THOM GROUP

Simplified joint stock company

55, rue d'Amsterdam

75008 Paris

Statutory auditors' report
on the consolidated financial statements

For the year ended 30 September 2020

This is a translation into English of the statutory auditors' report on the financial statements of the Company issued in French and it is provided solely for the convenience of English speaking users.

This statutory auditors' report includes information required by French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.

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

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Statutory auditors' report on the consolidated financial statements

For the year ended 30 September 2020

To the Shareholders of THOM GROUP,

Opinion

In compliance with the engagement entrusted to us by your Annual General Meeting, we have audited the accompanying consolidated financial statements of THOM GROUP for the year ended 30 September 2020.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group at 30 September 2020 and of the results of its operations for the year then ended in accordance with French accounting principles.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the "*Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*" section of our report.

Independence

We conducted our audit engagement in compliance with the independence rules provided for in the French Code de Commerce and in the French Code of Ethics (code de déontologie) for statutory auditors for the period from 1 October 2019 to date of our report.

Justification of Assessments

The worldwide crisis due to Covid-19 pandemic creates special conditions for the preparation and the audit of the financial statements of this period. Indeed, this crisis and the exceptional measures taken in the context of the public health emergency, have multiple consequences for enterprises, particularly on their activities and their financing, as well as increased uncertainties on their future prospects. Some measures, including travel restrictions and remote working, also had consequences on the internal organization of enterprises and the performance of audits.

It is this complex and evolving context that, in accordance with the requirements of Articles L. 823-9 and R. 823-7 of the French Commercial Code (code de commerce) relating to the justification of our assessments, we inform you of the following assessments that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period.

These matters were addressed in the context of our audit of the financial statements as a whole, approved in the conditions mentioned above, and in forming our opinion thereon, and we do not provide a separate opinion on specific items of the financial statements.

We bring to your attention the following matters:

- Note 3- C) “Goodwill” to the consolidated financial statements sets out the accounting rules and methods applicable to the measurement of goodwill,
- Note 3- C) “Trademarks” to the consolidated financial statements sets out the accounting rules and methods applicable to the measurement of trademarks,
- Note analysed the methods 3- C) “Leasehold rights” to the consolidated financial statements sets out the accounting rules and methods applicable to the measurement of leasehold rights.

As part of our assessment of the accounting rules and principles followed by your company in terms of goodwill, brands and leasehold rights, as described in the note 3-C) “*Measurement methods*”, we analysed the methods adopted by your Company. In a second time, we evaluated the data and assumptions on which the valuation was done and verify that the consolidated financial statements gave an appropriate formulation.

Specific Verifications

We have also performed in accordance with professional standards applicable in France the specific verifications required by law and regulations of the information pertaining to the Group presented in the management report of The President.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with French accounting principles, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless it is expected to liquidate the Company or to cease operations.

The consolidated financial statements were approved by the President.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As specified in Article L. 823-10-1 of the French Commercial Code (code de commerce), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.
- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Paris-La Défense and Paris, 12th January 2021

The Statutory Auditors

French original signed by

Deloitte & Associés **CERA**

Cécile REMY Jean Paul SEGURET Daniel BUCHOUX

THOM GROUP SAS

Consolidated financial statements

Fiscal year starting October 1st, 2019 to September 30th, 2020

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1. Consolidated financial statements

a. Consolidated balance sheet

Assets	Notes	30/09/2020	30/09/2019
In €m			
Goodwill	a.	363.1	366.0
Leasehold rights	b.	119.0	128.8
Trademarks	b.	135.9	136.1
Other intangible assets	b.	24.6	15.4
Property, plants and equipments	c.	78.1	88.5
Financial assets	d.	16.0	15.8
Fixed assets		**736.8**	**750.5**
Inventories	e.	193.9	200.6
Trade receivables and related accounts	f.	7.6	8.5
Other receivables	g.	37.8	36.8
Prepaid expenses	h.	11.4	15.1
Marketable securities	h.	0.1	-
Cash	h.	196.6	64.7
Current assets		**447.3**	**325.7**
Deferred tax assets	**k.**	**8.8**	**9.8**
Loan-issuance fees	**l.**	**4.9**	**6.2**
Over issue discount	**l.**	**3.1**	**3.9**
Total assets		**1,200.9**	**1,096.1**

Equity and liabilities	Notes	30/09/2020	30/09/2019
In €m			
Share capital		372.4	219.5
Share premium		2.7	2.7
Consolidated reserves		(192.4)	(200.7)
Net income attributable to owners of the parent		1.9	8.2
Currency translation reserves		0.0	0.0
Equity attributable to owners of the parent	**i.**	**184.6**	**29.8**
Non-controlling interests		**0.0**	**0.0**
Provisions	**j.**	**12.4**	**11.1**
Deferred tax liabilities	**k.**	**3.9**	**-**
Bank loans	l.	89.9	0.2
Convertible bonds	l.	190.5	308.5
Senior debt	l.	568.7	568.7
Bank overdrafts	l.	-	-
Other financial liabilities	l.	1.6	1.4
Profit-sharing reserves	m.	2.3	2.2
Trade payables and related accounts	n.	70.6	81.5
Tax and payroll liabilities	o.	60.7	71.1
Fixed asset payables		5.3	12.6
Other liabilities	p.	8.8	7.3
Debt		**998.4**	**1,053.5**
Deferred revenues		**1.7**	**1.7**
Total liabilities		**1,200.9**	**1,096.1**

b. Consolidated income statement

Income Statement	Notes	30/09/2020	30/09/2019
In €m			
Sales	a.	669.7	737.1
Reversals of provisions	b.	21.5	22.9
Other operating income	c.	4.8	7.5
Costs of goods sold	d.	(217.1)	(241.8)
Other operating expenses	e.	(157.8)	(167.5)
Taxes and duties	f.	(8.7)	(9.7)
Personnel expenses	g.	(174.7)	(198.0)
Depreciation, amortization and provisions	h.	(51.8)	(57.5)
Operating income		**86.0**	**93.0**
Financial income (expense)	i.	(61.6)	(61.0)
Recurring income		**24.4**	**32.0**
Non-recurring income (expense)	j.	(13.0)	(15.5)
Income tax	k.	(9.5)	(8.3)
Net income		**1.9**	**8.2**
Net income attributable to non-controlling interests		(0.0)	(0.0)
Net income attributable to owners of the parent		**1.9**	**8.2**
Number of shares		*372,366,742*	*219,534,679*
Basic earnings per share (in €)		*0.01*	*0.04*
Diluted earnings per share (in €)		*0.01*	*0.04*

c. Consolidated cash-flow statement

Cash-flow statement	30/09/2020	30/09/2019	Var.
In €m			
EBITDA	**120.6**	**132.1**	**(11.5)**
CVAE & closed stores	(4.3)	(4.5)	0.1
Change in working capital	(8.4)	(6.6)	(1.8)
Income tax paid	(2.8)	(5.7)	3.0
Other operating income (expenses)	(4.8)	(3.8)	(1.0)
Net cash flows (used in)/from operating activities	**100.3**	**111.5**	**(11.2)**
Purchases of property, plant and equipment and intangible assets	(26.1)	(41.0)	14.9
Proceeds from sales of property, plant and equipment and intangible	0.4	0.3	0.1
Change in receivables and payables on fixed assets	(6.2)	2.2	(8.4)
Net cash flows (used in)/from investing activities	**(31.9)**	**(38.6)**	**6.6**
Free Cash Flow	**68.4**	**73.0**	**(4.6)**
RCF drawing / repayment	89.8	(10.0)	99.8
Interests on loans and bonds	(25.9)	(26.1)	0.2
Other interests paid	(0.2)	(0.3)	0.2
Equity injection	52.8	-	52.8
Repayment of convertible bonds	(52.2)	-	(52.2)
CICE prefinancing	-	-	-
Other cash flows used in financing activities	(0.7)	(0.2)	(0.5)
Net cash flows (used in)/from financing activities	**63.7**	**(36.7)**	**100.3**
Net cash flows before specific projects	**132.1**	**-**	**132.1**
Acquisitions of Stroili and Oro Vivo	-	-	-
Increase of capital	-	-	-
Specific events	-	(2.6)	2.6
Net increase / (decrease) in cash and cash equivalents	**132.1**	**33.7**	**98.4**
Cash and cash equivalents at the beginning of the period	**64.7**	**31.0**	**33.7**
Cash and cash equivalents at the end of the period	**196.7**	**64.7**	**132.1**
Change in cash	**132.1**	**33.7**	**98.4**

d. Reconciliation of operating income to EBITDA

Bridge from Operating Income to EBITDA	30/09/2020	30/09/2019	Var.
In €m			
Operating Income	**86.0**	**93.0**	**(7.0)**
Reversals of provisions	(21.5)	(22.9)	1.4
Depreciation, amortization and provisions	51.8	57.5	(5.8)
Business tax (CVAE)	3.9	4.0	(0.2)
Contribution of closed stores	0.5	0.4	0.0
EBITDA	**120.6**	**132.1**	**(11.5)**

2. Key events

The following consolidated financial statements cover the 12-month period from October 1st, 2019 to September 30th, 2020. THOM EUROPE Group has been renamed THOM Group during the financial year.

a. Sales network

Thom Group operates through its European subsidiaries 1,007 stores as of 30 September 2020 as well as 4 e-commerce websites. 10 stores were opened over the year ended 30 September 2020 (vs. 28 stores opened or acquired over the previous year). 37 stores were closed during the year (vs. 49 stores during the previous year).

b. Covid-19 crisis

During the year, Thom Group activity has been impacted by the sanitary crisis of Covid-19 pandemic as followed:

- From October 1st, 2019 until March 11th, 2020, date of the first lockdown in Italy, there has been no significant changes in business for Thom Group, its activity continued under similar conditions as previous year;
- From March 11 onwards, Group's activity has been strongly impacted, during that period, because of the progressive shutdown of its subsidiaries' activity. Employees impacted by store closings have been placed in partial unemployment.
    - Since the end of the first lockdown, on 2 June 2020, and until the end of the financial year, Group's activity has quickly recovered its trend from before the lockdown;
    - As a result of this sanitary crisis of Covid-19 pandemic, a certain number of measures (« Covid plan ») have been taken, including:
        - Implementation of a strict sanitary protocol in our shops, logistic centers and headquarters, in coordination with staff representatives, in order to ensure employees' sanitary safety;
        - Implementation of a costs saving plan to adjust, as fairly as possible, the cost structure to the activity drop (Opex, Capex). This plan comes along with a cash management plan, in cooperation with our suppliers (in particular, review of the purchase planning);
        - Various capital increases and corresponding decrease of Group bond debts.

This Covid Plan has allowed Thom Group to minimize economic impact of the sanitary crisis.

c. Capital increase

During the financial year, Group has proceeded to 4 capital increases.

On 19 December 2019, two capital increases occurred, which are:

- Capital increase for 319.998 euros by the issuance of new shares with preferential subscription rights of category 2 (ADP R2);

- Capital increase for 160.000 euros by the issuance of new shares with preferential subscription rights of category 3 (ADP R3);

In view of current sanitary and economic crisis due to Covid-19, the key shareholders, direct or indirect, have wished to reinforce their support to THOM GROUP by performing two capital increases in order to ensure the continuity of THOM GROUP during this uncertain sanitary and economic situation.

- Capital increase as of 30 June 2020 for 52,352,085.31 by the issuance of new shares with preferential subscription rights of category 4 (ADP R4);
- Capital increase as of 28 September 2020 for 99,999,979.31 by the issuance of ADP R4. These two capital increase operations have been subscribed by Group shareholders and paid by using the funds lent by them as convertible loans issued by the Company on 14 October 2010.

Together with these two capital increases, amount of existing convertible bonds, representing Group bond debt, (« Existing Convertible Bonds ») have been reduced to 152,199,974.88 euros (in principal and interests).

d. Incorporation of new company

THOM SAS has created on 3 August 2020 the company Duo Mu Jewellery (Guangzhou) Co., Ltd, a private limited company with a capital of RMB 750,000 whose registered office is located at Unit, 718, Building 28, No. 999 Fulong Road, Panyu District, Guangzhou, China (« Duo Mu Jewellery »). The purpose of this entity is to develop wholesale business for goods and articles of jewellery.

Company is being established as of 30 September 2020.

Other group companies with the same business activities have not acquired, during the period, any other financial participation.

e. Merger

It should be noted that the company Stroili Oro S.p.A, a joint-stock company under Italian law (società per azioni) whose registered office is located at Viale Valli di Carnia no. 5, Amaro (UD), Italia and registered in the Udine Company Register under number 01942870302, owned 100% by THOM SAS, has absorbed by merger the company Histoire d'Or S.r.l, private limited company under Italian law, whose registered office is located at Viale Valli di Carnia n° 6., AMARO, Italia and registered in the Florence Tax Office under number 05766430481, also 100% owned by THOM SAS.

f. Strategic projects

The « Salesforce » project, initiated in the first quarter of calendar year 2018 to design a new platform for all Group's ecommerce websites, has been successfully deployed on French brands Marc Orian and Histoire d'Or. The project team remains actively engaged on the migration of German and Italian platforms planned for FY21.

The « Shine 2020 » project (ERP change to SAP and redesign of Group IT infrastructure), initiated in the first quarter of calendar year 2018, has been successfully launched in Germany as of 1st October 2020. The project team remains actively engaged on the migration of France-Benelux scope, and then Italy.

The projects mentioned above require significant internal and external resources until their completion. People have been fully dedicated to the project and isolated in a dedicated space. These people, some of whom have left an operational position, have been replaced. The Group has thus committed substantial resources to secure the success of these projects.

3. Accounting policies and measurement methods

a. Accounting policies

Thom Europe's consolidated financial statements have been prepared in accordance with CRC Regulation No. 99-02 (French Accounting Regulation Committee) approved by the order of 22 June 1999.

b. Consolidation methods

All Thom Europe's subsidiaries are fully consolidated. The full consolidation method is applied to all subsidiaries over which the parent company exercises exclusive control. Exclusive control is presumed to exist when the parent company holds, either directly or indirectly, the majority of voting rights or appoints the majority of the members of the governing bodies of the subsidiary for two successive financial years or exercises dominant influence by virtue of a contract or clauses in the articles of association.

c. Measurement methods

Goodwill

Upon initial consolidation of a newly acquired company, identifiable assets acquired and liabilities assumed are re-measured and recorded at fair value. In the particular case of Thom Group, the net book values of business goodwill, leasehold rights, brands and, to a lesser extent, inventories and property, plant and equipment were adjusted to be accounted for at fair value.

The excess of the securities purchase price (net of acquisition costs) over the fair value of identifiable assets acquired and liabilities assumed at the acquisition date is recognized as goodwill.

In accordance with §2110 of CRC Regulation No. 2005-10, analysis and expert assessments may be carried out as necessary and goodwill may be adjusted accordingly within a period ending at the end of the financial year following the year of acquisition. Nevertheless, at the end of the year of acquisition, a temporary assessment must be performed for items whose estimate is sufficiently reliable.

Goodwill is recorded at cost less accumulated impairment losses. Impairment losses cannot be reversed.

In accordance with order No. 2015-900 of 23 July 2015 and with regulation No. 2015-903 of 23 July 2015 - ANC No. 2015-07 Regulation (Consolidated accounts) that apply to financial years starting on or after 1 January 2016, the Group has qualified the utilization period of goodwill as unlimited. Consequently, no goodwill amortization has been recorded since 1 October 2016.

Goodwill is subject to an annual impairment test based on the Group's operational split into Cash Generating Units (CGUs). The annual impairment testing consists in determining the recoverable value of the CGUs to which the goodwill is allocated and comparing them with the net book value of the assets concerned. The recoverable value of a CGU is determined based on its fair market value or value-in-use. The fair market value is determined based on the 2-last-year average EBITDA multiplied by a transaction multiple which reflects the acquisition value of Thom Group in 2010 and current market multiples (method combining comparable transactions and comparable stock market multiples). Value-in-use is obtained via the Discounted Cash Flows method (DCF).

Brands

Brands were valued based on forecast royalties perpetuity discounted. This approach equates a brand's value with the present value of theoretical royalties, net of tax and net of costs incurred in maintaining the brand. As such, royalties required to be paid for its use can be determined based on sales growth rates, which in turn depend on market outlook and royalty rates.

Only brands that are commercially viable have been valued.

Considering that Group's brands represent indefinite life intangible assets, they are not amortized but are subject to an annual impairment test.

Leasehold rights

Only the portion of business goodwill that is subject to legal protection is recorded under leasehold rights. Any residual amount is recognized under goodwill.

Legally-protected leasehold rights are not amortized. This is the case in France where the lessee of a commercial lease is entitled to an almost unlimited number of lease renewals. Consequently, the useful life of leasehold rights is undefined and indefinite.

Leasehold rights are subject to an annual impairment test. The required impairment is the difference between the net book value in the consolidated accounts and the fair market value determined from the valuations carried out by experts.

Leasehold rights related to stores abroad are not considered to have enough legal protection to be recognized under intangible assets. Consequently, the full amount paid is recorded under goodwill.

Other intangible assets

Software is recognized at cost and amortized over periods ranging from one to five years, depending on its useful life.

Property, plant and equipment

Property, plant and equipment are measured at cost. Depreciation is calculated based on the estimated useful lives of different categories of assets, in accordance with the legislation in force (straight-line method).

Estimated useful lives are as follows:

- Fixtures and fittings: 5 to 7 years
- Sales equipment: 3 years
- Office equipment: 3 years
- Office furniture: 10 years
- IT equipment: 3 years
- Machinery: 5 years

Fixed assets held under finance leases are recognized in the consolidated financial statements as if they had been acquired through financing. The assets are recorded under fixed assets on the balance sheet and depreciated according to their expected useful lives. The lease obligations are recognized under financial debts. Lease rentals are split between debt repayments and financial interests.

Financial assets

Non-consolidated investments are recorded at cost. An impairment is recognized if their fair value falls below their purchase price.

Guarantee deposits granted to lessors are recorded under other financial assets on the consolidated balance sheet.

Inventories

Inventories are valued at actual acquisition costs when monitored on a unit basis and are valued under the weighted average cost method when monitored by reference. Actual cost and weighted average cost are both net of rebates as well as gold and US-dollar hedging costs (recorded when incurred).

Inventory depreciation is recorded based on losses observed on defective products during the fiscal year compared to the opening balance. The loss rates thus calculated, after deductions of re-invoicing to suppliers and / or the melting value of gold products, are applied to inventories at closing, according to their ageing. The weight of the stocks by age is also tested, the change in inventories of the highest age group (as a % of the total stock) is depreciated at 100%.

Depreciation of raw materials is recorded when the market price is lower than the purchase price.

Trade receivables and related accounts

Trade receivables are recorded at their nominal value. A provision for depreciation is recognized when their recoverable value is lower than their net book value. Recoverable value is measured based on the overdue amounts and the age of the receivables.

Prepaid expenses

Prepaid expenses mainly include rents, insurance premiums and leasehold rights. Lease rights paid to lessors when opening new stores in shopping centers are recognized in the income statement over the duration of the lease.

Loan-issuance fees, bond discounts and bond premiums

Loan issuance fees are capitalized and amortized on a straight-line basis over the loan duration.

When bonds are issued above par, the premium is recorded as a liability and progressively recognized as a financial income over the bond duration.

When bonds are issued below par, the discount is recorded as an asset and progressively recognized as a financial expense over the bond duration.

Marketable securities

Marketable securities are recognized at cost. An impairment is recognized when their market value falls below their acquisition cost.

Deferred tax

Deferred taxes are recorded according to the liability method on the temporary differences between the carrying amount and tax base of assets and liabilities. Deferred taxes are measured using the enacted tax rates at the closing date expected to apply to taxable income when the temporary differences are expected to reverse. Deferred tax assets are recognized for tax loss carryforwards, but they are impaired if their recovery is not likely.

Provisions for risks and charges

Provisions for risks and charges are recognized for probable outflows of resources to third parties, without any benefit in return for the Group. They are estimated based on the most probable assumptions at the reporting date.

In April 2001, the Group launched a loyalty card scheme, which entitles customers a voucher after five purchases. The voucher amounts to 10% of the total amount paid for the five purchases and can only be used for subsequent purchases.

In compliance with Opinion no. 2004-E issued on 13 October 2004 by the French National Accounting Board, the Group recognizes provisions for customers' vested rights from first purchase and loyalty card issuance. Vested rights are calculated from the issuance date of the loyalty card, based on the estimated probability that a voucher will be issued and used, and using the average value of vouchers adjusted to cost price.

Foreign currency transactions

They mainly relate to purchases in foreign currencies. These purchases are initially recorded at the actual spot rate at the time the transaction is made. Foreign currency gains or losses generated by the hedging instruments implemented by the Group are then included in the costs of goods purchased.

Post-employment benefits

At retirement, Group's employees in France receive an indemnity in accordance with the provisions of the watch-jewellery retail collective agreement. This commitment represents an off-balance sheet item. The corresponding costs are incurred in the salaries on the effective year of employee departure.

In Italy, the TFR (Trattamento di fine Rapporto) is based on a compulsory employer contribution of 7.4% of gross salary. The expenses and liabilities are recorded in the income statement and the balance sheet. A portion of the TFR can be allocated to funds. Subscription to these funds is voluntary. The contribution is shared between the employee and the company.

In Germany, post-employment benefits are based on a compulsory employer contribution of 10% of gross salary. The expenses and liabilities are recorded in the income statement and the balance sheet.

Non-recurring income and expenses

Non-recurring income and expenses represent items arising from events or transactions that are clearly distinct from the ordinary activities of the Group. They mainly include store pre-opening costs (staff costs, rents, fees) and the costs related to disposed or closed stores, except for changes in depreciation of leasehold rights that are recognized in operating income and expenses.

4. Consolidation scope

As of 30 September 2020, the Group consisted of the following companies:

Consolidation scope						
Company	Legal form	Country	Control %	Interest %	Entry Date	Consolidation method
Thom Group	SAS	France	100.00%	100.00%	01/10/2010	Full consolidation
Thom	SAS	France	100.00%	100.00%	14/10/2010	Full consolidation
Histoire d'Or Monaco	SARL (Monaco)	Monaco	99.99%	99.99%	02/03/2011	Full consolidation
Histoire d'Or Belgium	SA (Belgium)	Belgium	100.00%	100.00%	14/10/2010	Full consolidation
Histoire d'Or - Joalharia e Relojoarl	Portuguese law	Portugal	100.00%	100.00%	14/10/2010	Full consolidation
Thom Asia	Hong Kong law	Hong-Kong	100.00%	100.00%	avr. 2011	Full consolidation
Thom India	Indian law	India	100.00%	100.00%	avr. 2014	Full consolidation
Thom Nederland	BV	Netherlands	100.00%	100.00%	24/02/2015	Full consolidation
Oro Vivo	AG	Germany	100.00%	100.00%	17/10/2016	Full consolidation
Stroili Oro	S.p.A	Italy	100.00%	100.00%	13/10/2016	Full consolidation
Thom Up	SAS	France	100.00%	100.00%	11/05/2018	Full consolidation
Histoire d'Or Luxembourg	SARL (Lux)	Luxembourg	100.00%	100.00%	01/06/2018	Full consolidation
Jools	SAS	France	100.00%	100.00%	28/05/2018	Full consolidation
Thom Trade	SAS	France	100.00%	100.00%	28/03/2019	Full consolidation
Thom Trade Italy	Srl	Italy	100.00%	100.00%	27/05/2019	Full consolidation

The closing date for all Group companies is 30 September, except for Thom India due to local legislation.

Investments in Economic Interest Groups (EIG) which manage shopping centers and over which the Group has no significant influence are disclosed under financial assets.

One new legal Chinese entity “Duo Mu Jewellery” with the Wholly Foreign Owned Enterprise (WFOE) is being registered as of 30 September 2020.

5. Comparability

There were no significant events which would have materially affected the comparability of the consolidated accounts of fiscal years 2019 and 2020 presented in the notes to the financial statements.

The merger of both Italian legal entities HDO S.r.l and Stroili Oro S.p.A. during the period may lead to changes in accounts allocation. These restatements have been identified in a dedicated section, like in the bridge tables presented in the notes to the financial statements.

6. Notes to the Balance Sheet

a. Goodwill

Goodwill					
In €m	**Opening**	**Acquisition**	**Disposal**	**Reclass.**	**Closing**
Gross					
France	390.5	-	(3.9)	-	386.6
Italy	89.3	-	-	-	89.3
RoE	4.0	-	(0.3)	0.1	3.7
Goodwill, gross	**483.7**	**-**	**(4.2)**	**0.1**	**479.6**
Amortization					
France	(115.3)	-	1.2	-	(114.1)
Italy	(2.2)	-	-	-	(2.2)
RoE	(0.2)	-	0.1	-	(0.2)
Amortization	**(117.8)**	**-**	**1.2**	**-**	**(116.5)**
Amortization					
Fance	275.2	-	(2.7)	-	272.5
Italy	87.1	-	-	-	87.1
RoE	3.7	-	(0.2)	0.1	3.6
Goodwill, net	**366.0**	**-**	**(3.0)**	**0.1**	**363.1**

Note: Until September 30th, 2016, goodwill was amortized over a 20-year period. Amortization started on October 14th, 2010 for the acquisitions of Histoire d'Or Europe (France) and Financière MO Holding (France) Groups and from the relevant acquisition dates for the assets acquired in Belgium (RoE) and Italy.

Since October 1st, 2016, Thom Group SAS has qualified the goodwill utilization period as unlimited. Consequently, no goodwill amortization has been recognized since 1 October 2016, in accordance with paragraph 21130 of CRC Regulation No. 99-02.

Goodwill was subject to an annual impairment test based on the Group's operational split into Cash Generating Units (CGUs). The annual impairment test consists in determining the recoverable amounts of the CGUs to which the goodwill is allocated and comparing them with the carrying amounts of the relevant assets. The recoverable value of an CGU is determined based on fair market value, which is obtained with the multiple valuation method (cf. note 3.c). Value-in-use is obtained via the Discounted Cash Flows method (DCF). No impairment loss was recognized as of September 30th, 2020 as a result of the annual impairment tests.

The disposals for the year relate to the business goodwill of the stores that were sold or closed in France for a total amount of (3.0) million euros in net book value.

b. Intangible assets

Intangible assets						
In €m	**Opening**	**Acquisition**	**Disposal**	**Reversal**	**Reclass.**	**Closing**
Gross						
Leasehold rights	182.5	0.1	(6.1)	-	0.4	176.9
Trademarks	136.7	0.0	(0.0)	-	-	136.7
Software	17.0	1.2	(0.7)	-	1.7	19.2
Other	1.9	-	-	-	-	1.9
Intangible assets in progress	10.5	10.1	-	-	(1.6)	18.9
Gross intangible assets	**348.5**	**11.4**	**(6.8)**	**-**	**0.5**	**353.6**
Amortization and depreciation						
Leasehold rights	(53.7)	(8.7)	1.9	3.1	(0.4)	(57.9)
Trademarks	(0.7)	(0.2)	0.0	-	0.0	(0.8)
Software	(12.4)	(2.1)	0.7	-	0.0	(13.8)
Other	(1.6)	(0.0)	-	-	(0.0)	(1.6)
Intangible assets in progress	-	-	-	-	-	-
Amortization and depreciation	**(68.3)**	**(11.0)**	**2.6**	**3.1**	**(0.4)**	**(74.1)**
Net						
Leasehold rights	128.8	(8.6)	(4.2)	3.1	(0.0)	119.0
Trademarks	136.1	(0.1)	(0.0)	-	0.0	135.9
Software	4.6	(1.0)	0.0	-	1.7	5.4
Other	0.3	(0.0)	-	-	(0.0)	0.3
Intangible assets in progress	10.5	10.1	-	-	(1.6)	18.9
Net intangible assets	**280.2**	**0.4**	**(4.2)**	**3.1**	**0.1**	**279.5**

Note: As of September 30th, 2020, leasehold rights amounted to 119 million euros net book value and mainly relate to stores in France. Leasehold rights were subject to impairment tests. The required impairment is the difference between the net book value in the consolidated accounts and the fair market value determined from the valuations carried out by experts (cf. note 3.c).

As of September 30th, 2020, brands were recognized in the Group's balance sheet for 135.9 million euros net book value and mainly include: Stroili at 103 million euros, Histoire d'Or at 26.9 million euros, Trésor at 2.8 million euros, Franco Gioielli at 1.7 million euros and Marc Orian at 1.5 million euros.

Each brand was subject to an annual impairment test. They were valued based on the discounted cash-flows method, i.e. by discounting forecast royalties to perpetuity (cf. note 3.c). The net book values of some brands are significantly lower than their value in use at the closing date for the Group's consolidated financial statements.

Some intangible assets such as business goodwill are not recognized as such on the balance sheet and are reclassified to goodwill.

The increase of 8.5 million euros in intangible assets in progress mainly relates to SAP and Salesforce projects. Following the partial deployment of Salesforce in France during the period, a first batch has been activated.

c. Property, plant and equipment

Property, plant and equipment (PPE)							
In €m	Opening	Acquisition	Disposal	Reversal	Capitalization of leasing contracts	Reclass.	Closing
Gross							
Land	0.0	-	-	-	-	-	0.0
Buildings	0.2	0.0	-	-	-	-	0.2
Technical facilities, plant and equipment	10.5	0.4	(0.8)	-	-	1.2	11.2
General facilities	285.3	6.7	(11.2)	-	-	7.9	288.8
Tangible assets held under finance leases	13.5	-	(0.4)	-	0.5	-	13.6
PPE in progress	3.8	7.3	-	-	-	(9.2)	1.9
Gross property, plant and equipment	**313.3**	**14.5**	**(12.4)**	**-**	**0.5**	**(0.2)**	**315.7**
Amortization and depreciation							
Land	-	-	-	-	-	-	-
Buildings	(0.1)	(0.0)	-	-	-	-	(0.1)
Technical facilities, plant and equipment	(7.8)	(1.4)	0.3	-	-	0.1	(8.8)
General facilities	(206.3)	(23.9)	9.8	2.4	-	(0.1)	(218.2)
Tangible assets held under finance leases	(10.6)	(0.4)	0.4	-	-	-	(10.5)
PPE in progress	(0.0)	-	-	-	-	-	(0.0)
Amortization and depreciation	**(224.8)**	**(25.7)**	**10.5**	**2.4**	**-**	**0.0**	**(237.6)**
Net							
Land	0.0	-	-	-	-	-	0.0
Buildings	0.1	0.0	-	-	-	-	0.1
Technical facilities, plant and equipment	2.6	(1.0)	(0.6)	-	-	1.3	2.4
General facilities	79.0	(17.2)	(1.3)	2.4	-	7.8	70.7
Tangible assets held under finance leases	2.9	(0.4)	-	-	0.5	-	3.1
PPE in progress	3.8	7.3	-	-	-	(9.2)	1.9
Net property, plant and equipment	**88.5**	**(11.2)**	**(1.9)**	**2.4**	**0.5**	**(0.2)**	**78.1**

Note: General facilities mainly include fixtures and fittings of stores' network.

Investments during the year include store refurbishments as well as fixtures and fittings of the stores opened or acquired during the year.

The Group has signed in 2020 some financial lease contracts in respect of store and IT equipment. These contracts have been accounted for in accordance with IAS17 as authorized by CRC Regulation No. 99-02. The assets acquired under finance leases were capitalized based on the present value of future lease payments for 0.5 million euros. They are then amortized on a straight-line basis over their estimated economic useful lives.

d. Financial assets

Financial assets						
In €m	**Opening**	**Acquisition**	**Diminution**	**Reversal**	**Reclass.**	**Closing**
Non-consolidated investments and related receivables	0.8	0.0	(0.0)	-	-	0.8
Loans granted to employees	0.1	0.0	(0.0)	-	-	0.1
Security deposits (on leases)	14.9	0.6	(0.4)	-	-	15.2
Gross financial assets	**15.8**	**0.7**	**(0.4)**	**-**	**-**	**16.0**
Depreciation	**(0.0)**	**-**	**-**	**0.0**	**-**	**-**
Net financial assets	**15.8**	**0.7**	**(0.4)**	**0.0**	**-**	**16.0**

Note: Guarantee deposits relate to the Group's real property leases. Changes during the year are explained by the guarantee deposits on stores opened or closed during the year, the recovery of deposits related to negotiation of first demand guarantee, as well as the reassessment of guarantee deposits conducted once per year by the lessors as part of contractual indexation.

Investments mainly relate to the non-controlling interests in the EIGs that own shopping centers. They are not consolidated.

e. Inventories

Inventories		
In €m	**30/09/2020**	**30/09/2019**
Raw materials and packaging inventories	22.6	9.9
Finished goods	183.8	206.9
Gross inventories	**206.4**	**216.8**
Depreciation	**(12.5)**	**(16.2)**
Net inventories	**193.9**	**200.6**

Note: Raw materials mainly include gold. The increase by €12.7m of inventories during the period is explained by a significant decrease of finished goods at Group constant scope due to a strict management of stock supply in accordance with the Covid Plan implemented by the Group, more than fully compensated by the increase in physical gold stock.

Group hedge policy remains unchanged, but, considering the erratic evolution of the rates during Covid-19 crisis and its impact on forwards prices, Group has optimized hedging costs by favouring storage of part of the physical gold acquired in the stores, rather than market swaps (cf. Off Balance Sheet commitments).

Stroili's and Oro Vivo's contributions to net inventories as of 30 September 2020 were 85.1 million euros and 12.3 million euros respectively.

Finished goods are mainly located in stores. The decrease in net inventories of 23.1 million euros recorded over the year is mainly explained by actions undertaken to optimize supply chains and stores' network development (net change in openings of (29) retail outlets).

Inventory depreciation is recorded based on losses on defective and unsold products of the year, compared to previous year's inventories. This depreciation is completed by a test on the weights of slow-moving items.

f. Trade receivables and related accounts

Trade receivables and related accounts		
In €m	**30/09/2020**	**30/09/2019**
Trade receivables, gross	7.7	8.7
Impairment	(0.1)	(0.2)
Trade receivables, net	**7.6**	**8.5**

Note: Trade receivables mainly include invoicing to suppliers (centralization, marketing and commercial cooperation services), to affiliates (sales of finished goods, royalties) and to training organisms.

Trade receivables and related accounts are all due within less than one year.

g. Other receivables

Other receivables		
In €m	**30/09/2020**	**30/09/2019**
Donwpayments and deposits to suppliers	8.9	3.1
Credit notes from suppliers	10.4	9.6
Insurance receivables	0.3	0.2
Personnel receivables	1.5	0.9
VAT	11.5	12.1
Income tax receivables	1.1	3.5
French employment incentive tax credit (CICE)	0.2	4.5
Other tax receivables (including IRES/IRAP)	2.1	1.7
Other	2.0	1.3
Other receivables - Gross	**38.0**	**36.9**
Depreciation	**(0.2)**	**(0.1)**
Other receivables - Net	**37.8**	**36.8**

Note: Other receivables are all due within less than one year.

The increase in Downpayments and deposits to suppliers at the end of September 2020 is explained by the Group support to its suppliers during the sanitary crisis.

CICE receivable as of September 2019 has been used during the period, as a compensation with an income tax payable.

h. Cash and cash equivalents

Cash and cash equivalents		
In €m	**30/09/2020**	**30/09/2019**
Securities	0.1	-
Cash & cash equivalents	196.6	64.7
Cash and cash equivalents	**196.7**	**64.7**

i. Shareholders' equity

Equity								
In €m	Share capital	Share premium	Consolidated reserves	Net income	Currency translation reserves	Equity attributable to owners of the parent	Non-controlling interests	Total equity
Equity at 30 September 2019	**219.5**	**2.7**	**(200.7)**	**8.2**	**0.0**	**29.8**	**0.0**	**29.8**
Increase in share capital	52.8	-	-	-	-	52.8	-	52.8
Increase in share capital by bonds convertible into share:	100.0	-	0.1	-	-	100.1	-	100.1
Allocation of net income	-	-	8.2	(8.2)	-	-	-	-
Net income for the year	-	-	-	1.9	-	1.9	0.0	1.9
Currency translation adjustment	-	-	(0.0)	-	(0.0)	(0.0)	-	(0.0)
Equity at 30 September 2020	**372.4**	**2.7**	**(192.4)**	**1.9**	**0.0**	**184.6**	**0.0**	**184.6**

Note: The share capital of 372,366,742€ is divided in (i) 219,532,679 ordinary shares of 1 euro each, (ii) 481,998 preferred shares of 1 euro each, fully subscribed and paid, and (iii) 2,176,458,066 preferred shares of 0.07 euros each (ADP R4).

Share premium is made of:

- 2,540,000 share purchase warrants issued on October 14th, 2010 at a unit price of 1 euro for a total of 2,540,000 euros. Each warrant gives to its holder the right to purchase a number of company shares at the price of 1 euro per share; the number of shares that may be purchased will depend on economic criteria determined upon the sale of the company shares by the main Shareholder.
- The capital increase of 2,000 preference shares on April 30th, 2015 is accompanied by an additional paid-in capital of 190,000 euros. Each preference share gives to its holder the right to benefit from any issue of new shares according to economic criteria determined upon the sale of the company shares by the largest Shareholder.

Basic and diluted net earnings per share were a profit of 0.01 euro as of September 30th, 2020 vs. a profit of 0.04 euro as of September 30th, 2019.

j. Provisions for risks and charges

Provisions for risks and charges						
In €m	Opening	Increase	Reversal used	Reversal unused	Reclass.	Closing
Provisions for loyalty vouchers	8.3	8.2	-	(7.8)	(0.4)	8.2
Social litigations	1.5	0.4	(0.1)	(0.2)	(0.2)	1.5
Commercial, tax and other litigations	1.4	1.3	(0.4)	(0.2)	0.6	2.7
	11.1	**10.0**	**(0.5)**	**(8.2)**	**0.0**	**12.4**

Note: Provisions in respect of loyalty scheme are calculated based on probable future costs incurred by the Group (cf. note 3.c).

k. Deferred tax

Deferred tax assets In €m	Opening	Variation	Reclass.	Closing
Tax loss carried forward	8.8	(3.6)	-	5.3
Non-deductible financial insterests carried forward	2.7	0.2	-	2.9
Employee profit-sharing	1.5	(0.2)	-	1.2
Hedging instruments	1.3	(1.3)	-	-
Amortization, depreciation and provision	5.5	(1.2)	-	4.3
Leasehold rights and business goodwill	1.5	(0.2)	-	1.3
Fair value of assets	1.9	(0.3)	-	1.6
Other temporary differences	0.8	(0.4)	-	0.4
Netting of deferred tax assets and liabilities by tax jurisdiction	(14.2)	6.0	-	(8.2)
Total deferred tax assets	**9.8**	**(1.0)**	**-**	**8.8**

Deferred tax liabilities In €m	Opening	Variation	Reclass.	Closing
Leasehold rights and business goodwill	13.1	(1.5)	-	11.6
Finance leases	0.4	-	-	0.4
Other temporary differences	0.7	(0.6)	-	0.1
Netting of deferred tax assets and liabilities by tax jurisdiction	(14.2)	6.0	-	(8.2)
Total deferred tax liabilities	**-**	**3.9**	**-**	**3.9**

Note: Deferred tax assets on tax loss carryforwards mainly relate to France and amounted to 5.3 million euros as of September 30th, 2020 against 8.8 million euros as of September 30th, 2019. The decrease of (3.6) million euros is mainly attributable to their utilization, France having reported taxable profit for the year.

As of September 30th, 2020, without response from Italian tax administration, activated tax loss carryforwards on HDO Srl remain provisioned on Stroili (3.9 million euros potential tax savings). As a precautionary measure, Oro Vivo tax loss carryforwards have not been activated and represent a potential saving of 3.0 million euros.

I. Financial debts

Financial debt					
In €m	Less than one year	1 to 5 years	More than 5 years	30/09/2020	30/09/2019
Principal and capitalized interests	-	170.5	-	170.5	276.2
Accrued and capitalized interests of the year	-	20.0	-	20.0	32.3
Convertible bonds	**-**	**190.5**	**-**	**190.5**	**308.5**
				-	-
Principal	8.4	556.6	-	565.0	565.0
Accrued interests	3.7	-	-	3.7	3.7
Senior Debt	**12.1**	**556.6**	**-**	**568.7**	**568.7**
				-	-
RCF	-	89.8	-	89.8	-
Accrued interests, accrued commitment fees	0.1	-	-	0.1	0.2
Bank loans	**0.1**	**89.8**	**-**	**89.9**	**0.2**
				-	-
Bank overdrafts	**-**	**-**	**-**	**-**	**-**
				-	-
Debts on finance leases	0.5	1.1	-	1.6	1.4
Other financial debts	**0.5**	**1.1**	**-**	**1.6**	**1.4**
	-	-	-	-	-
Total financial debts	**12.7**	**838.0**	**-**	**850.7**	**878.8**

Convertible bonds

Thom Europe has issued 3 bonds convertible into shares (OCA): 225,049,000 convertible bonds (OCA1) and 3,360,000 convertible bonds (OCA2) issued on October 14th, 2010 with a nominal value of 1 euro; and 1,140,000 convertible bonds (OCA3) issued on October 14th, 2011 with a nominal value of 1 euro. The OCA1, OCA2 and OCA3 that are not converted into shares will be redeemed on August 7th, 2025. The bonds can be converted into shares at any time within the 30 days prior to the maturity date. The new shares will be paid-up based on one new share with a nominal value of 1 euro for 10 bonds with a nominal value of 1 euro each.

The OCA1, OCA2 and OCA3 bear fixed-rate interest. Interest is capitalized on October 14 each year and is redeemable at the maturity of the bonds. The interest expenses of the year were 33.6 million euros.

Thom Group has proceeded to two OCA reimbursements during the year for a total amount of 152,199,975€:

- On 10 March 2020: 17,393,632 OCA1, 259,688 OCA2 and 88,109 OCA3 then;
- On 28 September 2020: 31,222,734 OCA1, 536,982 OCA2 and 196,783 OCA3.

Senior Debt

The tranche B of the senior debt (Term Loan B) was withdrawn on August 7th, 2017 for an amount of 565 million euros, redeemable at maturity in 2024. The TLB bears interest at Euribor floored at 0% plus a 4.25% margin as of 30 September 2020. The Group's debt reduction (de-leveraging) has resulted into an improvement in the applicable margin.

The 1% Original Issue Discount (OID) on the subscription of the TLB (Term Loan B) is accounted for as a redemption premium. It amounts to 5.7 million euros and is amortized over the term of the debt.

According to the TLB, Thom Group must respect a debt ratio (financial net debt/ TLB EBITD) which should be below 7 at the end of each quarter. This bank covenant is respected at 30 September 2020.

Bank loans

In addition to the TLB, a revolving credit facility (RCF) of 90 million euros is available for a period of 6 years, bearing interest at Euribor floored at 0% plus a 3.25% margin for the drawn amount and 35% of the same rate for the undrawn amount. The Group's debt reduction (de-leveraging) has resulted into an improvement in the applicable margin.

As of September 30th, 2020, this credit line was withdrawn for € 89.8 m.

m. Employee profit-sharing reserve

Profit-sharing reserve		
In €m	**30/09/2020**	**30/09/2019**
Profit-sharing reserve	2.3	2.2
Profit-sharing reserve	**2.3**	**2.2**

Note: The employee profit-sharing reserve is the amount placed by employees in blocked current account. The account bears interest at the average rate of yield of bonds in private companies increased by 1 percentage point. The management of employee profit-sharing is outsourced to Amundi.

n. Trade payables and related accounts

Trade payables and related accounts		
In €m	**30/09/2020**	**30/09/2019**
Trade payables and related accounts	70.6	81.5
Trade payables and related accounts	**70.6**	**81.5**

Note: Trade payables and related accounts are due within less than one year.

o. Payroll and tax payables

Payroll and tax liabilities		
In €m	**30/09/2020**	**30/09/2019**
Payroll liabilities	21.4	24.8
Social security contributions	17.9	14.1
TFR	2.4	2.7
Employee profit-sharing	3.9	4.6
VAT	9.1	14.1
Income tax	1.5	5.6
Other taxes and duties	4.5	5.2
Total payroll and tax liabilities	**60.7**	**71.1**

Note: Payroll and tax payables have a due date of less than one year, except for the TFR (Trattamento di fine rapporto) in Italy of 2.4 million euros and the employee profit-sharing reserve of the year in France of 3.9 million euros which are both due for more than 5 years.

As mentioned in note 3.c, a portion of the TFR can be allocated to funds. Subscription to these funds is voluntary. The contribution is shared between the employee and the company.

The decrease of payroll liabilities during the fiscal year is explained by the use of part-time activity measures in the Group and by a reduced headcount.

The increase in Social security contributions is explained by the postponement of pension expenses payments for 4.7 million euro in accordance with measures implemented during the sanitary crisis.

The employee profit-sharing in France will be allocated to the profit-sharing reserve account during the financial year 2020-2021 for the portion placed by employees in blocked current account (cf. note 6.m).

p. Other payables

Other current liabilities		
In €m	**30/09/2020**	**30/09/2019**
Downpayments from customers	5.2	3.5
Credit notes issued to customers	1.4	1.2
Gift cards issued	0.7	0.6
Vouchers issued	0.6	0.6
Other	0.9	1.4
Total other current liabilities	**8.8**	**7.3**

7. Notes to the income statement

a. Sales

Sales		
In €m	**30/09/2020**	**30/09/2019**
France	410.9	433.9
Foreign	222.4	266.4
Sales to affiliates	4.1	3.4
Network sales	**637.3**	**703.8**
Sales of precious metals	30.3	30.6
Invoicing to suppliers	1.2	1.8
Purchasing & logistics services	0.3	0.4
Other income	0.6	0.6
Other sales	**32.4**	**33.3**
Total sales	**669.7**	**737.1**

Note: Stroili's contribution to sales of precious metals amounted to 21.4 million euros for the year ended 30 September 2020.

b. Reversals of provisions

Reversals of provisions		
In €m	**30/09/2020**	**30/09/2019**
Provisions for risks and charges	10.0	8.2
Impairment of inventories	7.9	7.2
Impairment of fixed assets	3.5	7.4
Impairment of current assets	0.1	0.1
Total reversals of provisions	**21.5**	**22.9**

Note: Reversals of provisions for risks and charges include a reversal of opening provisions for loyalty vouchers of 7.8 million euros.

Provisions for depreciation of inventories in the opening balance sheet are systematically reversed and new provisions are fully recorded at the closing date, in the same way as provisions for loyalty vouchers (cf. note 7.h).

Reversals of depreciation for fixed assets mainly include the reversals of depreciation of leasehold rights of closed stores of 3.0 million euros.

c. Other operating income

Other operating income			
In €m		**30/09/2020**	**30/09/2019**
Income from insurance for theft of merchandise		0.3	0.4
Income from insurance for destruction of goods		0.1	0.2
Reinvoicing of training costs		0.0	0.5
Royalty from franchise		0.5	0.4
Other	(1)	3.9	6.0
Total other operating income		**4.8**	**7.5**

(1) Other income of 3.9 million euros includes the capitalization of ERP-SAP integration costs and Salesforce ecommerce platform for 2.1 million euros.

d. Costs of goods sold

Costs of goods sold			
In €m		**30/09/2020**	**30/09/2019**
Purchase of finished goods and raw materials		(206.1)	(233.3)
Change in inventories		(11.0)	(8.5)
Total costs of goods sold		**(217.1)**	**(241.8)**

e. Other operating expenses

Other operating expenses			
In €m		**30/09/2020**	**30/09/2019**
Real property leases		(74.3)	(80.9)
Expenses related to real property leases		(10.5)	(10.5)
Advertising		(20.6)	(20.0)
Transport		(6.9)	(7.1)
Insurance		(1.8)	(1.9)
Maintenance		(5.0)	(6.0)
Consultancy fees		(8.0)	(9.3)
Bank fees		(3.1)	(3.2)
Information system and technology		(3.4)	(2.5)
Telecommunication and network expenses		(3.3)	(3.1)
Energy and utilities		(4.6)	(5.5)
Travel, accomodation and courtesy costs		(3.1)	(4.2)
Other	(1)	(13.2)	(13.1)
Toal		**(157.8)**	**(167.5)**

(1) Other costs for (13.2) million euros mainly include the cost of temporary workers, the lease costs of company cars and other miscellaneous charges.

f. Taxes and duties

Taxes and duties		
In €m	**30/09/2020**	**30/09/2019**
Regional levy on French companies (CFE)	(1.2)	(1.4)
Payroll-related taxes	(1.0)	(1.9)
Taxes on commercial premises	(1.0)	(0.8)
Levy on French companies to fund social security (CSS)	(0.7)	(0.7)
CVAE	(3.9)	(4.0)
Other taxes and duties	(0.8)	(0.8)
Total taxes and duties	**(8.7)**	**(9.7)**

g. Personnel expenses

Personnel expenses		
In €m	**30/09/2020**	**30/09/2019**
Wages and salaries	(130.0)	(147.8)
Social security charges	(40.0)	(45.4)
French employment incentive tax credit (CICE)	-	0.7
Employee profit-sharing	(4.6)	(5.5)
Total personnel expenses	**(174.7)**	**(198.0)**

Note: Effective January 1st, 2019 the French tax credit for employment and competitiveness (CICE) was replaced by a reduction in social security contributions (cf., notes 6.g and 7.k).

The decrease in Wages and salaries is explained by the use of part-time activity measures in all the Group subsidiaries in the context of the Covid-19 sanitary crisis.

Employee profit-sharing includes social contribution.

h. Depreciation, amortization and provisions

Depreciation, amortization and provisions		
In €m	**30/09/2020**	**30/09/2019**
Fixed assets depreciation and amortization	(36.3)	(37.9)
Inventory depreciation	(4.2)	(9.5)
Trade receivables depreciation	(0.0)	(0.1)
Provisions for risks and charges	(9.9)	(8.8)
Amortization of borrowing issuance costs	(1.3)	(1.3)
Total	**(51.8)**	**(57.5)**

Note: Provisions for risks and charges include provisions for loyalty vouchers of 8.2 million euros.

Provisions for depreciation of inventories in the opening balance sheet are systematically reversed and new provisions are fully recorded at the closing date, in the same way as provisions for loyalty vouchers.

i. Financial income and expenses

Financial income and expenses		
In €m	**30/09/2020**	**30/09/2019**
Interests on bank borrowings and Revolving Credit Facility	(25.9)	(26.1)
Amortization of bond redemption premium	(0.8)	(0.8)
Capitalized interests on convertible bonds	(34.2)	(33.5)
Financial expenses for customer deferred payments	(0.8)	(0.9)
Foreign currency exchange	0.1	0.9
Other	(0.1)	(0.6)
Financial income (expense)	**(61.6)**	**(61.0)**

j. Non-recurring income and expenses

Non-recurring income and expenses			
In €m		**30/09/2020**	**30/09/2019**
Pre-opening costs	**(1)**	(1.1)	(2.5)
Tax and payroll-related adjustments and commercial litigations		-	-
Other income and expenses	**(2)**	(1.8)	(2.2)
Non-recurring gain (loss) on operations		**(2.9)**	**(4.6)**
Income from disposal of leasehold rights (and equivalents)		0.4	0.3
Net book values of disposed fixed assets	**(3)**	(9.1)	(8.9)
Non-recurring amortization, depreciation and provisions	**(4)**	(1.4)	(2.3)
Non-recurring gain (loss) on disposal of fixed assets		**(10.1)**	**(10.9)**
Total non-recurring income & expenses		**(13.0)**	**(15.5)**

(1) Pre-opening costs of (1.1) million euros are costs incurred for the opening of new stores or for the refurbishment of existing stores when the refurbishment involves store closure for an extended period. These expenses mostly include rents, staff costs and fees.

(2) Other non-recurring income and expenses of (1.8) million euros net mainly include:

- (2.3) million euros of price gaps for sanitary consumables. The price of these consumables has been strongly impacted at the beginning of the sanitary crisis by shortages and an excessive demand. Then, following a significant increase of the offer, the prices of these consumables have drastically decreased and have continued decreasing after year-end. The entire sanitary consumable expenses have been booked in the operating profit at the purchase price of September 2020. The gap between actual purchase price and September 2020 purchase price has been reclassed to extraordinary expenses.
- An income of 0.7 million euros related to payments received following the early termination of a lease contract.

(3) The net book value of disposed fixed assets of (9.1) million euros mainly include the disposals of goodwill, leasehold rights and facilities of closed stores, as well as scraps in respect of store refurbishments.

(4) Non-recurring amortization and depreciation mainly include:

- An extraordinary depreciation for fake products for (0.9) million euros corresponding to proportionate shares of depreciation for previous years.
- A statistical provision of (0.5) million euros for refurbishment costs of German stores

k. Income tax expense

Breakdown of net tax expense

Income tax		
In €m	**30/09/2020**	**30/09/2019**
Current income tax	(4.6)	(8.8)
Deferred income tax	(4.9)	0.5
Total income tax	**(9.5)**	**(8.3)**

Note: The net income tax expense for the year amounted to (9.5) million euros vs. a (8.3) million euros last year and is detailed as follows:

- The net income tax expense recognized by the tax group for French companies amounted to (7.5) million euros against (6.6) million euros last year. The increase of (1.1) million euros is attributed to the Group's operating performance despite the sanitary crisis.
- The net income tax expense recognized by foreign subsidiaries amounted to (2.0) million euros against (1.7) million euros last year.

Reconciliation of theoretical tax expense to effective tax expense

Tax proof			
In €m		**30/09/2020**	**30/09/2019**
Income before tax		11.4	16.5
Theoretical tax rate in France		34.40%	34.43%
Theoretical tax expense expected		**(3.9)**	**(5.7)**
Tax rate differential on foreign income		0.4	1.7
Non-deductible financial expenses in France		(3.2)	(5.2)
Utilization and/or recognition of non-deductible financial expenses carryforwards	**(1)**	-	3.4
Depreciation and/or unrecognition of tax losses	**(2)**	(0.8)	(1.1)
IRAP		(1.0)	(1.4)
CICE	**(3)**	-	0.2
Other		(1.0)	(0.2)
Effective tax		**(9.5)**	**(8.3)**

(1) Stroili's financial interest expenses that could not be deducted in prior years and that can be carried forward without time limitation have been activated in the statutory accounts.

(2) Oro Vivo's tax loss carryforwards of the year have not been recognized as a measure of prudence.

(3) Effective January 1st, 2019, the French tax credit for employment and competitiveness (CICE) was replaced by a reduction in social security contributions (cf. notes 6.g et 7.g).

8. Other information

a. Subsequent events

A second lockdown has been enforced in France starting end of October 2020.

Group's activity has been strongly impacted, during this period, because of the partial or total shutdown of its subsidiaries' activity. Employees impacted by shops closings have been placed in partial unemployment.

Similar kind of cost saving plan as for the 1ts lockdown has been implemented to face stores shutdown.

Financial impact of this second lockdown is not known yet.

b. Off-balance sheet commitments

i. Post-employment benefits (France)

As of September 30th, 2020, post-employment benefits in France are off-balance sheet and amounted to 696 thousand euros. The main actuarial assumptions remain the same as for the previous year and are as follows:

- Discount rate: 0.73%
- Salary increase rate: 2.5%
- Calculation of employee turnover by socio-professional category based on historical data at each entity
- INSEE mortality table (T168)

ii. Pledges

- Pledged securities accounts containing Thom shares for the benefit of TLB investors and issuers of the Revolving Credit Facility
- Pledge on inter-company loans and current accounts held by Thom Europe and Thom for the benefit of the above-mentioned parties
- Pledge on bank accounts of Thom Europe and Thom for the benefit of the above-mentioned parties
- Pledge on brands held by Thom Europe and Thom for the benefit of the above-mentioned parties

iii. Hedges

Due to its activity, the Group is exposed to changes in foreign exchange rate (USD/EUR), gold price and Euribor interest rate in respect of its senior debt. These changes may negatively impact the Group's earnings and financial statements. The Group follows a centrally administered risk management policy and uses various derivative financial instruments to hedge its exposure to these risks. Counterparties are selected based on their international ratings as well as for diversification purposes.

As of September 30th, 2020, the fair values of these instruments are as follows:

In m€		30/09/2020 Fair Value	On B/S	Off B/S	30/09/2019 Fair Value	On B/S	Off B/S
Currency hedge USD/EUR		(1.2)	-	(1.2)	1.7	-	1.7
Gold price hedge		0.8	-	0.8	1.9	-	1.9
Euribor hedge	(1)	1.1	0.8	0.3	0.0	0.4	(0.4)
Total		**0.8**	**0.8**	**(0.0)**	**3.6**	**0.4**	**3.2**

(1) Premiums paid for caps used for hedging Euribor interest rate related to the senior debt (TLB) have been recognized in the balance sheet and amortized over the duration of the contracts. The remaining balance amounted to 0.8 million euros as of September 30th, 2020 against 0.4 million euros as of September 30th, 2019. The increase is due to the conclusion of new contracts to extend the duration of the hedge.

Currency hedge

A significant portion of Group companies' purchases are denominated in USD. The EUR/USD exchange rate risk is hedged by currency forwards and structured product. As of September 30th, 2020, the Group's long positions aggregated 63.8 million USD (against 49.5 million USD as of September 30th, 2019), hedging nearly all its USD-denominated payment needs for the next fiscal year.

Currency hedge (purchase of USD against EUR)		
In USD million	**30/09/2020**	**30/09/2019**
Collar		
Notional amount in USD	**25.3**	**35.0**
Expiry:		
- due within one year	*11.0*	*35.0*
- due in more than one year	*14.3*	-
Forward contracts		
Notional amount in USD	**38.5**	**14.5**
Expiry:		
- due within one year	*33.5*	*14.5*
- due in more than one year	*5.0*	-

Gold fixing hedge

The Group purchases products containing gold at a minimum quantity of 1,600 ounces of gold per month. Gold price risk is hedged by swaps and synthetic calls. As of September 30th, 2020, the Group's long positions aggregated 12.800 ounces of gold, hedging the minimum purchase quantities of gold within 13 months following the end of this fiscal year.

Gold price hedge		
In ounces	**30/09/2020**	**30/09/2019**
Swaps		
Hedged quantity (ounces)	**-**	**6,480**
- Purchase against EUR	-	*7,600*
- Purchase against USD	-	*2,100*
- Sale against EUR	-	*(3,220)*
Expiry:		
- due within one year	-	*4,880*
- due between one and two years	-	*1,600*
Synthetic calls		
Hedged quantity (ounces)	**12,800**	**11,100**
- Purchase against EUR	*12,800*	*11,100*
- Purchase against USD	-	-
Expiry:		
- due within one year	*12,800*	*11,100*
- due between one and two years	-	-

Euribor interest rate hedge

Euribor interest rate risk related to the senior debt (TLB) is hedged through interest rate caps for 508.5 million euros until August 7, 2022, then for 282.5 million euros until August 7, 2023, and finally for 169.5 million euros until August 7, 2024.

iv. Commitments received

As of September 30th, 2020, the Group has a revolving credit facility of 90 million euros, of which 0.1 million euros are, by way of a letter of credit issued by a French bank participating in the RCF, used to counter-guarantee the guarantees granted by an Italian bank in favour of lessors.

The Group also has a guarantee payable on first demand to guarantee the payment of head office rents for an amount of 0.5 million euros.

v. Commitments given

Excess Cash-Flow due for FY19 for a total of 8.4 million euros in May 2020 will be reimbursed in May 2021 in agreement with the waiver dated 7 April 2020.

Other commitments given by Thom Group as of September 30th, 2020:

- Bank guarantees in favour of lessors for 1.9 million euros

Commitments given by Stroili as of September 30th, 2020

- Bank guarantees in favour of lessors for 15.4 million euros.

c. Headcount

The Group's headcount reached 4,623 Full-Time Equivalents (FTE) for the year ended September 30th, 2020, against 4,746 FTE las year. This decrease mainly results from the use of partial unemployment during the Covid-19 sanitary crisis.

d. Company officers' and directors' remuneration

The compensation paid during the last 12 months to the members of governing bodies cannot be disclosed as this would imply disclosing individual remuneration. No post-employment or long-term benefits have been granted to Senior Executives. No remuneration has been paid to the Chairman of Thom Group.

Attendance fees paid over the last 12 months amounted to 25 thousand euros net.

e. Statutory auditors' fees

Statutory auditor's fees	**30/09/2020**			**30/09/2019**		
In m€	**Deloitte**	**Aca-Nexia**	**Other**	**Deloitte**	**Aca-Nexia**	**Other**
Certification of statutory and consolidated accounts	0.3	0.1	0.0	0.3	0.1	0.0
Thom Group SAS	*0.0*	*0.0*	-	*0.0*	*0.0*	-
Fully consolidated subsidiaries	*0.2*	*0.1*	*0.0*	*0.2*	*0.1*	*0.0*
Services other than certification of accounts	-	-	-	-	-	0.0
Total	**0.3**	**0.1**	**0.0**	**0.3**	**0.1**	**0.0**

THOM GROUP

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