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 the Central Department 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 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.

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

- Finalization of the three-year audit plan launched in 2011, with the aim of covering all the Group's most significant subsidiaries by the end of this period.
- Continued implementation of controls considered key within the Group.
- Cross-functional review tasks, with the objective of reinforcing the standardization of processes and controls applied at the headquarters and in the subsidiaries. These assignments can be modified in response to changes in the political or economic environment, or following internal strategic realignments.

2.3. CHRISTIAN DIOR

2.3.1. The control environment

As noted above, Christian Dior is a holding company that controls, directly or indirectly, two main assets: a 40.9% 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 way of:
  - its presence at the Board meetings and Shareholders' Meetings of the subsidiaries,
  - the monitoring of dividends paid by the subsidiaries,
  - the control of 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 SAS.

Regarding the Group's external services, the Shareholders' Meeting of Christian Dior appointed two first-tier accounting firms as Statutory Auditors, one of which also serves in the same 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 October 16, 2014.

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 fiscal year ended June 30, 2014.

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, 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

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.

Paris-La Défense, October 17, 2014

The Statutory Auditors

MAZARS	ERNST & YOUNG et Autres	
Denis Grison	Jeanne Boillet	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 users. This report should be read in conjunction with, and construed in accordance with, French law and professional standards applicable in France.