FY 2019/20

Financial Report

Kirk Beauty One GmbH

as at September 30, 2020

DOUGLAS

Content

Important Notice 1

Disclosure Regarding Forward-Looking Statements 2

Risk Factors 4

Management's Discussion and Analysis of Financial Condition and Results of Operations 35

Business 51

Management 72

Description of Certain Financing Arrangements 74

Certain Definitions 79

Consolidated Financial Statements

Consolidated Statement of Profit or Loss F-1

Consolidated Reconciliation from Profit or Loss to Total Comprehensive Income F-2

Consolidated Statement of Financial Position F-3

Statement of Changes in Group Equity F-5

Consolidated Statement of Cash Flows F-7

Notes to the Consolidated Financial Statements F-8

Segment Reporting F-9

Auditor's Report F-79

The consolidated statements have been prepared in millions of Euro (€ million). Due to rounding, numbers presented throughout this document may not add up precisely to the totals we provide and percentages may not precisely reflect the absolute figures.

This Financial Report was produced in-house with firesys

Important Notice

This financial report has been prepared exclusively for use by any holder of the Senior Secured Notes due 2022 or the Senior Notes due 2023 (collectively, the “Notes”) or any prospective investor, securities analyst, broker-dealer or any market maker in the Notes in accordance with Section 4.10 of the indentures relating to the Notes. This financial report may not be distributed to the press or to any other persons, may not be redistributed or passed on, directly or indirectly, to any person, or published, in whole or in part, by any medium or for any purpose. You agree to the foregoing by accepting delivery of, or access to, this financial report.

The information contained in this financial report has not been independently verified and no representation or warranty, express or implied, is made as to, and no reliance should be placed on, the fairness, accuracy, completeness, reasonableness or correctness of the information or opinions contained herein unless stated otherwise. None of Douglas, its subsidiaries or any of their respective employees, advisers, representatives or affiliates shall have any liability whatsoever (in negligence or otherwise) for any loss howsoever arising from any use of this document or its contents or otherwise arising in connection with this financial report. The information contained in this financial report is provided as at the date of this financial report and is subject to change without notice.

The information in this financial report does not constitute investment, legal, accounting, regulatory, taxation or other advice, and this financial report does not take into account your investment objectives or legal, accounting, regulatory, taxation or financial situation or other needs. You are solely responsible for forming your own opinions and conclusions on such matters and for making your own independent assessment of this financial report.

This financial report does not purport to contain all information that may be required by any party to assess Douglas, its business, financial condition, results of operations and prospects for any purpose. This financial report includes information Douglas has prepared on the basis of publicly available information and sources believed to be reliable. The accuracy of such information (including all assumptions) has been relied upon by Douglas, and has not been independently verified by Douglas. Any recipient should conduct its own independent investigation and assessment as to the validity of the information contained in this presentation, and the economic, financial, regulatory, legal, taxation and accounting implications of that information.

Disclosure Regarding Forward-Looking Statements

This financial report includes forward-looking statements. These forward-looking statements can be identified by the use of forward-looking terminology, including the terms “believes,” “estimates,” “aims,” “targets,” “anticipates,” “expects,” “intends,” “may,” “will” or “should” or, in each case, their negative, or other variations or comparable terminology. These forward-looking statements include matters that are not historical facts. They appear in a number of places throughout this financial report and include statements regarding our intentions, beliefs or current expectations concerning, among other things, our results of operations, financial condition, liquidity, prospects, growth, strategies and the industry in which we operate, other statements relating to our future business performance and general economic, regulatory and market trends and other circumstances relevant to our business.

By their nature, forward-looking statements involve risks and uncertainties because they relate to events and depend on circumstances that may or may not occur in the future. We caution you that forward-looking statements are not guarantees of future performance and that our actual results of operations, financial condition and liquidity and the development of the industry in which we operate may differ materially from those made in or suggested by the forward- looking statements contained in this financial report. In addition, even if our results of operations, financial condition and liquidity, and the development of the industry in which we operate are consistent with the forward-looking statements contained in this financial report, those results or developments may not be indicative of results or developments in subsequent periods. Important risks, uncertainties and other factors that could cause these differences include, but are not limited to:

- our future financial position and developments in international financial markets;
- our ability to implement our strategic plans and the impact of those plans on our financial position and results of operations;
- macroeconomic trends and developments in the markets in which we operate;
- our ability to successfully compete in our markets;
- our ability to obtain quality selective and exclusive products from our suppliers;
- risk of rising labor costs, as well as work stoppages, strikes or other collective actions, supply shortages and interruptions in our supply chain; and possible insolvency of suppliers;
- developments in the distribution of our products, including acceptance of internet retailing, user behavior on mobile devices, our ability to attract more internet traffic and translate such traffic into purchases;
- the risk of interruption to our operations as a result of failures in our information technology systems;
- technological advances and our ability to successfully expand our omni- and cross-channel capabilities;
- our ability to effectively integrate acquired businesses, future acquisitions and joint ventures, and achieve expected synergies as well as manage unexpected liabilities;
- our ability to anticipate and effectively respond to consumer tastes and trends and to offer our customers an inspirational and attractive purchasing experience online and in our stores;
- changes in the strength of our brands, the brands of our suppliers, products of our private label, the “Douglas Nocibé Collection”, or our reputation;
- our ability to identify suitable sites for our future stationary stores and our ability to negotiate, terminate or extend store leases on acceptable terms;
- changes in the competitive environment;
- changes in law and regulations and compliance with laws;
- protection of our and our suppliers’ intellectual property rights, including trademarks and domain names;
- currency effects;
- our ability to attract and retain key management and personnel;
- misappropriation of funds and products in our stores, warehouses and logistics centers and of customer data;
- legal proceedings and tax risks;
- seasonality;

- our substantial leverage and ability to generate sufficient cash to service our debt and to refinance these borrowings upon maturity and restrictive covenants in current and any future indebtedness; and
- risks associated with our structure and our other borrowings inclusive changes of trade credit.

We encourage you to read the sections of this financial report entitled *“Risk Factors,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Business”* for a more detailed discussion of the factors that could affect our future performance and the industry in which we are operating.

We undertake no obligation, and do not expect, to publicly update or publicly revise any forward-looking statement, whether as a result of new information, future events or otherwise. All subsequent written and oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this financial report.

Risk Factors

In addition to other information included in this Annual Report, the following risk factors should be read carefully in connection with evaluating Douglas and its business and this Annual Report. Any of the risks described below could have a material adverse impact on our business, prospects, results of operations and financial condition and could therefore have a negative effect on the trading price of the Notes and our ability to pay all or part of the interest or principal on the Notes. Additional risks not currently known to us or that we now deem immaterial may also harm us and affect your investment.

This Report also contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of various factors, including the risks described below and elsewhere in this financial report. See Section "Disclosure Regarding Forward-Looking Statements."

Risks Relating to Our Market Environment and Business

We are exposed to changes in general economic and political conditions

We are exposed to changes in the economic conditions in the markets in which we operate. These economic conditions include levels of employment, inflation or deflation, real disposable income, interest rates, taxation, currency exchange rates, the availability of consumer credit, levels of consumer debt, consumer confidence, consumer perception of economic conditions and related willingness or ability to spend, all of which are beyond our control.

After the financial crisis in 2008, the world had seen several years of economic growth before the world was hit by the COVID-19 pandemic, which is still ongoing in 2021.

As omni-channel retailer, we have been facing vast temporary store closures due to lockdowns decided by most of the European governments in spring and autumn/winter 2020/21. Although the majority of our stores could re-open step-by-step from end of April 20 onwards, store sales and performance have been kept heavily impacted since then due to the change in consumer behavior and some governmental restrictions. While traffic and sales in the stores have not reached pre-lockdown levels anymore, E-Commerce sales growth has strongly accelerated, though not being able to fully compensate the sales decline in the offline business.

To respond to this essential risk, and to limit the impact of the lower turnover on Douglas' liquidity, countermeasures were installed to reduce personnel and rent costs in the stores such as re-negotiation of payment terms and rental conditions as well as short time work. Additionally implemented approval steps have supported cuts in spending and investments. As a consequence, we have managed to safeguard liquidity; however, the impacts of COVID 19 keep being challenging in the light of the upcoming refinancing, and therefore influencing our business and operations.

The longstanding trend of shifting from store to e-commerce purchases was further reinforced by the COVID-19 pandemic. In response to this change in our customers' consumer behavior, around 500 of the currently around 2,400 stores across Europe will be closed. Most of the closings take place in the South-Western Europe region, which is particularly affected by the effects of the coronavirus pandemic and in which there is a very dense, partially overlapping branch network due to previous acquisitions. The necessary downsizing of the branch network goes hand in hand with investments in flagship stores in top locations, product innovations and the consistent expansion of digital retail throughout Europe. As a result of the above-mentioned measures, we currently expect one-time expenses in the high double-digit million range and sustainable positive effects in the low triple-digit million range

Like the above mentioned crises affected consumer confidence and, accordingly, consumer spending in the European selective beauty market, future negative economic developments in the

global economy, the Eurozone or the countries in which we operate could have a similar adverse impact on the European selective beauty market in general or in the countries in which we operate. As a result, consumers may change their purchasing habits and buy more affordable products than those on offer in the selective beauty market, which could have a material adverse effect on our business, results of operations and financial position.

Adverse economic developments may lead to lower overall sales of the products that we offer or require us to change our product mix in ways that impact our overall profitability or result in slower inventory turnover and higher markdowns on inventory. In addition, changes in economic conditions may lead to higher costs associated with our operations, such as longer payment terms for customers, changes to supplier credit terms and the need to restructure or implement cost-saving measures. Any such adverse economic developments could materially negatively affect our business, results of operations and financial position.

Geopolitical tensions could via showdown of economic growth indirect negatively affect the demand for our products. Furthermore, if the European Monetary Union ceased to exist or one or more countries were to leave the European Monetary Union, the future economic development and consumer spending in general could be adversely affected, which could in turn have a material adverse impact on the European selective beauty market and on our business, results of operations and financial position.

Terrorist assaults may affect our business directly – for example by closing down a shopping center – but even more indirectly due to their negative impact on consumer confidence and consumer shopping behavior which may have a decrease in footfall resulting in lower sales and results of operation. Moreover, the instability of the general security-situation could materially negatively affect our business.

We may fail to anticipate, identify or respond adequately to changing consumer tastes or new trends

Our growth and results of operations depend on our ability (and the ability of our suppliers) to anticipate, assess and react to changes in consumer spending patterns and preferences for specific beauty products. We may fail to recognize relevant trends or translate market trends into appropriate and saleable products that are competitively priced.

Market trends and demand for retail products generally and, in particular, for our premium beauty and personal care products, are difficult to predict accurately and can change rapidly due to a number of factors, most of which are beyond our control, including demographics, consumer spending, trends relating to premium and low-cost products or temporary fashion trends. In addition, the success of our business depends on brand and industry perceptions as well as shopping habits of our customers.

The internet, including the dissemination of information via social media, is becoming increasingly important and is changing the role of store business. As a result, we are currently re-evaluating our offerings and the way we communicate with our customers. For example, footfall in the store business has been decreasing in recent years due to changes in shopping behavior. In particular, there has been a diversion of sales from stores due to continuous increases in the proportion of sales through e-commerce channels. If we fail to adapt our offerings and the way we communicate with our customers to meet such trends then this could have a material adverse effect on our business, results of operations and financial position.

E-commerce enables consumers to quickly compare different online suppliers and their prices and increases the risk that we may lose sales to other e-commerce retailers. In addition, we may continue to be faced with the relatively high fixed costs relating to the leases of our stores in prime locations, while achieving a lower level of sales from our store business due to increased e-commerce purchases by consumers. We may be unable to compensate any such reduced stationary sales with our e-commerce sales.

If we misjudge either the demand for the products and services, or our customers’ purchasing habits and preferences, we may be faced with lower sales and excess inventories. Strong reduction in product range for cost reasons may lead to the fact that customers buy less from Douglas. As a result, we may be required to increase our promotional activities or mark down the price of unsold inventories and as a result face reduced liquidity levels and higher working capital requirements.

Any such failure to anticipate, identify or respond adequately to changing consumer tastes and preferences in a timely manner could have a material adverse effect on our business and brand image and our results of operations and financial position.

Our sales, liquidity and inventory levels fluctuate significantly on a seasonal basis

We experience substantial seasonal fluctuations in our sales. Our most important sales period is the eight-week period leading to Christmas (including Singles Day and Black Friday) and over the New Year. Other sales periods that are important to us are those around Valentine’s Day, Easter and Mother’s Day. The uplift in sales around our most important trading periods is often followed by a period of price markdowns.

Any decrease in sales during peak selling periods, in particular during the Christmas season, could have a material adverse effect on our business and results of operations for a particular financial year. For example, unusual adverse weather conditions, a significant interruption in the supply of products (whether attributable to suppliers, the supply chain or logistics or other product delivery problems), or a sharp decline in consumer traffic in our store network during peak seasons, could materially affect sales during the relevant financial year.

Seasonal fluctuations also impact our working capital, liquidity levels and inventory. We incur additional expenses in the preparation for the increased demand we typically expect leading up to, and around, the Christmas season and other peak selling periods and must carry a significant amount of inventory before such periods, which is also reflected in our liquidity (with a certain time lag due to the payment terms that we have agreed with our suppliers).

If sales during our peak selling periods are significantly lower than expected, we may be unable to adjust our expenses in a timely manner and may be faced with excess inventory and be forced to rely on higher than usual price markdowns, promotional sales to dispose of excess inventory or inventory write-offs, thus affecting our working capital and liquidity. Higher levels of inventory would also lead to us ordering fewer goods in subsequent periods, which would reduce bargaining leverage with our suppliers. Conversely, if we purchase insufficient quantities of products that sell well during peak selling periods, we may not have an adequate supply of products to meet consumer demand and may fail to maximize our sales opportunities. Any such event could have a material adverse effect on our business, results of operations and financial position.

We face competition in the markets in which we operate and such competition may intensify further

We operate in the competitive European beauty and personal care market, and, within this market, we focus on the selective beauty distribution channel. We compete primarily with other specialist retailers with stores or e-commerce activities, including perfumery chains, independent perfumeries, perfume departments of selected (typically high-end) department stores, retailers selling products under their own labels, duty-free shops, pharmacies and para-pharmacies (which increasingly focus on skin care and natural cosmetics) as well as drugstores and hypermarkets and pure online retailers or online beauty selling platforms.

In addition, while many of these competitors currently compete with us only in certain segments of the beauty and personal care market, they may extend their offerings to compete with us more broadly in the future. In particular, drugstores, which currently mostly offer mass beauty and personal care products, could increase their range of selective products.

Some of our competitors (including online retailers and other direct sellers) have in recent years invested in their product offering and services on a large scale, and may further increase their investment in order to improve their competitive position and market share. Such increased competition could place pressure on our sales, pricing strategy, margins and profitability. Industry consolidation, including by way of mergers and acquisitions, or new competitors that may enter the European beauty and personal care market (and in particular the European selective beauty market) or existing competitors which may expand into other European countries in which they are not yet present but in which we operate, may also lead to increased competition and cause our market position to deteriorate, which could have a material adverse effect on our business, results of operations and financial position.

Such consolidation could also give our competitors increased negotiating leverage with suppliers and greater marketing resources, allowing them to compete more effectively with us. We also face the risk of new competitors offering cheaper imitations of original fragrances or focusing on the entry price sales directed at younger age groups, thus attracting some of our existing or potential customers.

Some of our competitors' greater market presence in one or more of the countries in which we operate and strong brands may be perceived by consumers as offering higher quality products and services than we offer or the same quality of products and services at more attractive prices. Certain competitors may also be able to react more swiftly to changes in market conditions or trends or may be able to utilize their market presence, strong brand or other advantages when operating in new or changing markets. They may also be willing to accept lower prices or higher

costs than we are prepared to accept in order to win market share. The adoption by competitors of aggressive pricing, intensive promotional activities and markdown strategies, or other similar actions could have a material adverse effect on our business, market share, results of operations and financial position. In certain regional markets, low-cost competitors offering products at discount prices have in recent years gained substantial weight and continue to put pressure on our business.

In addition, we face the risk of increased competition from the so-called “grey market,” *i.e.,* the sale of selective beauty products through channels other than the official channels explicitly allowed by the manufacturers. For example, selective products that are sold more cheaply in emerging or developing markets are reimported into established markets at lower prices. These products are typically offered at discounted prices that can be substantially lower than those of the selective distributors and could increasingly undermine the selective distribution channel on which our business model is based. These products can appear first in online/mobile searches for a particular product, for example through online price comparison tools. We also face increased competition from grey market products for our store business, especially when drugstores and discounters expand their selective offerings and source selective products from the grey market. These types of offerings sometimes also extend to counterfeit products.

If we are unable to compete effectively in our marketplace, our business, results of operations and financial position could be materially adversely affected.

The basis of our business model could be restricted or eliminated

Our business model is based on the selective beauty market. The vast majority of our sales are generated through the selective beauty distribution channel, which requires the formal approval of a supplier to carry a selective product, as opposed to the mass market channel. law or court order

The selective beauty market could be restricted or eliminated by laws or court decisions which could reduce our competitive strengths and or sales with potentially material adverse effect on our business, results of operations and financial condition.

The strength of the “Douglas” and the “Nocibé” brand (our “Douglas Nocibé Collection”) or the brand products of our suppliers may deteriorate

Our success is dependent, to a large extent, on the strength and reputation of, and value associated with, the “Douglas” and the “Nocibé” brand (our “Douglas Nocibé Collection”) and other smaller perfumeries brands owned by us, as well as the brands of our suppliers of selective or exclusive products.

Such brand reputation can be negatively affected by various factors, many of which are beyond our control. They include, among other things, unsuccessful or insufficient marketing and merchandising efforts, inability to adequately respond to consumer tastes and preferences or deterioration of the public image or reputation of a brand as a result of unfavorable publicity concerning our Group, the products that we sell or services we provide, our stores, our personnel or other negative publicity. With respect to selective products from third-party brands, which accounted for a vast majority of our sales in the most recent financial year, we are dependent on our suppliers’ investments in marketing and promotion of their brands.

Primarily in France under the “Nocibé” brand, but also in other countries, we have stores that operate through franchisees. The level of control over our franchisees is limited. Our franchisees typically have their own purchase processes and contracts with suppliers and, except for some private label products and in some cases, exclusive products, we do not typically sell any products to them. Franchisees may not have the business acumen or financial resources necessary to successfully operate stores in a manner consistent with our standards and may not hire and train

qualified store managers and other personnel. Our brand image and reputation may suffer materially and our sales could decline if our franchisees do not operate according to external or internal standards or do not operate successfully. Disputes with franchisees could also damage our brand reputation and/or our relationships with the broader franchisee group.

Furthermore, any breach or perceived breach of relevant laws, regulations, permits or licenses relating to the beauty, cosmetic or other health-related products sold by us, or failure to achieve or maintain particular standards by us or our suppliers (including those of our "Douglas Nocibé Collection" products or any of our franchised stores) could also negatively affect our key brands and affect the reputation of our other products, which could damage our customer relationships and lead to a decline in our sales.

Any such deterioration of the strength of our brands and products or the brand products of our suppliers could have a material adverse effect on our business, results of operations and financial position.

We depend on our suppliers to obtain a sufficient amount and variety of quality selective and exclusive products

For the products we sell we depend entirely upon third party suppliers, including domestic and international distributors and wholesalers.

Our supply chain is susceptible to various risks, including failure by our suppliers to deliver products due to operational or production disruptions, financial problems, labor issues, product quality issues, lack of raw material or other reasons. If one or more suppliers were to fail to deliver the products to us of adequate quality in time or at all, or if we fail to acquire, maintain or strengthen relationships with our suppliers, in particular with respect to selective products, our ability to obtain a sufficient amount and variety of products may be limited and may become insufficient to meet demand. There can be no assurance that additional or alternative suppliers will be available when required on terms that are acceptable to us. Furthermore, in such cases, we might need to make changes to our supply chain and enter into other business arrangements in order to ensure supply of quality products in a timely manner, which could result in additional costs and temporary supply shortages or disruptions. Additionally, any resulting prolonged negative impact on the quality of the products or services supplied to us could materially adversely affect our reputation and business.

Many of our largest suppliers negotiate their supply terms with us across multiple brands and, in particular in Eastern Europe, local distributors generally negotiate with us on behalf of various manufacturers. Consequently, our supply terms for such brands and products may deteriorate in the future due to the increased bargaining power of such suppliers and distributors. If we fail to maintain strong relationships with our existing suppliers and local distributors, or fail to continue acquiring and strengthening relationships with additional or new suppliers, our ability to source a sufficient amount and variety of products and our ability to obtain such products on terms acceptable to us may be limited, which could have a negative impact on our competitive position.

We are also dependent on our suppliers to ensure the quality and quantity of the selective products we offer, and we rely on them to provide supplier bonuses, advertising grants and pricing terms that make the offering of their respective brands commercially worthwhile for us, all of which could be negatively affected in case of deterioration or termination of a relationship with a supplier. In addition, we rely on suppliers to provide market development funds (*i.e.,* funds made available by the brand manufacturers to distributors such as Douglas to help sell their products and create local brand awareness). Such market development funds are typically very significant, and a supplier's decision to discontinue using our marketing channels, and therefore the withdrawal of such funds, could have a material adverse effect on the results of our operations. Moreover, if we fail to comply with terms of the supply agreements, we could face penalties, potential termination

of a contract for cause, or a supplier not renewing our contract at the end of its term. In addition, we cannot eliminate the risk of default by any of our major suppliers under the terms of our agreements with them.

Our inability to acquire products on terms and conditions acceptable to us in the future or at all, the loss of any of our largest suppliers or several smaller suppliers, any changes in exclusivity arrangements with one of our key suppliers or delays or a significant disruption to the supply chain could have a material adverse effect on our business, results of operations and financial position and a negative impact on our competitive position.

We are subject to risks in connection with the quality and timely delivery of our "Douglas Nocibé Collection" and our relationship with the manufacturers of such products

A portion of our sales relate to our "Douglas Nocibé Collection" which we acquire from diverse suppliers mainly in Europe and Asia. These suppliers generally also manufacture products for our competitors and their suppliers. Our agreements with the manufacturers of our "Douglas Nocibé Collection" which set forth the production and delivery of those products, are typically based on an order-by-order concept for each "Douglas Nocibé Collection" product or product line rather than long-term supply agreements and may typically be terminated with six-months' notice. In case an agreement with a "Douglas Nocibé Collection" product manufacturer is terminated, there can be no assurance that we will find other manufacturers that will be able to produce comparable replacement products for us at competitive prices or at all. In addition, we typically do not own the recipes to these products, and manufacturers may sell the same products to other retailers, who may offer them under a different brand and packaging. If those products were sold by other retailers under a different brand and packaging at a lower price, it could reduce our sales of the relevant products, which could have a material adverse effect on our business, results of operations and financial condition.

Since we only have limited control over manufacturers of our "Douglas Nocibé Collection" products, there is no guarantee that these products will continue to meet our specifications. Furthermore, any breach or perceived breach of relevant laws, regulations, permits or licenses relating to the "Douglas Nocibé Collection" products sold by us, or failure to achieve or maintain particular standards could also lead to adverse publicity, which could materially adversely affect the reputation of our "Douglas Nocibé Collection" brands damage our customer relationships and lead to a decline in our sales.

As we are the "responsible person" for our "Douglas Nocibé Collection" products within the context of the applicable European regulations on product safety applicable to cosmetics, any quality defect could lead (on the basis of EU law or similar applicable national laws) to substantial customer claims, administrative or criminal proceedings, penalties or similar. We could also face damage to our own brands' reputation.

In addition, if the manufacturing, delivery, sources or supply chain management processes relating to our "Douglas Nocibé Collection" products are disrupted for a variety of reasons, we may be delayed in restoring our inventory of the affected "Douglas Nocibé Collection" products and we may experience a significant increase in our cost of sales.

Any of these factors relating to "Douglas Nocibé Collection" products could have a material adverse effect on our business, results of operations and financial position.

We face the risk in connection with Product Safety and Product Liability

See section "Business"

Producers and distributors who place products on the market in the European Union must ensure that the products are safe. Manufacturers must put on the market products that comply with the general safety requirement, applies (as implemented in the individual EU countries). In addition, producers must provide consumers with the necessary information so that consumers are able to assess a product's inherent threat, particularly when this is not directly obvious. Furthermore, producers must adopt the necessary measures to avoid such threats, for example, by withdrawing unsafe products from the market, informing customers and recalling products that have already been supplied to customers. In addition, because we sell our "Douglas Nocibé Collection" products (manufactured by third parties) under our own brands and import certain products from outside the EU, we qualify as producer of certain cosmetic and other products and are thus subject to applicable legislation on product liability. The Product Liability Directive establishes the principle of strict liability, i.e., liability without fault of the producer, in cases of damage caused by a defective product. It covers death, personal injuries and damages to an item of property other than the defective product itself caused by defective products intended for private use or consumption.

We could fail to comply with these regulations by producing or distributing defective, non-safe or non-complying products which could have a material adverse effect on our business directly in form of compensation payments resulting from our product liability or indirect from image damage.

Our e-commerce platform is subject to several risks including the functioning of hardware and software, customer acceptance, integration with our stores and logistic infrastructure

In addition to our sales in stores, we also sell products via our e-commerce platform including our marketplace, and our success is, among other factors, dependent on our ability to maintain attractive online shops and marketplace, continue to expand our online and mobile presence, generate e-commerce traffic and convert this traffic into sales.

Our e-commerce operations are subject to a number of risks, including reliance on third parties for computer hardware, software, services and support, the need to keep up with rapid technological change and the implementation of new systems and platforms, as well as the risk that our e-commerce platform or any of our online shops may become unstable, unavailable or subject to cyber-attacks or that customer data may be misappropriated.

We also face the risk that customers find the websites of our online shops difficult to use. Customers may also be unwilling to share personal information online or via our mobile applications, less willing to use the sites than we expect, or not confident that the sites are secure. Furthermore, unexpected costs in connection with the further development of our e-commerce platform and/or our online shops may arise. We may face difficulties in further coordinating our e-commerce platform and our store network, particularly in managing the interface between in-store merchandising and online shopping, which may result in complications for both our e-commerce and cross-channel customers.

We may also be held liable for online content, security breaches and consumer privacy concerns and may be unable to honor our usual delivery terms in case of an unexpected or a higher than expected spike in customer orders or for other reasons which may cause negative reputational consequences. Similarly, negative online reviews from dissatisfied customers may deter other potential customers from using our e-commerce platform and may also affect our brands' reputation and sales in our stores.

We use e-mail and newer media channels, including social media channels such as Facebook, Instagram, Pinterest and YouTube and our own beauty blog beautystories (the German version of which is available under "http://blog.douglas.de") to promote our products or marketing messages. The delivery of such e-mails and messages via social media channels may fail or be delayed for technical reasons, customers may not take note of them. Actions by third parties to

block, impose restrictions on or charge for the delivery of e-mails or other messages, as well as legal or regulatory changes limiting our right to send such messages or imposing additional requirements on us in connection with them, could impair our ability to communicate with our customers. In addition, certain customers may be dissatisfied when exposed to too many advertising campaigns or newsletters and to what they may consider to be e-mail or text message "flooding".

Our failure to respond appropriately to these risks and uncertainties could reduce our sales (in particular our e-commerce sales) as well as damage our reputation and brands, especially since e-commerce is a significant part of our growth strategy. The realization of any of these risks could have a material adverse effect on our business, results of operations and financial position.

A failure to adopt and apply technological advances in a timely manner and to successfully expand our omni- and cross-channel capabilities could limit our growth and prevent us from maintaining profitability

We face risks in connection with continuous technological development and the shift from traditional sales channels such as stores to online and mobile-based channels and omni- and cross-channel models, both of which can increase competitive pressure. For example, our online and mobile offerings must keep pace with the technological development of the devices used by our customers, the technological progress of our competitors and any consequential new shopping behaviors and trends. Recently, specialized online or mobile applications relating to beauty in general and beauty products in particular have increased significantly, contributing to substantial changes in shopping behavior and the use of distribution channels by customers.

Furthermore, our success, in particular with respect to our e-commerce sales, depends on our ability to continuously improve our technological platform and to develop new applications in line with the technological development and trends in order to remain competitive. For example, the introduction of new payment solutions may entail substantial costs and effort and there is no guarantee that such new solutions will be accepted by customers, which may result in frustrated expenses. We may fail to adopt and apply new technological advances in a timely manner, or experience difficulties or compatibility issues.

Any such failure to adopt and apply technological advances in a timely and effective manner and to further invest into omni-channel strategies and their implementation could have a material adverse effect on our business, financial position and results of operations.

Our initiatives to support our brands, generate customer traffic and build or retain a loyal customer base, as well as other marketing initiatives may not be effective

In an environment characterized by increasing levels of promotions and associated customer discounts, the growth of our sales depends on the success of our marketing and communications strategy and our ability to respond to changing customer tastes and competitors' promotional activities. We use various tools, such as marketing events, online advertising, visual merchandizing, social media and in-store events to support the positioning of our brand, acquire new customers, increase the number of customer visits to our websites, the number of orders and the purchase size per order. We have made and will make significant investments in brand awareness and enhancement, customer acquisition and customer loyalty which may prove ineffective.

The operating expenditures to support marketing initiatives may turn out to be higher than estimated and require more management time than planned. There can be no assurance that our assumptions supporting our marketing strategies will prove to be correct and that such expenditures will result in increased sales or increased profitability. In addition, there can be no assurance that expenditures with respect to new concepts and re-branding, or changes and

updates to existing concepts, will be met with the expected customer acceptance and lead to the expected results.

In addition, blogging and social media activities can heavily influence our business success, as critique in blogs, forums and social media, based on ecological, ethical or many other considerations, and regardless of whether such critique is reasonable or not, may rapidly spread online. In such cases, a certain product may have to be withdrawn or a campaign to be stopped, which may cause damage to our reputation and our brands and result in sunk expenditures.

Furthermore, certain advertising or marketing methods currently used by us may become less effective or legally restricted in the future or systems used for marketing reasons may disfunction. The online couponing system may be disrupted or may be affected from outages or the CRM System may suffer from a not availability or poor quality of customer data.

In addition, changes to the terms and conditions of social networking services as well as changes to search algorithms of online search engines could limit our promotional capabilities, and there could be a decline in the use of such social networking services by customers and potential customers in the future.

Failure to implement our marketing initiatives or our customer relationship management system successfully, or their failure to result in improved profitability, could have an adverse effect on our liquidity, financial position and results of operations and on the implementation of our growth strategy.

We may be unable to successfully implement our store investment strategy or our investments into new geographical markets and/or product areas

Part of our growth strategy includes store investments on metropolitan and highly frequented areas through new store openings, acquisition of competitors and, to some extent, through the expansion of our franchise program.

However, we may not be able to implement our growth/investment strategy successfully or at the envisaged pace if we fail to identify and lease attractive store locations on acceptable terms, attract and hire skilled sales staff or implement the required infrastructure. We may also face difficulties in obtaining adequate financing to fund expansion. Consequently, the intended increase of our store business may fail to materialize.

The success of new stores may also be affected by our failure to correctly estimate customer demand for store sales. In addition, the opening of additional franchised stores depends, in part, upon the availability of prospective franchisees who meet our criteria. If we fail to add new stores to our network, this could adversely affect our ability to increase our sales.

In addition, part of our long-term strategy is also to grow by entering new geographical markets. Entering a new geographical market requires substantial investments and may not lead to the desired results, or occur at the desired pace. Our success in pursuing this strategy will be dependent on various factors including our understanding of the target market, our ability to position ourselves within such new markets, as well as our ability to offer products adapted to local preferences on competitive terms. No assurance can be given that we will be able to successfully penetrate and operate in any new markets on a sustainable and profitable basis.

Factors that may negatively influence the planned expansion and result in higher-than-expected costs or delays include, in particular, political or economic instability, difficulties in finding reliable local partners and in recruiting and retaining a sufficient number of skilled staff, difficulties in prevailing over local competition and in generating a sufficient level of sales, difficulties related to labor relations or compliance issues, as well as any imposition of restrictions on import, investment

or currency, such as tariffs and import quotas on the repatriation of earnings and capital, and greater-than-expected competition. Furthermore, entering a new market entails operational complexities and risks, such as adapting the product offerings as well as our logistics, payment, fulfillment and customer care practices to take account of local tastes and practices and the operation of country-specific online shops. If we fail to manage these challenges adequately or if any of these risks materialize, the significant investments made may not be recovered and substantial losses may occur.

Moreover, we have explored different product offerings beyond our core beauty focus and we plan to continue to develop selected non-core product offerings in the future. There can be no assurance that we will be successful in expanding into areas beyond our core beauty portfolio, that any new product categories will perform as expected, and that the investments incurred in connection with such expansion will be recovered. In addition, our existing or new competitors may also target these segments and may be able to pre-empt some of our expansion plans. Furthermore, our plans to grow our business, among others, through the growth of products sold under our own brands, may result in our taking greater risks on holding inventory. If we are left with excess inventory of our ”Douglas Nocibé Collection” products, due to such products’ failure to meet customers’ tastes or preferences or for other reasons, we may not be able to make arrangements with the suppliers of these products to dispose of the excess inventory or offset all or part of the costs incurred and be forced to rely on higher than usual price markdowns, promotional sales to dispose of excess inventory or inventory write-offs, thus affecting our working capital and liquidity, which could have a material adverse effect on our business, results of operations and financial position. Our selected expansion into service offerings may not be successful due to its substantially different business model, financial parameters and margins. In addition, customers may not accept us as a legitimate point of service.

Given the various challenges to which we are exposed and the uncertainties inherent in our business, there can be no assurance that our expansion strategy can be successfully implemented. The realization of any of these risks could have a material adverse effect on our business, results of operations and financial position.

We face certain risks in connection with past and future acquisitions and joint ventures, including failure to effectively integrate the businesses and achieve expected synergies as well as unexpected liabilities

We have strategically pursued acquisitions and entered into participations in order to expand our footprint and operations. Such activities include both large-scale acquisitions, as well as smaller bolt-on acquisitions across different countries with the aim of strengthening our presence and market position in the respective jurisdictions.

In the future, we may consider selected acquisition opportunities, enter into joint ventures or undertake investments or disinvestments in a targeted manner. There can be no assurance that we will be able to identify suitable targets and consummate an acquisition or enter into joint ventures or investments on favorable terms or at all. It is also possible that not all material risks in connection with acquisitions or the establishment of joint ventures will be identified in the due diligence process and that such risks will not be taken into account in the decision-making process or the respective agreements to a sufficient level or at all. In addition, future acquisitions may also entail financial and tax restructuring measures which, even if designed with the aim of achieving a tax-efficient structure, may expose us to risks, *e.g.,* if the tax authorities were to challenge any of the implemented measures.

Furthermore, past and future acquisitions, joint ventures and investments in businesses entail risks relating to the integration of businesses, including the employees, processes, IT, logistics and other systems, as well as product offerings. Such integration may be a complex, time consuming and expensive process and will likely involve a number of uncertainties. These include the costs and

expenses associated with unexpected difficulties, the diversion of management's attention from our daily operations and/or strategic business decisions, the potential loss of key employees, difficulties in competing with existing stores or business or diverting sales from existing stores or business, difficulties in complying with foreign regulatory requirements and the additional demands on management related to the increase in the size and scope of our operations following an acquisition. We may also not be able to discover all financial and legal risks through a due diligence review or after the acquisition. In particular, we might not be able to oversee all risks in connection with potential breaches of data protection, competition, cosmetics and other applicable laws.

Even if we are able to successfully integrate newly acquired businesses, this integration may not result in the realization of the full synergies, cost savings, revenue and cash flow enhancements, operational efficiencies and other benefits that we expect. Furthermore, changes in brand name in the context of an integration following a major acquisition, are associated with additional costs and the risk of a potential loss of business and reputation.

The realization of any of these risks in connection with past and future acquisitions and joint ventures may have a material adverse effect on our competitive position, profitability and growth, and thus on our business, results of operations and financial position.

Douglas incurred certain obligations and may face certain risks (subletting risk and non-fulfillment risk with respect to transitional service agreements) in connection with the divestiture of our non-perfumeries business

See section "Consolidated Financial Statements".

Douglas still remains party (as lessee) to a number of lease agreements relating to stores of former Douglas business like Thalia, Appelrath, Christ or Hussel companies operating the respective store as sub-lessee. Douglas has further issued, in its capacity as former parent company, certain letters of comfort and guarantees in favor of lessors under certain lease agreements entered into by Thalia, Appelrath, Christ and Hussel companies as lessee ("DHAG Parent Securities").

For some of these former businesses, Douglas was and continues to be a party to transitional services agreements. Douglas intends to gradually reduce the extent of these services and to achieve a phase-out within the next few years. As of September 2020 Douglas manages the leases for those former Douglas companies. If and to the extent the divested companies no longer perform (or are no longer able to perform) their obligations (in particular their payment obligations) under these transitional services agreements, Douglas will have the risk of suffering a shortfall in revenues which could have a material adverse effect on its business, results of operations and financial condition.

Our reorganization measures may not achieve the expected results

We have carried out several reorganization measures in the past few years and continuously will further adopt our structures and processes to the current needs of our markets.

Such measures entail costs, may divert management's attention from our daily business and/or strategic business decisions, and may otherwise be disruptive to our business. In addition, there can be no assurance that such reorganization measures may lead to the expected efficiency improvements or cost savings, or be completed within the planned timeframe. Furthermore, any such reorganization process may have a disruptive effect on our work force. Any of these factors could have a material adverse effect on our competitive position, profitability and growth, and thus on our business, results of operations and financial position.

The longstanding trend of shifting from store to e-commerce purchases was further reinforced by the COVID 19 pandemic. In response to this change in our customers' consumer behavior, around 500 of the currently around 2,400 stores across Europe will be closed. Most of the closings take place in the South-Western Europe region, which is particularly affected by the effects of the coronavirus pandemic and in which there is a very dense, partially overlapping branch network due to previous acquisitions. Of the more than 430 branches in Germany, around 60 are affected by the measures. The necessary downsizing of the branch network goes hand in hand with investments in flagship stores in top locations, product innovations and the consistent expansion of digital retail throughout Europe.

We may be unable to manage our growing business activities effectively

Our business grew significantly over the last decade and continues to be further expanded selectively also via acquisitions.

As of September 30, 2020 we operated in 26 countries with 21.517 employees (average headcount of financial year 2019/20), 2.232 own stores, 140 franchise stores and various online shops. We cannot guarantee that opening or acquiring additional stores will not adversely affect our existing stores' operations or that our strategy of adding new stores to our network will be profitable.

Our operating complexity will increase as we implement our growth strategy and will require a continuous expansion and improvement of our operating capabilities and the training and management of our employee base. Developing and refining the appropriate internal management, accounting and book-keeping processes, compliance and internal audit organization and risk monitoring structures that are required for the growth of our Group and the complex group structure places high demands on us and our management, as well as on our operational and financial infrastructure, with no assurance that sales and profitability will increase accordingly. As our operations grow further, we will need to continue to improve and upgrade our systems and infrastructure to deal with the greater scale and complexity of operations. Delays in improving these systems and in reaching an appropriate level of staffing may result in business and administrative oversights and errors, which may also lead to higher operating expenses.

In addition, our growth could make it difficult for us to adequately predict the expenditures we will need to make in the future. This growth could also impact the operational flexibility of the supply chain organization and impair our ability to react promptly to changing customer demands and new market trends. If we do not make the necessary capital or other expenditures to accommodate our future growth, we may not be successful in our growth strategy. Continued growth could also strain our ability to maintain reliable service levels for our customers and to develop and improve our internal controls.

We may be unable to accurately anticipate all the demands that our expanding operations will impose on our business, personnel, systems and controls and procedures, and the failure to appropriately address such demands, or the realization of any of the above-mentioned risks, could have a material adverse effect on our business, results of operations and financial position.

Negotiating, terminating or extending store leases may be difficult or costly, which could negatively impact our competitive position, growth strategy and profitability

The success of our business depends, in part, on our ability to identify suitable premises for our stores in attractive locations and to negotiate acceptable lease terms. We compete with other global and regional retailers to obtain favorable store locations and lease terms in shopping malls and in city centers. If we are not able to secure attractive locations for new stores on acceptable terms, our further expansion would be significantly impacted which could have a material adverse effect on our business, results of operations and financial condition. Furthermore, new stores from

other retailers or from our Group in the proximity of our existing stores could compete with our existing stores for customers.

Our commercial leases typically provide for an adjustment of the rent due to changes in certain public indices. Such adjustments are intended to counteract inflation risks of long-term contracts. If the relevant indices increase at a higher rate compared to past performances, or if there are adverse changes in terms of calculations relating to such indices, rents linked to these indices will be adjusted at higher levels which could increase our expenses and have a negative impact on our profitability and results of operation which could have a material adverse effect on our business, results of operations and financial position. In addition, many of our lease agreements contain sales-related additional variable lease payments and hence, the ultimate level of our rent will depend on the level of our sales.

Our ability to attract customers to our stores depends, in part, on the success of shopping centers and city centers in which our stores are located, and any decrease in footfall at those retail destinations could adversely impact our sales

Sales from stores accounted for about 40.6 percent of our sales for the financial year 2019/20. Our stores are typically located in prominent locations within shopping centers and town centers. Our sales at these stores are dependent, to a significant extent, on the volume of customer traffic in such retail destinations and the surrounding areas. This in turn benefits and is dependent on the ability of other retailers in those destinations to generate customer traffic in the vicinity of such stores.

Our sales may, thus, be adversely affected by a decrease in popularity of the retail destinations or anchor stores in the vicinity of our stores, the closing of anchor stores or a deterioration in the financial position of retail destination operators or developers that could, for example, limit their ability to finance tenant improvements for us and other retailers. Store closures by other retailers and vacancies in shopping centers and other retail destinations may also decrease footfall. There can be no assurance that we will be able to obtain alternative store leases in prime locations based on commercially acceptable terms. Moreover, properties currently considered prime locations may deteriorate and become less desirable in the future.

The decrease in footfall as a result of these or other factors constitutes a major challenge for the like-for-like growth of our store business. The realization of any of these risks could have a material adverse effect on our business, results of operations and financial position.

We may be unable to effectively manage our costs and inventories

Our profitability depends on our ability to effectively manage operating costs, including the implementation of cost-control programs relating to store leases and operations, cost-effective purchasing programs for the products sold, the optimization of personnel costs, achieving central overhead cost synergies and improving supply chain and inventory management. Our cost structure may be negatively affected by cost increases, in particular those relating to rental, electricity and personnel costs, as well as transportation and logistics costs, among others. In particular with respect to transportation costs, we have experienced such costs increases in a significant manner in recent financial years.

In addition, failure to control the amount and quality of our significant inventory stock could reduce profitability and increase losses. For example, constraints in our inventory management systems and/or processes may cause excess inventory in one location and insufficient inventory in another. Conversely, failure to order enough stock or problems in the delivery and distribution of stock could result in unfilled orders and missed sales opportunities.

If we are unable to continue to achieve these economies of scale and cost efficiencies due to fluctuations in our operating costs or for other reasons, this could also have a negative impact on our results of operations. In addition, if we fail to effectively manage our operating costs or inventory stocks, our profitability and growth could be adversely affected, which could have a material adverse effect on our business, results of operations and financial position.

We depend on a limited number of facilities and logistic partners for the distribution of the products that we sell to our stores and could experience interruptions or delays in the distribution and delivery of the products that we sell

The continuous optimization of our procurement and logistics processes significantly impacts our operational performance. The demands on logistics have continued to rise, especially with the growing e-commerce business and the increasing interlinking of stores and e-commerce platforms.

We run some of our inbound and outbound logistic processes in-house, dealing with logistics from our warehouses to our stores, and also co-operate with a few logistic partners who, for example, run our e-commerce distribution center in Germany, our cross-docking centers in foreign countries, and ship our products to our stores and directly to our e-commerce customers. In some of our regional markets, it may be difficult to replace our current logistics providers due to a lack of alternative offerings at comparable prices and/or service quality and we may face higher costs when an existing logistics contract is renewed or replaced. Furthermore, all but one of our main warehouses are leased or operated by third party warehouse service providers, and some of the relevant leases and service agreements will expire within the next two years. If we are unable to renew the respective leases or services agreements, it may be difficult for us to lease suitable alternative locations on favorable terms, and any new leases may involve changes to our logistics organization as well as increases in lease payments and other costs.

Any disruption to our relationship with any external transporters, major logistic partners or brand manufacturers/brand suppliers with respect to logistic costs or similar could also adversely affect our business or result in increased shipping costs, which could negatively affect our results of operations.

In addition, the delivery of the products that we sell (both the delivery to our store network as well as to customers who purchased the products via our e-commerce platform) could be delayed or fail due to technical problems, strikes or force majeure, including adverse weather conditions. Furthermore, any major operational disruptions or accidents in our warehouses and centers, and any breakdowns or disruptions of the operations of our suppliers, might significantly impact our ability to distribute products and maintain an adequate product supply chain and in-store inventory. In addition to delivery disruptions, our business could be negatively affected if we receive damaged goods from our suppliers.

The realization of any of these logistics-related risks could have a material adverse effect on our business, results of operations and financial position.

Our operations may be interrupted or otherwise adversely affected as a result of failures in our information technology systems

Our success and our daily business also depends on the continuous and uninterrupted availability and quality of our information technology ("IT") systems and the relevant data. This data includes orders and other customer transactions, to manage inventory, to purchase and ship the products that we sell, and to effectively manage the operations of our stores and e-commerce platform.

Interrupted or malfunctioning IT-system could harm our sales, e-commerce as well as stores, resulting in a potentially loss of cash.

We also depend on our IT systems to be able to effectively manage our customer relationships. With technological advances, greater networking and an increasing integration of business processes, the need for the permanent availability of our IT systems has become even more critical.

Management uses certain IT-based demand-forecast tools and other IT systems to support decision making and to monitor business performance. In case of a system disruption, including any difficulties during rollouts, we may fail to generate accurate and complete financial and operational reports essential for making decisions at various levels of management, which could lead to less-informed decisions being made.

The risk of disruption to our IT systems cannot be entirely eliminated. Such disruptions may result from a range of factors, including events beyond our control, such as telecommunication problems, software errors, hardware failures, power outages or damages, user errors, inadequate capacity at IT centers, computer viruses, attacks by hackers or other third parties or other security issues, fire or natural disasters. Any material disruption or slowdown of our IT systems could cause information, including data related to customer orders, to be lost or delayed, and functionalities to be interrupted, both of which could disrupt our ability to market, offer and sell our products, as well as our ability to track, record and analyze the sales of our products, which could negatively impact our operations and result in lost sales, in particular if occurring in one of our peak selling periods. In addition, our business could be adversely affected if changes in technology cause our IT systems to become obsolete or outdated or if our IT systems are inadequate to handle our growth. Any of these factors could have a material adverse effect on our business, results of operation and financial position. We have entered into a Cyber Insurance to cover a limited number of risks caused by an interruption of our IT systems through hacking or other cyber-attacks.

We depend on our ability to attract and retain qualified managerial staff and skilled, motivated personnel

The success of our business depends significantly on our ability to retain senior management, other qualified managers and employees in key positions, many of whom have many years of experience and specialized expertise in our business. Competition for qualified, motivated personnel is intense, and we may not be able to attract and retain a sufficient number of qualified personnel in the future.

Also, as we centralize and standardize many tasks which were previously performed by store personnel, we may lose some of our employees due to difficulties or motivational issues relating to the loss of autonomy of individual stores. The loss of staff may lead to a loss of knowledge. Furthermore, there is a risk the productivity will decrease due to training of new colleagues.

Any failure to attract and retain qualified staff could impair our growth and ability to manage our operations effectively, and may have a material adverse effect on our business, financial position and results of operations.

We are exposed to the risk of rising labor costs, as well as work stoppages, strikes or other collective actions

Personnel expenses represent a significant part of our cost base. We may face considerable wage increases in the future, for example in connection with statutory minimum wages due to collective bargaining agreements that apply to our Group in certain jurisdictions or otherwise as a result of general rising wages. If we are not successful in limiting such increases in personnel costs, or if cost increases cannot be passed on to our customers, this may have a material adverse effect on our business, financial position and results of operations.

In addition, since the business is labor intensive, maintaining good relationships with our employees, unions and other employee representatives is crucial to our operations. Any deterioration of such relationships in the future or any material work stoppages, strikes or other types of conflicts with labor unions or our employees could have a material adverse effect on our business, results of operations and financial position. Occasionally, works councils were established on the operational level and it cannot be excluded that further entities or regions may follow.

We may not be able to prevent theft fraud or abuse of properties and resources

Despite the presence of internal control systems (ICS) and internal audit we may be confronted with cases of internal and external fraud, theft or the abusive usage of our resources, like products, vouchers, bonuses or systems.

Non-compliance of internal control mechanisms like the separation of duties, 4-eyes-principle or specification of roles and responsibilities may lead to serious financial or reputational damage. Further we could be subject to unwanted data leakage or even intentional transfer of business secrets (e.g. insider trading).

Our assets, such as goodwill and the "Douglas" and "Nocibé" brands owned by us are subject to the risk of impairment

As of September 30, 2020, we had intangible assets totaling €2.045,1 million. The intangible assets mainly consisted of goodwill, the brands "Douglas", and "Nocibé" and certain leasehold interests and similar rights. We determine the value of the intangible assets in accordance with applicable accounting principles and distinguish between amortizable intangible assets, such as leasehold rights, and non-amortizable assets, such as goodwill.

With respect to intangible assets that are not amortized, an impairment loss may have to be recognized if the expectations on which the current carrying amounts are based are not fulfilled and the recoverable amount of any cash generating unit is less than the Group's carrying amount, such as if market and industry conditions deteriorate or interest rates rise.

In performing impairment tests of assets, such as goodwill and other intangible assets, including our main brands, management considers several assumptions and carries out analyses that are based on projections and judgments. Economic downturns, including deteriorating economic conditions in the industries and regional markets in which we operate, as well as legal, regulatory, competitive, contractual and other factors may affect these assumptions and therefore the value of our assets. Recognition of an impairment charge would reduce our reported assets and earnings.

In the financial year 2019/20 goodwill has been impaired accounting for €279.7 million. Impairments on property, plant and equipment and right of use assets from real estate-leases are recorded from time to time triggered by on-going negative contribution margins of certain stores and intended store closures. We cannot predict whether further future impairment charges may become necessary.

An impairment loss with respect to intangible assets and/or deferred tax assets may have a material adverse effect on our net assets and results of operations.

The payment methods that we accept expose us to operational, regulatory and fraud risks

We currently offer different payment methods tailored to meet our local customers' payment preferences, both in our stores and online shops including cash, credit or debit card, gift cards, the Douglas card, PayPal, direct deposit, online bank transfer, direct debit and checks. Payments in transit using certain of these payment methods, as well as cash registers, are taken into account

when calculating net leverage ratios pursuant to the indentures governing the Notes as well as other of our financing arrangements.

We face the risk of operational failures during the check-out process in our e-commerce platform relating to the complexity of certain payment methods. Such difficulties could adversely affect our conversion rate which is the proportion of site visitors that actually complete the purchasing process. We may also become subject to additional or changing regulations regarding certain payment methods, such as the operating rules and certification requirements of payment scheme associations and rules governing electronic funds transfers, which apply to credit and debit cards, whether in general or in a particular country in which we operate. We may also become subject to more stringent or complex compliance requirements, for example with respect to anti-money laundering provisions for certain cash payments. For certain payment methods, such as credit and debit cards, we also pay interchange and other fees, which may increase over time and cause our expenses to rise.

Furthermore, customers may claim that purchases or payments were not properly authorized or were transmitted in error. We also face the risk that customers may have insufficient funds, and of various types of fraud or cyber-attacks. Any failure to avoid or limit losses from fraudulent transactions could damage our reputation and result in increased legal expenses and fees. In the case of invoicing and of customers paying with the Douglas card, we also carry a certain risk of non-payment of invoices or insufficient funds.

In case of repeated fraud events relating to credit card transactions, in addition to the direct losses, we could lose the right to accept credit cards for payments going forward and, potentially, credit and debit card providers could cease payments to us for purchases already made. Under German law, the risk of an invalid transfer instruction by a customer, and thus the risk of abuse, lies generally with the retailer. Therefore, we could become liable for certain fraudulent credit card transactions, which could have a material adverse effect on our business, financial position and results of operations. We may also face the risk that authorities take the view that the issuance and redemption of our gift voucher cards or provision of certain other services in our stores may violate certain legal requirements of the EU Payment Services Directive and other applicable regulatory requirements.

Although we have established an anti-money laundering process, we cannot rule out that not all employees strictly follow applicable rules in all respects.

We face a risk of theft or misappropriation of funds and products in our stores, our warehouses or logistics centers and those of our logistic partners, and we are exposed to a risk of misappropriation of our customer data and other inappropriate behavior

In the ordinary course of our business, we are exposed to a risk of theft of products in our stores. Products may also be misappropriated during transportation or at our warehouses and logistic centers and those of our logistic partners. In addition, we may experience a misappropriation of funds in our stores or at other levels of our business.

Furthermore, we face the risk that customer data that we collect for marketing purposes may be stolen or misappropriated. In this case, customers may be discouraged from providing us with their data or our marketing or reputation could be negatively affected as a result.

Moreover, we have a customer friendly return policy and regularly offer gift articles in combination with the purchase of a certain product or brand or, in particular in our online shops, for purchases over a certain amount. It cannot be excluded that, in the future, a growing number of customers may abuse our returns policy and, for example, return products bought from other retailers, or order from us with the sole purpose of retaining the gift articles while returning the purchased products.

Our failure to prevent the theft or misappropriation of customer data or to manage our returns policy could have a material adverse effect on our business, results of operations and financial position.

Fluctuations in currency exchange rates could have an adverse effect on our financial position

We generate our sales and purchased merchandise predominately in Euros and to a limited extent also in a number of non-Euro currencies, such as the Polish zloty and the Swiss franc. Due to the expansion of our regional footprint, we expect the share of our sales and costs in non-Euro currencies to increase. Exchange rate fluctuations also affect the translated value of balance sheet and income statement positions of our Group companies outside the Eurozone, which are denominated in the relevant national currency, predominantly in Polish zloty, since these positions must be converted into Euro in connection with the preparation of our consolidated financial statements. As a result, exchange losses may arise due to this conversion. As we have not entered into currency hedging contracts, exchange rate fluctuations may have an adverse effect on our financial position.

Should we decide to enter into hedging arrangements in the future, we may not be able to adequately hedge against the currency risk on reasonable terms and the cost of hedging may increase. Furthermore, hedging counterparties may default on their obligations towards us due to lack of liquidity, operational failure, bankruptcy or for other reasons.

Our insurance coverage could prove inadequate

We have taken out comprehensive insurance policies in relation to a number of risks associated with our business activities. However, our insurance coverage is subject to customary exclusions, limits and deductibles.

Given the diversity of locations and settings in which our employees provide services and the range of our activities, we may not be able to accurately foresee all relevant activities and situations in order to ensure that they are fully covered by the terms of our insurance policies. As a result, we may incur losses or be subject to claims that exceed the type, scope or amount of our existing insurance coverage. At the same time, we have identified several risks that cannot be insured on economically feasible terms and for which, therefore, we have chosen not to purchase insurance cover. These risks include, for example, business interruptions caused by acts of terror.

If one or more claims exceed a certain aggregate amount in a given calendar year, insurers may increase the insurance premiums or the terms and conditions of our insurance coverage may become less favorable than at present. Our insurance costs may also increase over time in response to any negative development in our claims history or due to material price increases in the insurance market in general. There is no guarantee that we will continue to be able to obtain sufficient insurance coverage at commercially reasonable terms or at all.

Any of these developments could have a material adverse effect on our business, financial position and results of operations.

Many of our suppliers rely on credit insurance to protect their receivables, and any changes to, or slow adjustments or withdrawals of, such credit insurance might cause suppliers to seek to reduce their credit exposure to us

We believe that many of our suppliers have traditionally taken out credit insurance to protect their receivables against the risk of bad debt, insolvency or protracted default of their buyers, including us. Credit levels available to us from our suppliers remain dependent on the general economic environment and our financial position. If there is a significant decrease in the availability of credit insurance to our suppliers, or if an increase in credit levels is administered too slowly or such

insurance is withdrawn in its entirety, and if such suppliers are unwilling or unable to take credit risk themselves or find alternative credit sources, they may choose to reduce their credit exposure to us, for example by seeking to change their credit terms *vis-à-vis* our Group. Any such actions could have a material adverse effect on our cash position, lead to an increase in our indebtedness or have a negative impact on our product offerings and, thus, on our sales. This could have a material adverse effect on our business, financial position and results of operations.

Legal, Regulatory and Tax Risks

We are subject to numerous laws and regulations in the many jurisdictions in which we operate, and may be adversely affected by changes in legislation and regulation

We are confronted with differing legal, political, social, regulatory and economic conditions, as well as unforeseeable developments in the different jurisdictions in which we operate, including, among others, employment, accounting, customs, truth-in-advertising, consumer protection, general privacy, health, information privacy, identity theft, online privacy, IT and e-commerce, unsolicited commercial communication and zoning and occupancy laws and ordinances that regulate retailers generally and/or govern the importation, promotion and sale of products and the operation of retail stores and warehouse facilities. If these regulations were to change or were violated, for example, by our management, employees or franchisees, by the manufacturers of the products we sell or by our suppliers, the costs of certain goods could increase, or we could experience delays in shipments of our goods, be subject to fines or penalties, or suffer reputational damage, which could reduce demand for the products that we sell and could have a material adverse effect on our business, financial position and results of operations.

In addition, the sale, distribution and marketing of certain products that we sell, in particular, cosmetic products, are regulated. For example, with respect to certain of our "Douglas Nocibé Collection" products and other newly created "Own Brands", certain subsidiaries of our Group act as responsible persons for purposes of the European Cosmetic Products Regulation and may be subject to liability under this regulation. Furthermore, and irrespective of our designation as responsible persons within the meaning of the European Cosmetic Products Regulation, as a retailer we are subject to regulations regarding environmental law, food law, medical device law, product safety and product liability under which we are obliged, *inter alia*, to monitor that the products we offer comply with general safety requirements and must adopt the necessary measures to avoid any safety threats, for example, by withdrawing unsafe products from the market, informing customers and recalling products that have already been supplied to customers to avoid being exposed to the risks of liability.

With regard to IT and e-commerce activities, frequent changes in both the legal, data protection, financial services and the technological developments increase the risk of non-compliance with legal demands, which could harm our reputation and could have a material adverse effect on our business, financial position and results of operations.

Failure to comply with any relevant rules and regulations may result in licenses or authorizations required in connection with the relevant business areas being withdrawn or not being granted in the future, or may subject us to significant penalties or claims, and in some cases may even constitute a punishable offence, and significantly affect our ability to conduct our business, which could have a material adverse effect on our business, financial position and results of operations.

Legal requirements are frequently changing and subject to interpretation, and we are unable to predict the ultimate cost of compliance with these requirements or their effect on our operations. Failure to define clear roles and responsibilities or to regularly communicate with and train our employees or franchisees may result in noncompliance with applicable laws and regulations. We may be required to make significant expenditures or modify our business practices to comply with

existing or future laws and regulations, which may increase our costs and materially limit our ability to operate our business, which could have a material adverse effect on our business, financial position and results of operations.

In addition, we are indirectly affected by changes in the laws, regulations, administrative actions and policies with which suppliers of our products, in particular the manufacturers of our "Douglas Nocibé Collection" and "Own Brands" products, must comply. For example, the formulation, manufacturing, packaging, labelling, distribution, sale and storage of our suppliers' products and our products are subject to extensive consumer laws and regulations in different jurisdictions, which may change or develop over time in a way that could have a material adverse effect on our business, financial position and results of operations. The same holds true with respect to products sold on our marketplace.

We are subject to numerous laws and regulations with respect to personal data protection and failure to comply with such laws and regulations, may result in litigation and administrative or arbitration proceedings and/or significantly damage our relationship with our customers; and we may also be adversely affected by changes in these laws and regulations

We are subject to local and international laws and regulations governing the collection, use, retention, sharing and security of personal data. A failure to comply with applicable laws or regulations could have an adverse impact on our reputation and could lead to us becoming subject to penalties or claims, which could have a material adverse effect on our business and results of operations. The need to comply with data protection legislation is a significant controlling, operational and reputational risk which can affect us in a number of ways including, for example, making it more difficult to maintain and expand our marketing data, commercially exploit available date and also through potential litigation relating to the alleged misuse of personal data. Regulation regarding data collection and data protection may also become stricter in the future. New laws, regulations or developments in this field and changes in consumer behavior could interfere with our strategies to use privacy-related information for our omni-channel marketing efforts and could also have an adverse effect on our business and results of operations.

Significant modifications in laws or regulations in countries in which we operate may consequently lead to us incurring higher costs or having to change our business practices. Also, compliance will become more complex and involve higher costs and the increasing risk of noncompliance may give rise to civil liability, administrative orders (including injunctive relief), fines or even criminal charges. For example, the new regulation on data privacy issued by the European Commission in January 2012 (the "General Data Protection Regulation") has introduced substantial changes to the EU data protection regime, involving replacement of the national data protection laws by a directly applicable EU regulation. As the law has come into effect on May 25, 2018, it has imposed a substantially higher compliance burden on our business. In addition, the regulation foresees higher maximum level of fines than historically. The legislator is keen to establish a uniform digital European single market and there are several initiatives pending, e.g. the introduction of an e-privacy regulation. Moreover, our business might also become indirectly affected by court rulings. For example, the European Court of Justice (Planet 49, C-673/17) specified the treatment of internet tracking technologies and issued another important judgment on European Data Protection laws stating that the transfer of personal data into the United States of America cannot be based on the EU/US Privacy Shield instrument. This decision also has an impact on data transfer to other countries outside the EU / EEA, if there is no adequacy decision by the EU Commission and must be observed by us

We are exposed to the risk that our data could be wrongfully appropriated, lost or disclosed, or processed in breach of data protection regulation, by us or on our behalf. If we or any third-party service providers on which we may rely fail to transmit customer information in a secure manner, or if any such loss of personal customer data were otherwise to occur, we could face liability under

data protection laws. This could also result in the loss of our customers' goodwill and deter new customers.

Our failure to comply with local and international laws governing personal data or if we fail to protect our data from being misappropriated could have a material adverse effect on our business, financial position and results of operations.

We can also not rule out that our technical and organizational measures to protect our data as well as the requirements on IT security are always sufficient and state of the art to protect all data at any given time and respect the legal requirements entirely.

We may be adversely affected by changes in antitrust and competition laws and regulations, in particular with respect to selective distribution contracts

As a significant market participant in the German and other European selective beauty markets, we are subject to antitrust and competition laws and regulations.

Moreover, there can be no assurance that the introduction of new antitrust or competition laws in the jurisdictions that are relevant to our operations or the interpretation or enforcement of existing competition laws will not affect our business and operations in the future or will not restrain us from making future acquisition or expanding our business, in the event we wish to do so in the future.

Furthermore, the use of selective distribution contracts, *i.e.,* contracts that require formal approval of the supplier for the product to be listed, effectively restricts competition by limiting the sale of cosmetics products almost exclusively to selective distribution channel retailers, is critical to our current business model. Selective distribution currently benefits from a specific legal framework provided by EU legislation. Art. 101 (1) Treaty on the Functioning of the European Union ("TFEU") and specific national laws prohibit agreements which have an anticompetitive object or restrictive effects on competition, unless such agreements fall under so-called block exemptions or individual exemptions pursuant to Art. 101 (3) TFEU (Regulation No. 330/2010 (EC)). Contractual clauses violating European or German competition law are void which may also affect the remainder of the respective agreements. Furthermore, in such case the competent cartel authorities may initiate proceedings against the contractual parties and substantial fines can be imposed).

However, following changes in the applicable laws, regulations, case law or the application thereof by competition authorities, other distribution channels may begin selling products (or increasingly sell products) that currently generate the majority of our sales and this may lead to a significant increase in competition, potentially requiring us to cut our profit margins in order to remain competitive which could have a material adverse effect on our business, financial position and results of operations.

We are or may become involved in litigation and administrative or arbitration proceedings, which may adversely affect our financial position

We may become involved in litigation, administrative and arbitration proceedings, such as labor-related litigation, intellectual property litigation or litigation or arbitration proceedings with our customers, suppliers or franchisees as part of our ordinary business activities. For example, even if we strive to limit the risk of warranty claims for product defects or from product liability claims by including recourse clauses in our agreements with suppliers and with manufacturers, we may be exposed to such claims and, in the event that the supplier is financially unable to respond for the damage or should our insurance not cover the claims asserted against us adequately or at all, we may have to bear the costs related to the product liability, which could have a material adverse effect on our business, financial position and results of operations.

Any such proceedings, even if we are successful, could divert management resources, incur certain expenses and cause damage to our reputation. The involvement in any such litigation, administrative and arbitration proceedings as well as the outcome of such litigation and proceedings, which cannot be predicted and may not be in accordance with our assessments, may have a material adverse effect on our business, financial position and results of operations.

We are currently subject to several pending litigation proceedings, e.g. the following one:

Douglas GmbH is party to legal proceedings pending in the Dortmund District Court ("*Landgericht*") where several former minority shareholders are requesting an adjustment of the compensation in connection with the squeeze-out of the minority shareholders of Douglas Holding AG (merged into Douglas GmbH) which became effective in July 2013. To cover risks associated with these proceedings we have recognized a provision. If we are unsuccessful in defending any current or future claims, also in the connection with other legal disputes, not described above, we may incur liabilities in excess of the reserved amounts in the future. This could have a material adverse effect on our business, financial position and results of operations.

If we and/or our suppliers are unable to protect our and/or their respective intellectual property rights, in particular trademarks and key domain names, our ability to compete could be adversely affected

The market for the products and services that we offer depends to a significant extent upon the value associated with their respective brands. Therefore, our commercial success depends on our and our suppliers' ability to successfully defend our and their intellectual property, including trademarks, know-how, customer lists and domain names, including the ability of franchised stores to operate in a manner consistent with our required standards and guidelines in this area.

In particular, we own a portfolio of trademarks, including word trademarks and word/device trademarks used by companies in our Group and by franchisees, domain names, and some design rights. In particular, the trademarks that protect the brand "Douglas" (also the new Douglas logo) as well as the trademark "Nocibé" are of key importance to us. Furthermore, we use some smaller local (sub-)brands or company symbols to differentiate our offering and address different target groups, for example, Schnitzler (targeting luxury, high-end customers in Düsseldorf, Germany). With respect to several of the registered trademarks, we have entered into co-existence agreements and prior rights agreements for specific countries or situations. Regarding domain names, in particular "douglas.de", and the top-level domains for other countries, in particular those, in which we operate an online shop, play an important role in our business operations. In many cases we do not own the recipes or intellectual property rights (other than the trademarks) relating to our "Douglas Nocibé Collection" and "Own Brands" products, which are manufactured by third parties.

We expect to continue to file further trademark applications seeking to protect selected newly developed brands or products, or apply for registration of existing brands or products in other relevant jurisdictions, but cannot be sure that trademark registrations will be issued. The same holds true for future or current business segments we may newly establish or acquire. There is also a risk that we could, by omission, fail to renew a trademark (or design or domain) on a timely basis or fail to pursue our brand monitoring. Moreover, there is the risk that our competitors may challenge, invalidate, dilute or circumvent any existing or future trademarks issued to, or licensed by, us. In addition, even though a trademark has been duly registered, under local regulation the fact that a trademark is not used for a certain period of time (such as five years in the European Union) may render the trademark registration voidable. Moreover, earlier rights (such as a pre-existing right to a name, copyrights and other industrial property rights) may prevail over the registration of the trademark. With respect to domain names, these are generally regulated by internet regulatory bodies and may also be subject to trademark laws and other related laws of each country.

If we do not have or cannot obtain or maintain on reasonable terms the ability to use our "Douglas" or "Nocibé" trademarks, or any other significant brand in a particular country, or to use or register "Douglas" for a certain domain name, we could be forced either to incur significant additional expenses to market our products within that country, including the development of a new brand and the creation of new promotional materials and packaging, or to elect not to sell products in that country. Furthermore, the regulations governing domain names and laws protecting marks and similar proprietary rights could change in ways that block or interfere with our ability to use relevant domains or our current brands. In addition, we may not be able to prevent third parties from registering, using or retaining domain names that interfere with our customer communications or infringe or otherwise decrease the value of our trademarks, domain names and other proprietary rights. Regulatory bodies may establish additional generic or country-code top-level domains or may allow modifications of the requirements for registering, holding or using domain names. As a result, we may not be able to register, use or maintain the domain names that utilize the name "Douglas" (or "Nocibé", currently for France) in all countries in which we currently conduct business or intend to conduct business in the future.

Furthermore, there can be no assurance we will be able to adequately or sufficiently prevent infringement or misappropriation of our portfolio of intellectual property by third parties. If any of these events occur, our ability to compete may be adversely affected.

The realization of any of these risks may have a material adverse effect on our business, financial position and results of operations.

We may infringe intellectual property rights of third parties and be liable for damages and litigation costs

Our store format, web presence (including advertising activities and marketplace), IT structure and our designs (*e.g.,* relating to our "Douglas Nocibé Collection" and other products), among others, may violate intellectual property rights of third parties. If we are perceived to have adopted trends or designs developed by competitors or to have exceeded our contractual or statutory usage rights regarding IP (e.g., copyrights regarding software and applications used by us or trademark rights regarding the products presented by us), we may become subject to claims alleging that we have violated the intellectual property rights of third parties, which could have a material adverse effect on our business, financial position and results of operations. We may be prevented by third parties from using, sourcing or marketing certain designs and ideas. If we violate a third party's rights, we may be liable for damages as well as litigation costs. This may reduce sales and, damage our reputation, any of which could have a material adverse effect on our business, financial position and results of operations.

We use standardized sales, purchase and supply agreements, as well as standardized terms and conditions, which increase the potential that all contract terms used therein, may be invalid or unenforceable if any clause is held to be void

We entertain legal relationships with a large number of persons, primarily suppliers, manufacturers of our "Douglas Nocibé Collection" and similar products, our employees and customers. In this context we primarily use standardized documents, standard-form contracts and standardized terms and conditions. If such documents, contracts or terms and conditions turn out to contain provisions that are disadvantageous to us, or if clauses in such documents or contracts are declared invalid and thus displaced by statutory provisions which are unfavorable to us, a large number of standardized documents, contracts or terms and conditions could be affected, which could have a material adverse effect on our business, financial position and results of operations.

Additionally, standardized contractual terms under German law ("*Allgemeine Geschäftsbedingungen"*) have to comply with the statutory law on general terms and conditions, which means they are subject to rigid fairness controls by the courts regarding their content and

the way they, or legal concepts described therein, are presented to the other contractual party by the person using them. The standard is even stricter if they are used *vis-à-vis* consumers, which is the case of the vast majority of our customers. As a general rule, standardized terms are invalid if they are not transparent, clearly worded, or if they are unbalanced or discriminate against the other party inappropriately. Due to the frequent changes to the legal framework, particularly with regard to court decisions relating to general terms and conditions, we cannot fully protect ourselves against risks arising from the use of such standardized contractual terms. Even if documents, contracts and terms and conditions are prepared with legal advice, it is not impossible to avoid all potential risks from the outset or in the future, as the changes may continue to occur in the legal framework, particularly through case law. A change in the legal framework could have a material adverse effect on our business, financial position and results of operations. Since the German law on standardized contractual terms resorts on an EU directive, one would face similar, but not the same situation also in other EU Member States.

We are subject to tax risks, and our tax burden could increase due to changes in tax laws, such laws' application or interpretation, or as a result of current or future tax audits

Our tax burden is dependent on certain aspects of the tax laws across several different jurisdictions and their application and interpretation. Changes in tax laws or their interpretation or application or changes in the amount of taxes imposed on companies could increase our future tax burden. As a result of current or future tax audits or other review actions by the relevant financial or tax authorities, our internal tax assessments, including our interpretation and application of tax laws, could be revised and/or additional taxes, including interest and penalty payments or social security payments, could be assessed in relation to future or previous tax assessment periods which could lead to an increase in our tax obligations, either as a result of the relevant tax payment being assessed directly against us or as a result of our becoming liable for the relevant tax as a secondary obligor due to the primary obligor's (such as, for example, an employee) failure to pay. This may be due to an interpretation or view of laws and/or facts by tax authorities in a manner deviating from our view.

Due to our international focus, we are exposed to tax risks, in particular with regard to transfer pricing rules that apply in several jurisdictions and, in relation to cross border business relationships. Pursuant to such rules, related enterprises are obligated to conduct any inter-company transactions on conditions which would also apply among unrelated third parties concluding comparable agreements (so-called "at arm's length principle") and to provide sufficient documentation thereof, subject to the rules applicable to them in the relevant jurisdiction. The possibility that the tax authorities will challenge our compliance with applicable transfer pricing rules cannot be ruled out. Furthermore, transfer pricing risks may increase in the future as intra-group cross-border business grows.

The Company as well as the German and other foreign subsidiaries within the Douglas-Group are subject to tax audits by the respective tax authorities on a regular basis.

As a result of current or future tax audits or other reviews by the tax authorities, additional taxes (including withholding taxes, real estate transfer tax, capital duty and stamp duty) could be assessed on companies of the Douglas-Group or tax losses carried forward as well as interest expenses carried forward for purposes of the German interest stripping rules could be reduced, which could lead to an increase in our tax obligations and thus have a material adverse effect on our financial position.

Our corporate structure has been, and may be in the future, subject to reorganization measures (for example, transfer of subsidiaries, carve-outs or mergers). We may not be aware of a certain tax issue or that the tax authorities will question some or all of the positions that we have taken and, consequently, additional taxes may be assessed or tax assets be challenged. Furthermore, due to our international operations, we are exposed to risks arising from the application of international

tax concepts used for the purpose of allocating taxing rights between countries, for example the concept of permanent establishment as used, *inter alia*, in OECD model treaties. In particular, our business activities outside Germany might inadvertently trigger taxing rights of foreign countries (*e.g.,* due to a representative's permanent establishment), leading to additional tax burdens for us.

VAT rates could increase in the future in the countries in which we operate. If we do not increase the prices of the products that we sell to match the increase in VAT, our profitability margins will be negatively impacted. If we pass the increase in VAT on to our customers by raising the prices of the products that we sell, the demand for such products may decline, which could materially and adversely affect our business, financial position and results of operations. The announcement of a future decrease in VAT rates may also adversely affect our results as customers could delay making purchases until the decrease in VAT has occurred. Furthermore, we face VAT risks arising out of the operating activities in the normal course of business and typical acquisition-related VAT risks relating to prior acquisitions and reorganizations.

Any imposition of tax liability, adverse tax rulings or the result of tax audits could have a material adverse effect on our business, financial position and results of operations.

Compliance breaches could result in investigations by the relevant authorities, fines, additional payments of tax, damage claims, payment claims, the termination of relationships with customers or suppliers and reputational damage

As of September 30, 2020, we operated in 26 countries with 21.517 employees (average headcount of financial year 2019/20), 2.232 own stores, 140 franchise stores and various online shops. Although we mainly operated within the European Union or similar European countries, some countries may have less stable political, legal and regulatory governments, as well as inconsistent enforcement of laws and regulations. Moreover, we have limited influence over the day-to-day operations of our franchised stores (primarily in France), as well as our suppliers. This inherently creates a risk that applicable legislation and regulations may be breached. Such behavior could lead to further legal proceedings against us, fines, sanctions, additional tax liability, court orders affecting future conduct, forfeiture of profits, rescission of existing contracts, exclusion from certain businesses, loss of trade licenses or other restrictions, which, in turn, might limit our ability to pursue strategic projects and transactions that may be important for the business and which could have a material adverse effect on our business, financial position and results of operations.

Employees may not act in compliance with applicable statutory provisions (including antitrust regulation, anti-corruption legislation as well as data protection laws) and internal guidelines and we may face the risk that penalties or liabilities may be imposed on us or that our business will be adversely affected as a result of such non-compliance. Thus, our corporate governance system may not be sufficient to prevent violations of legal provisions and internal guidelines, to identify past violations or prevent damages from fraud or similar crimes in the Group.

Furthermore, involvement in potential non-compliance proceedings and investigations could harm our reputation and that of our management, lead to the loss of customers and have a negative impact on efforts to compete for new customers. Customers and/or third parties could also initiate legal proceedings against us for substantial financial sums.

The realization of any of these risks may have a material adverse effect on our business, financial position and results of operations.

Risks Related to our Financing

Our substantial leverage and debt service obligations could adversely affect our business especially our liquidity and prevent us from fulfilling our obligations with respect to the Notes and the Note Guarantees

See section “Consolidated Financial Statements”.

The financial risks represent a going concern risk for the Douglas-Group. The following material uncertainties exist:

- the follow-up financing until maturity in 2022 and 2023 must succeed,
- the necessary and planned increase in earning power in the Group's transformation process must be achieved and thus solvency maintained, and
- the liquidity of the Group must not be further burdened by further delays in opening the branches.

The long-term financing of the Douglas-Group is provided by a senior syndicated loan agreement including a Revolving Credit Facility and Ancillary Facilities as well as corporate bonds issued. The risk of a lack of follow-up financing until maturity in 2022 or 2023 for the company's portfolio is generally and overall assessed as high, but the occurrence of this risk is considered to be rather low. Overall, the Douglas-Group has financial resources of €2,505.0 million at its disposal through the senior syndicated loan agreement including the revolving credit facility and the corporate bonds issued. With the drawing of the revolving credit facility and the ancillary facilities in the amount of € 165.5 million in March 2020, the credit lines are almost exhausted. According to current planning, the Douglas-Group will not be in a position to repay these liabilities from its own funds when the non-current financial liabilities mature, so that refinancing will have to be successful.

During the term of the financing agreements, the Douglas-Group must, among other obligations, in particular service the cost of capital on time and maintain a certain ratio between adjusted EBITDA and debt (financial covenant). However, the obligation to comply with the ratio of Adjusted EBITDA to debt only arises when at least 40.0 percent or €80 million (threshold) of the revolving credit facility has been drawn by revolving credit facility loans.

The ongoing servicing of the cost of capital generally assumes that the Douglas-Group's planning will not be significantly missed in terms of sales, earnings and cash flow development.

The COVID-19 pandemic has had and continues to have a substantial impact on the Douglas-Group's business. The original plans for sales and earnings for the financial year 2019/20 from October 2019 were significantly missed.

It is now clear that COVID-19 will also impact the Group's further development in financial year 2020/21. At present, a reduction in financing reserves is assumed for the Douglas Group, taking into account the current store closures and restrictions in some countries and the assumed openings from February. Each additional week of store closures further increases the liquidity risk.

The massive shift in business to digital retail and the compensation for the associated decline in store business, as well as the adjustment of the store network, are thus seen as a necessary step to increase profitability.

According to the liquidity planning, there are only limited liquidity reserves beyond the reporting date of September 30, 2021 in order to maintain solvency at all times even in the event of further budget shortfalls or an extended period of store closures.

In view of the planned values for relevant key figures, management targets an improved rating for the coming years. Our substantial leverage could have important consequences to holders of the Notes, including, but not limited to:

- making it difficult for us to satisfy our obligations with respect to the Notes;
- increasing our vulnerability to, and reducing our flexibility to respond to, general adverse economic and industry conditions;
- requiring the dedication of a substantial portion of our cash flow from operations to the payment of principal of, and interest on, indebtedness, thereby reducing the availability of such cash flow to fund working capital, capital expenditures, acquisitions, joint ventures, product research and development or other general corporate purposes;
- limiting our flexibility in planning for, or reacting to, changes in our business and the competitive environment and the industry in which we operate;
- placing us at a competitive disadvantage as compared to our competitors, to the extent that they are not as highly leveraged; and
- limiting our ability to borrow additional funds and increasing the cost of any such borrowing.

Any of these or other consequences or events could have a material adverse effect on our ability to satisfy our debt obligations, including the Notes.

We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities

Each of the Senior Secured Notes Indenture and the Senior Notes Indenture restricts, among other things, our ability to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- create or incur certain liens;
- make certain payments, including dividends or other distributions, with respect to the shares of the Senior Notes Issuer or its restricted subsidiaries;
- prepay or redeem subordinated debt or equity;
- make certain investments;
- create encumbrances or restrictions on the payment of dividends or other distributions, loans or advances to, and on the transfer of, assets to the Senior Secured Notes Issuer or the Senior Notes Issuer, as the case may be;
- sell, lease or transfer certain assets, including stock of restricted subsidiaries;
- engage in certain transactions with affiliates;
- consolidate or merge with other entities; and
- impair security interests for the benefit of the holders of the relevant Notes

These limitations are subject to significant exceptions and qualifications. See “*Description of Certain Financing Arrangements – Senior Secured Notes - Certain Covenants*” and “*Description of Certain Financing Arrangements – Senior Notes - Certain Covenants*.” The covenants to which we are subject could limit our ability to finance our future operations and capital needs and our ability to pursue business opportunities and activities that may be in our interest.

In addition, we are subject to the affirmative and negative covenants contained in the Senior Secured Credit Facilities Agreement. In particular, the Senior Secured Credit Facilities Agreement requires us to maintain a specified financial ratio if the revolving credit facility thereunder is drawn for more than 40 percent on a financial quarter end date. Our ability to meet this financial ratio can be affected by events beyond our control, and we cannot assure you that we will meet it. A breach of any of those covenants or restrictions could result in an event of default under our Senior Secured Credit Facilities Agreement. Upon the occurrence of any event of default under our Senior Secured Credit Facilities, subject to applicable cure periods and other limitations on acceleration or enforcement, the relevant creditors could cancel the availability of the facilities and

elect to declare all amounts outstanding under the Senior Secured Credit Facilities, together with accrued interest, immediately due and payable. In addition, any default or acceleration under the Senior Secured Credit Facilities could lead to an event of default and acceleration under other debt instruments that contain cross-default or cross-acceleration provisions, including the Indentures for the Senior Secured Notes and the Senior Notes. If our creditors, including the creditors under our Senior Secured Credit Facilities Agreement, accelerate the payment of those amounts, we cannot assure you that our assets and the assets of our subsidiaries would be sufficient to repay in full those amounts, to satisfy all other liabilities of our subsidiaries which would be due and payable and to make payments to enable us to repay the Senior Secured Notes or the Senior Notes, in full or in part. In addition, if we are unable to repay those amounts, our creditors could proceed against any collateral granted to them to secure repayment of those amounts.

We will require a significant amount of cash to meet our obligations under our indebtedness and to sustain our operations, which we may not be able to generate or raise

Our ability to make principal or interest payments when due on our indebtedness, including the Senior Secured Credit Facilities and our obligations under the Senior Secured Notes and the Senior Notes, and to fund our ongoing operations, will depend on our future performance and our ability to generate cash, which, to a certain extent, is subject to general economic, financial, competitive, legislative, legal, regulatory and other factors, as well as other factors discussed in these "*Risk Factors*," many of which are beyond our control. Our Senior Secured Credit Facilities Agreement provides for a term loan facility which will mature in 2022. The Senior Secured Notes also will mature in 2022 and the Senior Notes will mature in 2023. See "*Description of Certain Financing Arrangements*" - "*Senior Secured Notes*" and "*Senior Notes*." At the maturity of these loans, the Senior Secured Notes, the Senior Notes and any other debt which we incur, if we do not have sufficient cash flows from operations and other capital resources to pay our debt obligations, or to fund our other liquidity needs, or we are otherwise restricted from doing so due to corporate, tax or contractual limitations, we may be required to refinance our indebtedness. If we are unable to refinance all or a portion of our indebtedness or obtain such refinancing on terms acceptable to us, we may be forced to reduce or delay our business activities or capital expenditures, sell assets or raise additional debt or equity financing in amounts that could be substantial. The type, timing and terms of any future financing will depend on our cash needs and the prevailing conditions in the financial markets. We cannot assure you that we will be able to accomplish any of these measures in a timely manner or on commercially reasonable terms, if at all. In addition, the terms of our Senior Secured Credit Facilities Agreement, the Senior Secured Notes Indenture, the Senior Notes Indenture and any future debt may limit our ability to pursue any of these measures.

Despite our current level of indebtedness, we may still be able to incur substantially more debt in the future, which may make it difficult for us to service our debt, including the Notes, and impair our ability to operate our businesses

We may incur substantial additional debt in the future. Any debt that our subsidiaries incur could be structurally senior to the Notes, and other debt could be secured or could mature prior to the Notes. In addition, such debt could be incurred on a basis senior to the guarantees of the Senior Notes. Although the Senior Secured Credit Facilities Agreement and the Indentures will contain restrictions on the incurrence of additional indebtedness, these restrictions are subject to a number of significant qualifications and exceptions, and under certain circumstances the amount of indebtedness that could be incurred in compliance with these restrictions could be substantial. If new debt is added to our and our subsidiaries' existing debt levels, the related risks that we now face would increase. In addition, the Senior Secured Credit Facilities and the Indentures will not prevent us from incurring obligations that do not constitute indebtedness under those agreements.

The loans under our Senior Secured Credit Facilities Agreement bear interest at floating rates that could rise significantly, increasing our costs and reducing our cash flow

The loans under our Senior Secured Credit Facilities Agreement bear interest at floating rates of interest per annum equal to EURIBOR or LIBOR, as adjusted periodically, plus a margin. These interest rates could rise significantly in the future. Although we entered into certain interest rate hedging arrangements designed to fix a material portion of these rates, there can be no assurance that hedging will continue to be available on commercially reasonable terms. To the extent that interest rates were to increase significantly, our interest expense would correspondingly increase, reducing our cash flow.

Our interest rate hedging agreements may expose us to credit default risks and potential losses if our counterparties fall into bankruptcy

We have entered into interest rate hedging agreements to hedge a material portion of our exposure to fluctuations in interest rates, primarily under the Senior Secured Credit Facilities. Under these agreements, we are exposed to credit risks of our counterparties. If one or more of our counterparties falls into bankruptcy, claims we have under the cap agreements may become worthless. In addition, in the event that we refinance our debt or otherwise terminate hedging agreements, we may be required to make termination payments, which would result in a loss.

Market perceptions concerning the instability of the Euro, the potential re-introduction of individual currencies within the Eurozone, or the potential dissolution of the Euro entirely could have adverse consequences for us with respect to our outstanding debt obligations, such as the Notes, that are Euro-denominated

As a result of the credit crisis in Europe, in particular in Greece, Italy, Ireland, Portugal and Spain, the European Commission created the European Financial Stability Facility (the “EFSF”) and the European Financial Stability Mechanism (the “EFSM”) to provide funding to Eurozone countries in financial difficulties that seek such support. Despite these measures, concerns persist regarding the debt burden of certain Eurozone countries and their ability to meet future financial obligations, the overall stability of the Euro and the suitability of the Euro as a single currency given the diverse economic and political circumstances in individual Member States. These and other concerns could lead to the re-introduction of individual currencies in one or more Member States or, even possibly, the dissolution of the Euro entirely. Should the Euro dissolve entirely, the legal and contractual consequences for holders of euro-dominated obligations and for parties subject to other contractual provisions referencing the Euro such a supply contracts would be determined by laws in effect at such time. These potential developments, or market perceptions concerning these and related issues could have adverse consequences for us with respect to our outstanding debt obligations that are Euro-denominated, such as the Notes, and, as we have a substantial amount of debt denominated in Euro, our financial condition may be materially affected.

Furthermore, the Indentures and our Senior Secured Credit Facilities contain covenants restricting our and our subsidiaries’ corporate activities. See *“Risk Factors - We are subject to restrictive debt covenants that may limit our ability to finance our future operations and capital needs and to pursue business opportunities and activities.”*

Risks Related to the CVC-Transactions

The interests of our shareholders may conflict with the interests of the holders of the Notes and the Shareholders Agreement could impose operating and financial restrictions on our business

The interest of our shareholders could conflict with the interests of investors in the Notes, particularly if we encounter financial difficulties or are unable to pay our debts when due. The shareholders could cause us to pursue acquisitions or divestitures and other transactions or make

large dividend payments (subject to limitations set forth in the Indenture) or other distributions or payments to them as the shareholders, even though such transactions may involve increased risk for the holders of the Notes. In addition, the shareholders may, in the future, own businesses that directly compete with ours. Furthermore, no assurance can be given that the shareholders will not sell all or any part of their respective shareholdings at any time nor that either of them will not look to reduce their respective holding by means of a sale to a strategic investor, an equity offering or otherwise.

Management's Discussion and Analysis of Financial Condition and Results of Operations

All figures presented in this section are without IFRS 16 effects.

Investors should read the following "Management's Discussion and Analysis of Financial Condition and Results of Operations" of our Group together with the additional financial information contained elsewhere in this financial report, in particular in the sections on "Risk Factors" and "Business" contained in this financial report, as well as in the financial statements including the related notes in this financial report. Our historical results are not necessarily indicative of the results that should be expected in the future, and our interim results are not necessarily indicative of the results that should be expected for the full year or any other period.

Even if the financial information shown in the following tables is based on our Audited Consolidated Financial Statements all stated figures are before the impact of IFRS 16. Following our current internal management approach and to provide decision-useful, comparable financial information, all current financial figures (from October 1, 2019) included in this section "Management's Discussion and Analysis of Financial Condition and Results of Operations" are stated before the impact of IFRS 16 lease effects. For any IFRS 16 effects and disclosures we refer to the section "Consolidated Financial Statements" of this report.

Our Audited Consolidated Financial Statements are presented in the F-pages (F1 to F78). The financial information represented in the following tables and text is partly based on these audited financial statements and partly based on unaudited financial information. All of the financial data presented in the text and tables below are shown in millions of Euro, except as otherwise stated. Certain financial data (including percentages) in the following tables have been rounded according to established commercial standards, whereby aggregate amounts (sum totals, sub-totals, differences or amounts put in relation) are calculated based on the underlying unrounded amounts. As a result, the aggregate amounts in the following tables may not correspond in all cases to the corresponding rounded amounts contained in the following tables. Furthermore, in those tables, these rounded figures may not add up exactly to the totals contained in those tables. In respect of financial data set out in this financial report, a dash ("—") signifies that the relevant figure is not available or not applicable, while a zero ("0") signifies that the relevant figure is available but has been rounded to or equals zero.

Selected Factors Affecting Results of Operations and Financial Position

We believe that the factors discussed below have significantly affected the development of our results of operations and financial position in the period for which financial information is presented in this financial report, and that such factors will continue to have a material influence on our results of operations and financial position in the future.

General information concerning the Douglas-Group

The Kirk Beauty One GmbH ("Douglas", "Douglas-Group", the "Company", the "Group") is a German limited liability company (Gesellschaft mit beschränkter Haftung) incorporated on April 10, 2015 and has its registered office at Luise-Rainer-Straße 7-11, 40235 Düsseldorf/Germany. Since August 13, 2015 Kirk Beauty One GmbH owns all shares in the Douglas-Group.

Douglas is a leading European specialist retailer of selective beauty and personal care products who generates the vast majority of its sales in the selective beauty distribution channel, i.e. it requires the formal approval by a supplier to distribute a selective product, as opposed to the mass market channel. As of September 30, 2020 the Douglas-Group operated in 26 countries with an average of 21,517 employees, 2,232 own stores, 140 franchise stores and various online shops.

Development of the European Selective Beauty Market

See section "*Business"*

We generate our sales predominately in the selective beauty distribution channel, which unlike the mass market channel, is based on distribution contracts requiring formal approval of suppliers before a retail company can carry a selective product. Consequently, our results of operations and financial position have historically been affected by developments in this market and by the general economic environment in regional markets where we operate.

The selective beauty market segment in many of the European countries has demonstrated resilience also in challenging environment, e.g. during the COVID-19 pandemic or European financial crisis. Beauty products (color cosmetics, skin care and fragrances) are often perceived as affordable high-value gifts and so-called "personal rewards", which have contributed to a stable demand for such products even during periods of extended economic downturns.

Trends towards Omni-channel Distribution and E-Commerce

See section "*Business"*

We focus on total like-for-like performance on an omni-channel or platform basis including both store business and e-commerce. In accordance with our overall strategy, e-commerce has seen a particular strong growth in recent financial years and has contributed above-average to our overall like-for-like growth. This development was underpinned by a strong underlying growth of the online selective beauty market, as well as recent improvements to our e-commerce platform. The COVID-19 pandemic has further accelerated this process.

Driven by ongoing changes in customer demand and shopping behavior, we have continuously invested in omni-channel distribution capacities, including our e-commerce platform, and have implemented organizational changes to integrate our store and online businesses. Although we see ourselves as the leading omni-channel pioneer in selective beauty retailing in Europe with highly integrated store, online and mobile customer interfaces (which, for example, allow our customers to browse online/mobile and buy in-store, or "click-and-collect"), we expect such investments to continue in the future.

Our online shops have been an important source of profitable growth in the past few years and our results of operations have been positively influenced by the on-going trend towards e-commerce and omni-channel distribution. In the financial year 2019/20 our e-commerce sales increased by 40.6 percent, corresponding to 25.4 percent of total net sales in this financial year.

The continued growth of our e-commerce-platform has been accompanied by an increase of related variable costs, in particular costs of freight and packaging costs, which, on a relative basis, represent a larger portion than for our stores.

We believe that there is potential for further sales growth of the e-commerce business with respect to share of total sales, which we believe would have a positive impact on the profitability of our business.

Introduction and development of our DOUGLAS Beauty Platform further integration our physical and digital supply chain and renovation and optimization of our Store Network

See section *"Business"*

Our ability to increase our sales and our profitability depends to some extent on our size.

Moreover, our ability to secure a holistic digital customer journey within our Online Shop & Marketplace integrating our store business, especially our prime retail locations at costs, that allow us to maintain our target profit margins, is a key factor to our success. For details , please refer to section "*Business".*

Our capital expenditures totaled €105.3 million in the financial year 2019/20, quite in line with the previous fiscal year's level of investments accounting for €108.5 million. The majority of our capital expenditures related to investments in the refurbishment and maintenance, design and re-design of existing stores and the opening of new stores, as well as in the further development of the customer loyalty programs and the IT-environment, indispensable for a successful development of our e-commerce business.

Fixed costs represent a major share of our cost base and, consequently, have an important impact on our financial performance. Our fixed costs include rental expenses and energy costs. Personnel expenses have a fixed and semi-variable component due to the hiring of temporary workers during the peak selling periods and variable compensation components. When offsetting our marketing and advertising costs with other operating income from marketing and advertising costs recharged, our largest cost factors in the periods under review were personnel expenses, as well as rental and energy costs.

Personnel expenses include the costs of staff in our directly operated stores, staff operating our online shops and staff in our headquarters and other business operations performing mainly administrative, centralized and service functions. The compensation of our sales employees and area managers includes a variable component mainly based on the level of sales or sales related key performance indicators (KPI), which leads to some degree of fluctuation with respect to personnel costs. We also manage personnel expenses in our stores, to a certain degree, by varying staffing levels in anticipation of customer traffic.

With respect to rental costs, most of our lease agreements provide for fixed monthly lease payments, however some of the lease agreements contain sales-related additional lease payments, meaning that a portion of the lease payments is tied to the level of sales generated in the respective store, subject to a minimum lease payment floor. Moreover, in certain jurisdictions such as France or contractually agreed rents automatically increase pursuant to applicable law on the anniversary date of a lease in accordance with an index.

Marketing and Customer Retention

See section *"Business"*

Marketing is becoming an increasingly important factor to promote customer loyalty and support sales development. Therefore we run a variety of customer retention programs. Our CRM efforts, based on our industry-leading customer loyalty program, helps us to know our customers better and to target them much more precisely through personal recommendations, relevant beauty content and specific offers, making data increasingly important.

The Douglas Data Hub is the core element of our data strategy and collects all key data sources. It collects and exchanges - for example - data from and with the marketplace, our app, the website and our CRM program, allowing us to manage our processes more precisely.

An important loyalty program is the Douglas Card / Nocibé Card with about 44 million card holders across Europe which offers certain benefits to the individual card holder, such as special events, vouchers, special rebates or other specific mail offers. We capitalize on this high number of beauty card holders by strengthening personalized 1:1 marketing approach in order to increase frequency and intensify customer lifetime value. Couponing is another tool used to promote customer loyalty and to activate customers by receiving a benefit coupon for a future purchase. We know that

loyalty card holders are particularly attractive customers. Our German Douglas Card customers spend more per customer and purchase than our German non-loyalty card customers (measured by sales).

A large portion of our annual gross marketing costs is financed by third-party brand suppliers of selective products in the form of so-called "market development funds." These market development funds are made available by brand manufacturers to help us as a specialist selective retailer in selling their products and create local awareness about the manufacturer's brand and are typically used in the selective beauty market. In our statements of income, market development funds are accounted for in other operating income as income from contributions of suppliers to marketing and advertising campaigns.

Seasonality, Working Capital and Inventory Management

Our product portfolio covers a vast number of different products and primarily consists of products with a relatively slow turnover rate and a highly seasonal demand.

We carefully manage our inventory with a strong focus on identifying the most relevant brands and maintaining an attractive overall inventory "age" profile. We follow an approach strictly driven by our defined key performance indicators, tightly monitoring inventory turnover and out-of-stock products. We have implemented standardized processes for our product portfolio, product inventory, order and product liquidation planning and controlling.

We experience major seasonal fluctuations in our sales with a significant portion of our sales typically being driven by key consumer events. Our most important trading period is typically the eight-week period leading up to Christmas (including Singles' Day and Black Friday) and the New Year on December 31 (being part of the first quarter of our financial year). Our first quarter typically (without extraordinary effects like COVID-19) represents 1/3 of our total sales (while the remaining sales are relatively equally split between the last three quarters) and more than 1/3 of our Adjusted EBITDA over the financial year. Other sales periods that are important to us are those around Valentine's Day, Easter and Mother's Day.

Our gross profit margin (defined as sales minus cost of raw materials, consumables and supplies and merchandise) is affected by variation in pricing of products, various-designed supplier bonuses, different promotion campaigns and assortment mix variations during the year. Our operating expenses are also influenced by seasonal trading patterns, such as the increase in the use of temporary workers during the busiest trading periods.

We define our Net Working Capital as the sum of the line items (i) inventories, (ii) trade accounts receivable, (iii) trade accounts payable (including trade accounts payable related to investments in non-current assets), and (iv) other receivables and liabilities related to supplier receivables for rebates/bonuses and marketing subsidies, as well as outstanding voucher liabilities. Our Net Working Capital shows seasonal patterns with investments in inventory generally reaching a peak in October and November while our trade accounts payables typically peak in December. The development of our Net Working Capital is a key factor for our net cash flow from operating activities.

Net Working Capital development *as of September 30, 2020 and as of September 30, 2019*

	09/30/2020	09/30/2019
	EUR m	EUR m
Inventories	738.6	744.4
Trade accounts receivable	37.5	45.7
Trade accounts payable	-503.5	-487.0
Other	-24.4	-16.3
Net Working Capital	248.3	286.9

Our Net Working Capital decreased by €38.6 million totaling €248.3 million as of September 30, 2020.

It should be particularly highlighted that despite all the constraints resulting from the COVID-19 pandemic, we have managed our inventory very successfully through both channels (e-commerce and stores) and various categories of our beauty products and even achieved a decrease in our inventory.

The decrease of the Net Working Capital is mainly related to the increase of trade accounts payable accounting for €16.5 million. Besides inventories decreased by €5.8 million, trade accounts receivable decreased by €8.2 million, and "Other" increased by minus €8.1 million related to less supplier bonus receivables, and higher outstanding voucher liabilities partially compensated by higher receivables for reimbursed marketing costs.

Acquisitions

We have had a track record of successfully executing acquisitions, including large-scale acquisitions, as well as a number of smaller value-accretive acquisitions of individual perfumeries or perfumery chains.

To further strengthen our strong position in particular in Germany, further steps have been taken with an e-commerce-focused acquisition in July 2019 the Douglas-Group acquired a majority stake of Niche-Beauty.COM GmbH, ("Niche Beauty"), an emerging online portal for luxury niche and trend brands, strengthening our assortment at the premium and niche cosmetics end. In terms of sales an income Niche Beauty is a smaller acquisition.

Segments

The segment reporting of the Group, prepared in conformity with IFRS 8, reflects the internal management and reporting structure, which is based on geographical regions. For the purposes of segment reporting, the individual countries in which Douglas operates are allocated to the regions (reportable segments) Germany, France, South-Western Europe and Eastern Europe. Service and regional holding entities are allocated to the segments based on the region of their place of business. Transfers between our segments are conducted on an arm's length basis.

Segment sales (net) reflect the sales generated with third parties outside the Douglas-Group while intersegment sales reflect any sales between our four regional segments. The key segmental performance indicators are sales, Adjusted EBITDA, EBITDA and Investments.

The EBITDA is adjusted for those items which, in the opinion and decision of the management of Kirk Beauty One GmbH, are non-recurring on a regular basis, exceptional or unsuitable for internal control.

The adjustments are basically divided into the following five categories: "Credit card fees," "Purchase price allocations (PPA)," "Restructuring costs and severance payments," "Consulting fees" and "Other adjustments". In the prior year, the adjustments made to inventory impairment losses were also reported separately due to their materiality.

In view of the abnormal situation and uniqueness of the COVID 19 pandemic, certain related expenses and income have also, in the opinion of management, to be adjusted and have been disclosed separately in the category "COVID-19-effects". These COVID-19 adjustments comprise in particular staff- and rent-related idle costs in connection with our closed stores as well as other additional costs caused by the coronavirus pandemic such as costs in relation with our health and safety measures for our customers and employees.

Valuation effects on trade accounts receivable are considered as depreciations beyond the normal level of write-downs in the ordinary course of business and therefore are excluded from EBITDA but included in Net Income. Credit card fees are considered as financial expenses and therefore are excluded from EBITDA but included as expense in Financial Result. Furthermore, Net Income is adjusted for impairment losses, financing expenses and fees, as well as tax effects on the aforementioned adjustments.

Segment inventory comprises finished goods and merchandise, raw materials, consumables and supplies as well as advances to suppliers for merchandise. Capital expenditure shown under our "Segment Reporting" relates to additions made to intangible assets and property, plant and equipment.

Explanation of Key Income Statement Items

For explanations of key income statement items please refer to Section *"Certain Definitions – Definitions of Financial Figures"* and to the F-Pages in this report.

Results of Operations for the Financial Years 2019/20 and 2018/19[1]

The following table summarizes our financial performance for the periods indicated:

		10/01/2019 - 09/30/2020 EUR m	10/01/2018 - 09/30/2019 EUR m
1.	Sales	3,232.7	3,453.5
2.	Cost of raw materials, consumables and supplies and merchandise	-1,795.3	-1,880.6
3.	Gross Profit	1,437.4	1,572.9
4.	Other operating income	251.2	295.8
5.	Personnel expenses	-581.0	-642.7
6.	Other operating expenses	-929.1	-943.2
7.	Result from impairments on financial assets	0.1	-0.4
8.	EBITDA (=reported EBITDA)	178.6	282.5
	Sum of adjustments	*113.7*	*68.4*
	Adjusted EBITDA	*292.3*	*350.9*
9.	Amortization/depreciation/impairment	-433.5	-136.6
10.	EBIT	-255.0	145.9
11.	Financial income	50.1	58.9
12.	Financial expenses	-221.7	-124.4
13.	Financial result	-171.6	-65.5
14.	EBT	-426.6	80.5
15.	Income taxes	-50.2	-63.3
16.	Profit (loss) for the period	-476.7	17.2

[1] All figures in this chapter are before the impact of IFRS 16

Comparison of the Financial Years 2019/20 and 2018/19

Sales

The following table shows our aggregated and consolidated sales for the periods indicated:

	10/01/2019 - 09/30/2020	10/01/2018 - 09/30/2019
	EUR m	EUR m
Sales	3,232.7	3,453.5
Segments		
Germany		
Sales (net)	1,270.4	1,289.1
Intersegment sales	52.5	48.6
Sales	1,322.9	1,337.8
France		
Sales (net)	688.0	767.1
Intersegment sales	0.8	0.0
Sales	688.8	767.1
South-Western Europe		
Sales (net)	929.8	1,051.5
Intersegment sales	0.0	0.0
Sales	929.8	1,051.5
Eastern Europe		
Sales (net)	344.5	345.8
Intersegment sales	0.0	0.0
Sales	344.5	345.8

In the pre-COVID-19-period of the first five months of the fiscal year 2019/20 (October 1, 2019 to February 29, 2020) we started strong with an increase of our overall sales amounting to 5.6 percent.

In the background of the coronavirus pandemic, our consolidated Group-sales decreased by €220.8 million or 6.4 percent in the financial year 2019/20 compared to 2018/19.

The trend from store to online business was further pushed by the COVID-19 pandemic and our efforts focusing on the E-Commerce channel, which was reflected in a tremendously strong increase in our online sale amounting to 40.6 percent, partially mitigated the decrease in our brick- and mortar-business. Online sales accounted for 25.4 percent of total sales (prior year: 16.9 percent). Overall like-for-like sales decreased by 6.6 percent.

Sales on segment level

On a segment level, sales (net) of our segment Germany decreased by only €18.8 million or 1.5 percent, reflecting the high e-commerce share in this segment.

Particularly hard hit by the coronavirus pandemic our sales (net) of the segment France decreased by €79.1 million or 10.3 percent and sales (net) of our region South-Western Europe decreased by €121.7 million or 11.6 percent.

Despite the lock down and other COVID-19 related restrictions, our sales (net) of our segment Eastern Europe decreased by only €1.3 million or 0.4 percent still reflecting a growth region.

Cost of Raw Materials, Consumables and Supplies and Merchandise

In the financial year 2019/20, our cost of raw materials, consumables and supplies and merchandise decreased by €85.3 million or 4.5 percent.

Gross Profit

Our gross profit margin decreased from 45.5 percent to 44.5 percent. Adjusted for various inventory valuation effects related especially to store closings in South-Western Europe and COVID-19, totaling €7.0 million, the adjusted gross profit margin accounted for 44.7 percent in the financial year 2019/20 vs. 46.2 percent in the prior year, which is against the background of COVID-19 a respectable result. Prior year's adjustments related in particular to our new brand presences' associated impairment of inventories amounting to €21.8 million besides PPA-effects.

Other Operating Income

In the financial year 2019/20, other operating income decreased by €44.6 million or 15.1 percent. This decrease is mainly attributable to services rendered to third parties, amounting to €37.4 million, and less income from the disposal of assets, by €10.4 million. Adjusted for €18.7 million, relating particularly to compensation payments from our former shareholder and proceed from litigations, other operating income accounted for €232.5 million.

Personnel Expenses

In the financial year 2019/20, personnel expenses decreased by €61.7 million or 9.6 percent. As a percentage of total sales the personnel expenses accounted for 18.0 percent and improved as compared to the financial year 2018/19 with 18.6 percent reflecting our liquidity safeguard measures like hiring freeze as well as short-term labor programs. The financial year 2019/20 was impacted by COVID-19-effects, restructuring costs and severance payments amounting to €35.0 million. Adjusted for these effects, the personnel cost ratio in the current financial year was 16.9 percent, compared to 18.2 percent in the previous year.

Other Operating Expenses

In the financial year 2019/20, other operating expenses decreased by €14.0 million especially due to lower rent as well as lower marketing costs partially offset by higher goods handling costs. As a percentage of total sales the other operating expenses increased to 28.7 percent of total sales compared to 27.3 percent in the financial year 2018/19.

Adjusted for essentially COVID-19 effects and consulting services, adjusted other operating expenses as a percentage of total sales decreased to 25.9 percent of total sales compared to 26.1 percent of total sales in the financial year 2018/19.

EBITDA and Adjusted EBITDA

The following tables show EBITDA and Adjusted EBITDA separated by segments for the periods indicated:

		10/01/2019 - 09/30/2020	10/01/2018 - 09/30/2019
Douglas-Group			
EBITDA (=reported EBITDA)	EUR m	178.6	282.5
EBITDA-margin	%	5.5	8.2
Sum of adjustments	EUR m	113.7	68.4
Adjusted EBITDA	EUR m	292.3	350.9
Adjusted EBITDA-margin	%	9.0	10.2
Segments			
Germany			
EBITDA (=reported EBITDA)	EUR m	20.4	57.2
EBITDA-margin	%	1.6	4.4
Sum of adjustments	EUR m	48.8	38.6
Adjusted EBITDA	EUR m	69.2	95.8
Adjusted EBITDA-margin	%	5.4	7.4
France			
EBITDA (=reported EBITDA)	EUR m	96.4	108.8
EBITDA-margin	%	14.0	14.2
Sum of adjustments	EUR m	15.1	6.6
Adjusted EBITDA	EUR m	111.5	115.3
Adjusted EBITDA-margin	%	16.2	15.0
South-Western Europe			
EBITDA (=reported EBITDA)	EUR m	17.9	70.9
EBITDA-margin	%	1.9	6.7
Sum of adjustments	EUR m	45.3	21.2
Adjusted EBITDA	EUR m	63.3	92.1
Adjusted EBITDA-margin	%	6.8	8.8
Eastern Europe			
EBITDA (=reported EBITDA)	EUR m	42.9	45.1
EBITDA-margin	%	12.4	13.0
Sum of adjustments	EUR m	4.4	2.1
Adjusted EBITDA	EUR m	47.3	47.1
Adjusted EBITDA-margin	%	13.7	13.6

Adjusted EBITDA decreased by €58.7 million, or 16.7 percent, to €292.3 million during the financial year ended September 30, 2020. As a percentage of sales (net), Adjusted EBITDA-margin decreased by 1.1 percentage points to 9.0 percent. Total adjustments increased by €45.3 million to €113.7 million during the financial year 2019/20 compared to €68.4 million during the financial year ended September 30, 2019, mainly resulting from COVID-19-related adjustments accounting for €61.6 million.

The reduced Adjusted EBITDA was mainly attributable to the COVID-19 pandemic, resulting in a sales-drop in combination with existing fixed costs, especially store-related and other overhead and besides a lower gross profit margin defending our market leadership in a highly competitive market environment in some countries.

EBITDA and Adjusted EBITDA on segment level

Adjusted EBITDA in **Germany** decreased by €26.6 million to €69.2 million during the financial year 2019/20 from €95.8 million during the financial year ended September 30, 2019. Adjustments to EBITDA totaled €48.8 million (prior year: €38.6 million) and primarily resulted from COVID-19 as well as consulting fees, related to various central projects (prior year: impairment of inventories, restructuring and severance payments, credit card fees as well as proceeds from the sale of our former headquarter property in Hagen, which had an opposing effect).

Struggling with the COVID-19 pandemic, the main reasons for the decline of adjusted EBITDA in Germany were primarily the same as those for the Group: lower sales and a lower gross profit margin to defend our market leadership in a highly competitive market environment in some countries, in combination with existing fixed costs. Besides central costs are located in Germany.

Adjusted EBITDA in **France** decreased by only €3.8 million to €111.5 million in the financial year 2019/20 showing an excellent cost and promotion management. The adjustments on EBITDA mainly related to COVID-19 and credit card fees.

Adjusted EBITDA in **South-Western Europe,** which was most severe hit by the COVID-19 pandemic, decreased by €28.8 million to €63.3 million in the financial year 2019/20. Adjustments on EBITDA amounted to €45.3 million (prior year: €21.2 million) and are related in particular to COVID-19.

Despite the coronavirus pandemic, Adjusted EBITDA of the **Eastern Europe** segment remained on prior year's level, even with a small increase of €0.2 million to €47.3 million during the financial year ended September 30, 2020, still revealing Eastern Europe as a growth region going forward. The adjustments on EBITDA principally related to COVID-19 and credit card fees.

EBIT

In the financial year 2019/20, the EBIT of our Group decreased by €400.9 million, amounting to minus €255.0 million. The decrease was predominantly related to impairment losses on goodwill as well as to lower EBITDA in the background of the COVID-19 pandemic.

Financial Result

In financial year 2019/20, the financial result decreased by €106.1 million, accounting for minus €171.6 million as of September 30, 2020. The decrease was mainly due to IFRS 9-valuation effects of our loan receivables from the shareholder Kirk Beauty Two GmbH, amounting to €91.8 million.

Profit (Loss) of the Period

Net profit of the financial year 2019/20 decreased by €493.9 million to minus €476.7 million.

The main reasons for this development were a COVID-19-related drop of EBITDA by €103.9 million, goodwill-impairment losses of €279.7 million and IFRS 9 valuation effects of our loan receivables from the shareholder Kirk Beauty Two GmbH amounting to €91.8 million.

Adjusted net profit of the reporting period decreased by €31.3 million to €26.0 million in financial year 2019/20 especially due to lower Adjusted EBITDA.

Adjustments totaled €502.8 million in financial year 2019/20, of which €113.7 million corresponded to the adjustments made with respect to EBITDA as described above. €306.2 million related to impairment losses mainly from Goodwill and moreover from stores and leasehold rights. In the financial result were adjustments amounting to €85.1 million in particular relating to the

IFRS 9 valuation of receivables from the shareholder Kirk Beauty Two GmbH accounting for €91.8 million, partly compensated by credit card fees of minus €14.9 million, and tax related adjustments totaling minus €2.3 million.

Reconciliation from EBITDA to adjusted Profit (+) or Loss (-)

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
EBITDA (=reported EBITDA)	178.6	282.5
Credit card fees	14.9	14.8
Purchase Price Allocations (PPA)	5.9	5.3
Restructuring costs and severance payments	13.3	12.1
Consulting fees	19.5	12.7
Write-down of inventories	-2.5	21.8
COVID-19-effects	61.6	0.0
Other adjustments	1.0	1.7
Sum of adjustments	113.7	68.4
Adjusted EBITDA	**292.3**	**350.9**
Amortization/depreciation	-433.5	-136.6
Impairment of non-current and current assets	306.2	13.9
Adjusted EBIT	165.0	228.3
Financial result	-171.6	-65.5
Reclassification of credit card fees and valuation effects of financial instruments	85.1	-23.3
Adjusted EBT	78.5	139.5
Income taxes	-50.2	-63.3
Income taxes on adjustments	-42.7	-18.9
Write-down of deferred tax assets	40.5	0.0
Adjusted Profit (+) or Loss (-)	**26.0**	**57.3**

Liquidity and Capital Resources

Overview

Our business has required and will continue to require liquidity primarily to meet our debt service requirements, to fund capital expenditures, to fund our operating activities, to pay taxes and to fund our working capital requirements.

Currently our primary sources of liquidity will be cash flow from operations as well as our cash and liquidity reserves amounting to €256.3 million as of September 30, 2020.

Our ability to generate cash from our operating activities depends on future operating performance, which in turn depends to a certain extent on general economic, financial, competitive market, legislative, regulatory and other factors, many of which are beyond our control, as well as other factors discussed in the section entitled "*Risk Factors*". We believe that our cash flow from operating activities and our cash and liquidity reserves will be sufficient to fund our operating activities, capital expenditures and debt service.

The ability of our subsidiaries to pay dividends and make other payments to us may be restricted by, among other reasons, legal prohibitions on such payments or otherwise distributing funds to us, including the purpose of servicing debt.

We anticipate that we will continue to be leveraged in the foreseeable future. Our current level of debt may have negative consequences. Please refer to "*Risk Factors*." In addition, any additional indebtedness that we do incur could reduce the amount of our cash flow available to make payments on our then existing indebtedness and increase our leverage.

Consolidated Statements of Cash Flows for the Financial Years 2019/20 and 2018/19

The following table shows our aggregated and Consolidated Statements of Cash Flows for the periods indicated:

			10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
1.	=	EBITDA (=reported EBITDA)	178.6	282.5
2.	+/-	Increase/decrease in provisions	5.8	29.4
3.	+/-	Other non-cash expense/income	-5.7	-7.2
4.	+/-	Changes in net working capital without liabilities from investments in non-current assets	41.9	-39.7
5.	+/-	Changes in other assets/liabilities not classifiable to investing or financing activities	45.5	-5.3
6.	-/+	Paid/reimbursed taxes	-21.1	-51.4
7.	=	Net cash flow from operating activities	245.0	198.3
8.	+	Proceeds from the disposal of non-current assets	2.3	25.1
9.	-	Investments in non-current assets	-107.8	-128.0
10.	=	Net cash flow from investing activities	-105.5	-106.4
11.		Free cash flow (total of 7. and 10.)	139.6	91.9
12.	-	Payments for the repayment of financial liabilities	-31.9	-5.2
13.	+	Proceeds from borrowings	181.6	3.1
14.	-	Interest paid	-113.5	-111.6
15.	+	Interest received	0.2	0.0
16.	=	Net cash flow from financing activities	36.4	-113.6
17.		Net change in cash and cash equivalents (total of 7., 10. and 16.)	176.0	-21.7
18.	+/-	Net change in cash and cash equivalents due to currency translation	-0.7	-0.1
19.	+	Cash and cash equivalents at the beginning of the reporting period	81.0	102.9
20.	**=**	**Cash and cash equivalents at the end of the reporting period**	**256.4**	81.0

Comparison of the Financial Years 2019/20 and 2018/19

Net Cash Flow from Operating Activities

In the financial year 2019/20 our net cash flow from operating activities increased by €46.8 million or 23.6 percent. The increase was predominantly attributed to changes in Net Working Capital of plus €41.9 million compared to minus €39.7 million in the prior year and changes in other assets and liabilities not classifiable to investing or financing activities of plus €45.5 million compared to minus €5.3 million in the prior year, primarily due to higher VAT- and rent-liabilities in connection with shifted payments. Furthermore tax payments amounted to €21.1 million compared to €51.4 million in the prior year. The increase in net cash flow from operating activities was partly compensated by a decrease in EBITDA of €103.9 million and an increase in provisions of €5.8 million compared to €29.4 million in the prior year.

Net Cash Flow from Investing Activities

In the financial year 2019/20 our net cash outflow for investing activities amounted to €105.5 million, as compared to €106.4 million in the prior financial year 2018/19. The sale of our former Headquarter property in Hagen resulted in a cash inflow of €23.2 million in the financial year 2018/19.

Furthermore, investments in non-current assets like store furniture and equipment led to cash outflows in the financial year 2019/20 amounting to €107.8 million in comparison to €128.0 million in the prior financial year 2018/19.

Net Cash Flow from Financing Activities

In the financial year 2019/20 our net cash inflow from financing activities accounted for €36.4 million and increased by €150.0 million compared the prior financial year, mainly due to €165.5 million additional drawing under the Revolving Credit Facility.

Consolidated Financial Liabilities as of September 30, 2020 and as of September 30, 2019

The following table provides a breakdown of the financial liabilities as of the reporting dates according to their maturity:

	09/30/2020				09/30/2019			
		Remaining items				Remaining items		
	EUR m	< 1 year EUR m	1 to 5 years EUR m	> 5years EUR m	EUR m	< 1 year EUR m	1 to 5 years EUR m	> 5years EUR m
Liabilities to bank	1,838.0	167.6	1,670.5	0.0	1,670.2	0.2	1,670.0	0.0
Financial liabilities from options held by non-controlling interests	3.7	0.0	3.7	0.0	3.7	0.0	3.7	0.0
Liabilities from contingent considerations	13.5	0.2	13.3	0.0	27.9	15.2	12.7	0.0
Purchase price liability arising from derivative financial instruments	2.0	2.0	0.0	0.0	4.1	2.0	2.1	0.0
Liabilities to third-party shareholders	1.1	0.0	1.1	0.0	0.6	0.0	0.6	0.0
Senior Notes and Senior Secured Notes	637.5	10.0	627.5	0.0	634.4	10.0	624.3	0.0
Miscellaneous financial liabilities	43.2	43.2	0.0	0.0	10.1	10.1	0.0	0.0
Total financial liabilities	**2,539.0**	**223.0**	**2,316.0**	**0.0**	2,350.9	37.5	2,313.5	0.0

The increase in miscellaneous financial liabilities compared to the prior year amounting to €33.1 million is principally due to shifted rent payments.

Contingent liabilities

For information on contingent liabilities please refer to the section "Consolidated Financial Statements".

Quantitative and qualitative disclosure of market risks

For information on quantitative and qualitative disclosure of market risks please refer to the section "Consolidated Financial Statements", chapter "Management of financial risks".

Selected critical accounting policies

For information on selected critical accounting policies please refer to the section "Consolidated Financial Statements", chapter "Accounting and valuation principles".

Business

Overview

Douglas is a leading European platform-based specialist retailer for selective beauty and personal care products, with total net sales of €3,232.7 million, EBITDA of €456.5 million and Adjusted EBITDA of €292.3 million in the financial year 2019/20

The vast majority of our sales are generated through the selective beauty distribution channel, which requires the formal approval of a supplier to carry a selective product, as opposed to the mass market channel.

As of September 30, 2020, we operated in 26 European countries with 2,372 stores (including 140 franchised stores) and various online shops.

We operate both through our extensive store network across Europe, which includes primarily directly operated stores, but also franchised stores and through our e-commerce activities. Our e-commerce sales amounted to €821.5 million in the financial year 2019/20, corresponding to around 25 percent of our total sales.

Our Douglas Beauty Card / Nocibé Card has been a continued success. As of September 30, 2020, we had about 44 million holders across Europe.

In the financial year 2019/20, we had on average 21,106 employees (headcount, number of employees including temporary personnel, excluding trainees).

We have a top 1 or strong top 2 in market position in all of our 6 core markets, Germany, France, Spain, Italy, The Netherlands and Poland.

Embedded in our mission to encourage people to live their own kind of beauty, our overall goal is to expand our position as first point of contact on all beauty lifestyle needs and desires. We open all eyes to the beauty of uniqueness, bring it to life and make life itself more beautiful! For a world where everyone feels seen, heard and valued.

Business Model

As the #1 Beauty platform in Europe, our business model is targeted at consumers passionate about beauty, irrespective of age and gender to help them be their “own kind of beautiful”.

We offer one of the industry’s largest beauty and personal care product assortments available in our stores and online shops. This assortment is complemented by a range of beauty-related accessories, as well as, selected service offerings. Our extensive product offerings across a wide range of price points make us a preferred partner for beauty and personal care brands in Europe. We distinguish ourselves by a customer-centric sales approach offering a unique shopping experience with high quality advice and services which, together with our reputation and our broad, well-invested store network in prime locations as well as leading e-commerce capabilities, make us a “must-have” distribution platform for the major suppliers of selective beauty products.

Women have traditionally been, and continue to be, the gender with the largest spending for beauty and personal care products by a large margin. Furthermore, women tend to be the decision makers in terms of overall family health and beauty spending, in addition to buying products for themselves. Thus, we consider women as our most important customer group. However, men are increasingly dedicating more time to, and spending more money on, their personal appearance. As a result, men have also become an important target group of ours that we address through a dedicated space in our store layout, as well as, special product offerings.

Our platform-based omni-channel approach provides our customers with a seamless shopping experience across all available retail channels and devices, including stores, ecommerce channels and our marketplace which is part of the online shop. Our marketing activities also include television, radio, mailings, social media, etc. We gather all kinds of data such as customer data, purchase data, click behavior, product data, logistic data, etc. which we use to optimize our supply chain process as well for our 1 to 1 communication which is highly appreciated by our customers.

One major customer advantage of our omni-channel offering is the shopping experience and the opportunity to get advice and other services or test products directly in the store, while ordering additional products from our full online product assortment which customers can access via online/mobile features in the store itself (or conveniently from office or at home) and can have them delivered to their home address or to the store, even on the same day if ordered in time. This is a key competitive advantage vis-à-vis the increasing competition from pure-play online retailers, who cannot offer a similar shopping experience.

We intend to continuously expand our leading position in omni-channel excellence and exploit the industry's omni-channel opportunity. This includes driving excellence in each channel as well as strengthening cross-channel capabilities and customer relationship management.

To this end, we aim to continuously enhance our store design and introduce digital and interactive content, including our augmented reality Beauty Mirror, as well as activating elements, such as highlight areas to promote innovations or seasonal promotions, to drive customer visit frequency and conversion rates. Another focus lies on enhancing the service experience, including new digital tools and moving content for our customers along all customer touch points as well as dedicated service areas. Beauty treatments, skin testing, fragrances, sensorial experiences and quick blow bar or brow bar series lead to increasingly satisfying wellness and shopping experiences. To further improve our operational excellence, we further strengthen best practice sharing across countries and channels.

Within the e-commerce channel, an important goal is to further optimize our e-commerce-platform to improve customer attraction, with a "mobile first" approach, improving conversion and retention rates. Our e-commerce website offers and marketplace capabilities. Our CRM activities allow us much more individualized targeting of customers, with 1:1 marketing, leading to better conversion and higher average baskets. Last but not least, we have started monetizing our CRM data with third party via Data Sales and offer Media Sales services to our suppliers.

Strategy

In order to achieve sustainable growth and further increase our profitability, we focus on clearly defined key strategic objectives, translating into very concrete operational measures.

It is our strategic goal to expand our position as leading platform-based omni-channel retailer in the European selective beauty market.

We have a comprehensive marketing strategy in place, including the use of media, promotions and pricing strategies to attract new customers and improve customer loyalty. A large portion of our marketing costs is financed by the brand manufacturers that supply their selective products to us and benefit from our ability to advertise across classic channels, such as press (e.g., advertisements in women's magazines), TV, radio and similar methods. Social media channels such as Facebook, Instagram, Pinterest and YouTube and our own beauty blog beautystories (the German version of which is available under "http://blog.douglas.de") are playing an increasingly important role compared to more traditional channels to support traffic to our stores and attract new customers, both for our store and our e-commerce business. Furthermore, our omni-channel communication strategy includes in-store communication and joint advertising with suppliers.

The update of our strategy #FORWARDBEAUTY by DigitalFirst is certainly one of the most significant recent developments.

Digitalization of our strategy #FORDWARDBEAUTY

In autumn 2020, Douglas updated its strategy #ForwardBeauty by DigitalFirst towards #ForwardBeauty.DigitalFirst.

In our updated strategy we clearly focus on E-Commerce and our partner program. We invest in a holistic digital customer journey and thus in every touchpoint of a customer with Douglas. We will integrate the store business into the beauty platform. With “DigitalFirst” Douglas is developing from our previous strategy with E-Commerce being one pillar of five, to the strategy of a digital, integrated beauty platform putting digital beauty retail in the center of its growth strategy. We are evolving from a retailer with an online shop to a digital company with a brick-and-mortar business.

Online shops, marketplace and stores are integrated on a digitally networked, data-based beauty platform. As worlds of experience in the city centers, the branches are an entry point into the digitized customer journey at Douglas. Stores are supposed to push E-Commerce and stores will facilitate online business.

The stores are interlinked with E-Commerce operations via digital services such as “Click & Reserve” or “Click & Collect”. Thanks to a strong link between technology and logistic, “Ship from Store” will be launched in German stores after already being implemented in French stores. The online shops’ access to the stocks of individual stores efficiently activates the inventories of the entire store network. This will integrate the stores into the digital marketplace, giving them a new role on the beauty platform. The platform in turn, is strongly linked to our customers and to our industry partners. Four criteria have an impact on the success of our beauty platform: our assortment, our supply chain, our data driven technology and our sophisticated curation including our customer relationship management.

Assortment

Our assortment clearly differentiates us from other competitors. Together with the partners from our marketplace we offer over 100,00 products – an incomparable choice that includes fast growing brands, brands that Douglas sells exclusively, our Douglas Collection products and newly created own-brands like the #Innerbeauty products.

Together with our marketplace partners we offer beauty products - also pharma beauty - hair products, accessories and jewelry.

We are putting a lot of effort into strengthening our relationships with our suppliers and industry partners to be the preferred and exclusive partner for their top brands.

Supply Chain transformation

Physically and digitally integrated, our supply chain is enabling all kinds of delivery for our customers: “Ship from Store” based on a network of stores, “Click & Collect” and shipping from our warehouses. The future set-up of our supply chain is based on five large warehouses in Europe serving all channels, that is to say E-Commerce and stores. These five sites are supposed to replace our fragmented logistics network of over 20 facilities and to enable marketplace partner fulfillment in the future.

In addition to the centralization of our supply chain we are also digitalizing our supply chain. A software based on artificial intelligence using machine learning algorithms is replacing legacy

supply chain systems. This will enable us to improve our initial order management with better inventory allocation online and offline. It also improves forecasting and replenishment leading to a higher product availability.

Data Hub

Data is the key element in our digitalization strategy. The optimization of all our processes will be data-based – both, online and offline. The Douglas Data Hub is the core element of our data strategy and collects all key data sources. It collects and exchanges - for example - data from and with the marketplace, our app, the website and our CRM program, allowing us to manage our processes more precisely.

Curation

Douglas' curation capability differentiates our range from competitors. Curation is absolutely necessary with an assortment of now 107,000 products that we are offering online and on our marketplace by the end of fiscal year 2019/20. Curation means providing our customers with consultation, with content and product data. Furthermore, we are addressing our customers in a personalized way with recommendations based on their data. We address them for example, with our newsletter or via our app.

Store optimization project

With the platform strategy, Douglas is actively shaping the long-term changes in consumer behavior, in particular the massive shift to digital retail and the compensation for the associated decline in store business. The corona pandemic has accelerated this change again.

After the lockdown, with the re-opening of stores, we have realized a change of consumer behavior resulting in reduced store traffic and higher "digital sales". This store optimization project is in line with our #FORDWARDBEAUTY.Digitalfirst strategy.

Adapting the store network is therefore a necessary step. The future viability of each store was checked on the basis of extensive individual analyzes, which also take into account the important Christmas business.

Of the currently around 2,400 stores across Europe, around 500 will be closed. Most of the closings take place in the South-West Europe region, which is particularly affected by the effects of the corona pandemic and in which there is a very dense, partially overlapping branch network due to previous acquisitions. The necessary downsizing of the branch network goes hand in hand with investments in flagship stores in top locations, product innovations and the consistent expansion of digital retail throughout Europe.

On the basis of previous adjustments, Douglas expects that a relevant part of sales will be transferred to stores in the neighborhood and the Douglas online shop. As a result of the realignment of the branch network, the Douglas Group expects an additional EBITDA contribution in the high double-digit million range from the coming financial year onwards, for the further implementation of the future strategy.

Competitive Strengths

We believe we are a pioneer in omni-channel selective beauty retailing in Europe, with highly integrated store and e-commerce (including online and mobile) customer interfaces which allow our customers to browse online and buy in-store, or "click-and-collect" which is a clear differentiator vis-à-vis pure-play online competitors, who can't offer a comparable shopping

experience. We have continuously invested in our e-commerce business, being one of the leading selective beauty online retailers in Europe with a particularly strong position in Germany.

We believe that our business is characterized by the following competitive strengths:

Leading position in the European Selective Beauty Market

With total sales of €3,232.7 million in the financial year 2019/20, we are a leading specialist retailer of selective beauty and personal care products in Europe. We believe that we differentiate ourselves from our competitors through our strong brand, unique store network with 2,372 stores as of September 30, 2020, thereof 2,232 directly operated stores and 140 franchised stores in prime locations and various online shops as well as best-in-class customer service and unparalleled customer reach.

By leveraging our purchasing power resulting from our increasing sales, we aim to constantly improve our purchasing terms and conditions in negotiation with international suppliers. Suppliers value our unique scale as a leading European player and our pan-European distribution power. As a result, we believe that we are the retailer of choice for the established brands and for many new brands wishing to explore their market potential at an early stage. We cooperate with all major suppliers of selective beauty products to introduce new beauty-related categories and innovative products and services to the European beauty market. Smaller competitors focusing on regional markets who are limited in their financial resources and marketing power are often less attractive for the supplier.

With our anchor brand “Douglas”, we can build upon a strong brand heritage since the founding of the company by John Sharp Douglas under the same Name in 1821 with excellent prompted and unprompted brand awareness in all of our core markets in which we operate our business using the “Douglas” brand. In France and Monaco our business is run under the strong national brand “Nocibé”.

Primarily in France, but also in The Netherlands we also operate several franchised stores. We consider our franchise network as being complementary to our own stores. For example in France, the franchised stores complement our network of owned stores to ensure a nationwide footprint. Our franchise contracts grant the franchisee the right to operate a store using the “Douglas Brand” (“Nocibé Brand” in France).

We focus on the selective beauty market, an attractive sub-segment of the broader beauty and personal care market which benefits from strong industry economics, based on the legal framework of the selective distribution channel provided by applicable EU legislation. Therefore, this market is more attractive for us than the larger mass retailing market for beauty and personal care products which is characterized by higher competition and lower profit margins. In the selective beauty market, manufacturers of premium brands limit the distribution of their products to selected qualified retailers in order to enhance the frequent premium reputation of their products and brands and control the distribution of their brands. In this regard, suppliers require, for example, adequate product and brand presentation in store, appropriate service levels through qualified and trained employees as well as breadth of product assortment, before approving distribution of their products by a specific retailer. Therefore, suppliers generally favor retailers with strong brand awareness, customer reach and large nationwide store networks. Thus, the economics of the selective distribution channel typically do not work for drugstores, supermarkets and similar retail formats that mostly focus on the mass market instead.

Brand

We are further strengthening our brand equity, positioning Douglas as a consumer-centric beauty destination and unique beauty curator. With our Douglas Brand including our Douglas Logo and

visual brand language Douglas has become more premium and more modern than ever before and have. We want to encourage our customers to live their own kind of beauty. In France and Monaco, we continue using the strong Nocibé Brand with very strong brand perception.

The investment into the modernization of our new visual brand language and in particular new logo marked has been a milestone in the history of the company.

Attractive and Broad Product Assortment makes Douglas one of Europe's Favorite Retailers for Beauty and Personal Care Products

We are a leading specialist retailer for selective beauty products in Europe with an assortment of a vast number of different articles across a wide range of price points. We have a highly attractive and balanced product portfolio, including fragrances, color cosmetics and skin care and other products contributing to our total consolidated sales in the financial year 2019/20. Our broad product assortment and service offering make us a trusted destination for customers of premium beauty care products.

Our product offering includes many different major national and international brands. These brands are sourced from suppliers with whom we maintain strong, often long-term relationships. We enhance our customer value through a customer-centric and experience-based sales approach offering our customers high quality advice, service innovations and the introduction of new categories, to capture the latest trends in beauty as identified in our systematic trend scouting process.

Having the right assortment is a key factor to keep customers excited about shopping at Douglas. We focus on growing categories and trend brands. To ensure also having the latest trends, freshest indie and blockbuster brands our trend scouts actively source these trend brands especially in the USA and Asia.

We complement our broad assortment range of selective third-party products with attractive exclusive products as well as our "owned brands". This allows for differentiation vis-à-vis key competitors and helps increase customer loyalty.

Strong Omni-channel Operations with Unique Store Network and E-commerce Leadership Positions across Key Markets in Europe

We are fostering strong international profitable growth by capitalizing on unique omni-channel power, operational excellence and strong content marketing approach. We transform our online shop to an undisputed beauty platform business.

We see ourselves as a leading omni-channel retail trendsetter with high integration of our online and mobile interfaces with our bricks and mortar business. We provide a highly integrated experience across all channels and have implemented state-of-the-art cross-channel services and customer relationship management. We consider this as a competitive advantage, in particular vis-à-vis pharmacies, drugstores and smaller players that do not have the same omni-channel competency as well as – in particular – vis-à-vis increasing competition from pure-play online retailers, who we believe cannot offer the same customer experience. We consider an attractive, easy to use omni-channel approach as particularly important in the beauty retail sector since customers increasingly purchase online to save time, money and effort, but at the same time most of them wish to see, feel, smell and test many beauty products in person. Also, store experience and friendly customer advice are parts of a shopping experience which we consider to be difficult to reproduce for a pure-play online retailer. Our omni-channel capabilities allow us to serve our customers across channels, and our size and seamless processes facilitate the necessary logistics and the realization of economies of scale. Furthermore, we believe that our online shops distinguish themselves from large unspecialized retail platforms through broad assortment and

product presentation which we believe corresponds better to the premium reputation of the suppliers' brands, as well as, through complementary service offerings.

Our app continues to be our most important store with highly attractive customer economics. Our sales via mobile devices and our Douglas App contribute significantly to this development, proving our "mobile first strategy" to be the right decision.

E-commerce is an integral and fast-growing part of our sales platform, and one of our strategic objectives going forward is to continue developing our e-commerce platform and further enhancing our omni-channel capabilities. Our strategy remains to serve our customers via our omni-channel approach. Online is an important and growing pillar of this approach and we are, as of today, already the leading online retailer for selective beauty in Europe, in particular in our German home market.

Our online shop has already seen major relaunches with a focus on improved user experience. The introduction of responsive design for all our online shops as part of a "mobile first" approach meets the needs of our customers. We will continue to invest into our ecommerce infrastructure.

We believe that our e-commerce growth reflects the consistent implementation of our omni-channel strategy which we have intensified and further improved over the last years. Moreover, as a result of our increased e-commerce sales in the past financial years and benefits from scalability with respect to the cost base, we achieved what we consider to be an attractive profitability. In addition, we believe that we are well-positioned to benefit from the expected dynamic growth in the online segment of the selective beauty market in Europe moving forward.

We offer a number of highly integrated cross-channel services along the relevant customer touch points, covering pre-sales information, stock availability, consultation, payment as well as delivery of products. With in-store orders, click-and-collect, online stock information, online appointment scheduling before store visits or cross-channel couponing, we have implemented innovative new service features. We use all channels—stores and e-commerce (including online and mobile solutions)—in a jointly incentivized and integrated manner to enhance customer experience and brand loyalty by offering our customers increased convenience and a personalized shopping experience.

Our marketplace is a fully integrated and exclusive partner program. Opposed to other marketplaces in different categories, this is a controlled marketplace, meaning that there is no overlapping assortment. The user experience is fully integrated and seamless.

The platform strategy creates a clear win-win situation for customers, partners and Douglas, with a clear value add for each of the parties. From a customer's perspective, Douglas offers one-stop-shopping with one of the broadest and deepest assortment in beauty. For our partners, the platform provides access to a very large customer base in beauty. And for Douglas, this allows us to broaden and deepen our assortment, without the risk that additional inventory is bearing. The platform also helps us generate more customer data, which we are now monetizing. This makes us the clear #1 Beauty Destination.

CRM – Customer Relationship Management

We capitalize on high number of beauty card holders by strengthening personalized 1:1 marketing approach in order to increase frequency and customer lifetime value.

Our CRM efforts, based on our industry-leading customer loyalty program, helps us to know our customers better and to target them much more precisely through personal recommendations, relevant beauty content and specific offers.

With our free of charge Douglas Beauty Card we have a unique and specific set of services and benefits to our customers. We are also continuously promoting our premium card that comes at an annual fee and offers additional features, such as payment function, as well as invitations to exclusive events, pre-launches of new products and a glossy member magazine.

Not only is this one of the largest loyalty programs in Europe, with now more than 44 million members, but our CRM is way more than that. We have evolved into a real data-powerhouse, as data has become one of the most valuable assets in our time. We are running AI data science projects, that allow us to identify behavioral patterns and cluster customers into segments that allow us to boost personalized communication.

Managing and maintaining the relationship that we have with our customers is an important part of our business. In this regard, we view our customer service as an important part of our strategy, as it provides direct feedback from our customer base and helps to interpret customers' satisfaction with our products and service and customers' needs. A systematic customer lifecycle management with dedicated measures to first win new customers, secondly activate, retain and develop existing customers, and, if necessary, re-activate and win back former customers is at the heart of our customer relationship management strategy.

Brand Ambassadors

Our dedication to beauty is conveyed to our customers with the help of our over twenty thousand highly passionate brand ambassadors, bringing beauty to life in our daily interactions with our beloved customers.

Operations:

Assortment - Product Offering

Product Categories

Our main product categories relate to fragrances, color cosmetics (i.e. make-up) and skin care. We also offer complementary product categories such as "accessories".

In response to the important trend of medical brands, nature brands and nutrition supplements we created the new category "beauty nutrition" and designed a new store format "Douglas PRO", a store dedicated to outer and inner beauty with more focus on skin care and medical beauty. The Douglas PRO concept will also be present in our e-commerce shop.

We aim to address all price levels and all relevant customer types through our comprehensive portfolio with a particular focus on selective fragrance and beauty products.

- *Fragrances*

  Fragrances continue to be our largest product category in the financial year 2019/20, albeit with decreasing contribution due to higher growth in our two other main product categories. Our sales are typically driven by female fragrance products. While eau de cologne, eau de toilettes and eau de perfume account for the vast majority of our sales from this product category, auxiliary products such as bath lines and shower gel or body care products (which, for example, may be included as part of a gift set in combination with a fragrance) represent a small portion of the sales of fragrances.

  Our product portfolio comprises a comprehensive assortment of fragrances for women and men, as well as unisex fragrances. The focus of our fragrance offering is on selective fragrances, including premium and luxury brands like, as well as, fragrances of so-called famous faces,

lifestyle and sports fragrances, niche, funky and designer fragrances. Furthermore, our product portfolio includes so-called “masstige” brands (i.e., affordable products intended for the mass market, but which through packaging and other characteristics are perceived as being prestige products) and, to a lesser degree, mass fragrance products.

- *Color Cosmetics*

  Our color cosmetics portfolio comprises a comprehensive range of cosmetic products for lips, such as lip sticks and lip glosses, nail products, such as nail polish and nail care products, eyes cosmetics, such as mascaras, eye shadows and eyeliners, complexion cosmetics, such as liquid make-up, concealer and compact powder and make-up accessories, such as make-up brushes.

  We offer a full range of color cosmetics, with a focus on established beauty brands, premium and luxury color cosmetics, artist and specialist products. In addition, we offer masstige and mass products and natural color cosmetic products. Our offering also includes numerous color cosmetic products from our “Douglas Nocibé Collection” brand.

- *Skin Care*

  We offer a full range of skin care products, including day creams, night creams, serums, masks, tonics, firming and slimming products and auxiliary products such as cleansers and sun protection. The vast majority of our sales in this category are generated by women’s skin care products in general and women’s face care products in particular. Men’s skin care products have gained importance and we expect this trend to continue due to the more pronounced awareness of men regarding their personal appearance. A further trend relates to increasing product differentiation, such as natural cosmetics or hybrid, multi-benefit skin care products (e.g. products combining the benefits of skin care and make-up into one) and worldwide trend topics like Korean or Scandinavian Beauty, as well as medical brands (sometimes referred to as “Dr. Brands”), on which we put a particular focus with our new Douglas PRO format.

  Our portfolio includes products of the established beauty brands, premium and luxury skin care brands, designer skin care and skin expert brands, brands specialized in wellness/natural products and some masstige and mass brands. In the skin care segment, we strive to increase the share of our “Douglas Nocibé Collection” products, in our overall sales to attract younger and new customer groups.

- *Beauty Nutrition*

  For the first time we are offering beauty nutrition products such as food supplements and our #INNERBEAUTY line of beauty nutrition supplements in our new “Douglas PRO” store in Hamburg as well as online.

- *Other Products*

  We offer a select range of complementary products under our private label “Douglas Nocibé Collection”, third-party brands or as unbranded articles and such products extend our core product portfolio.

  Besides typical auxiliary beauty and personal care products, such as make-up and hair accessories, bath and shower or hair care products, deodorants and gift sets, this category also includes professional beauty products, such as electrical skin cleaning brushes and special seasonal and other themed products, such as Christmas or Easter (including home textiles, dishware or decoration articles) or products relating to particular events.

We believe that our complementary product portfolio strengthens our beauty competence, and theme-related or seasonal products constitute “small extras” that are often purchased by customers in addition to other beauty products.

Product Types

We have extensive product type offerings comprising a mix of selective, exclusive and owned brands, including private label “Douglas Nocibé Collection” products with which we target different segments within the European beauty and personal care market.

- *Selective Products*

  Selective products are fragrances, color cosmetics and skin care products from third-party, mostly premium brands sold only by selective retailers and are our most important product type and a key traffic builder for us. As part of our selective product offering, we market a full range of fragrances, color cosmetics and skin care products with a wide array of major national and international brands. Our historical strength within our selective products offering has been fragrances, while the two other main categories are showing higher growth rates. The distribution of selective products is limited to selected retailers which have to meet specific qualitative and quantitative criteria. For more information, please refer to “—Operations: Suppliers and Supply Chain Management, Logistics, and Information Technology—Suppliers and Supply Chain Management—Suppliers”.

  Furthermore, we believe that the top brand suppliers consider us as an important strategic partner in the European selective beauty retail markets in which we operate. We also believe that our core strength lies in the fact that we offer a broad and comprehensive assortment of selective products of different brands through a dense network of stores as well as online shops.

- *Exclusive Products*

  We offer certain selective products exclusively or are granted exclusive rights to offer such products in certain countries. Exclusive products are an important source of differentiation vis-à-vis competitors. Exclusive products typically have higher margins than other selective products while also contributing to increase customer loyalty.

  Exclusivity is typically granted for one or two years, in particular for newer brands, in order to be able to retain flexibility and a somewhat longer period (for example, three years) in the case of certain exclusive products of well-established brands. In many other respects, including the sourcing process, exclusive products are similar to the other selective products and are often provided by some of the same suppliers. We typically share part of the marketing costs for such products with the supplier and receive attractive tester/sample packages relating to the respective exclusive products. Potential exclusive partners typically value the possibility to co-operate and further develop their brand with us as their exclusive partner due to our leading market positions in many of the countries in which we operate and due to the advantages of having a single distribution channel.

  Our exclusive products are selected on the basis of a trend scouting process and a related brand assessment that analyzes whether a potential new exclusive product fits well within our brand and assortment strategy. We are both, receptive to proposals from the products’ suppliers and approach suppliers pro-actively when we identify a product or type of product that we consider to be attractive to offer on an exclusivity basis. By assessing potential exclusive products, we consider criteria like the brand awareness, estimated sales and margin prospects, differentiation from competitors, the potential to attract new customers or reinforce the loyalty of existing customers and the period for which exclusivity is granted. In some cases, exclusive

products are distributed only through our e-commerce platform. This allows us to test how a product performs before extending the partnership to our stores.

- *"Own Brands" including our "Douglas Brand" Products*

Our category of "Own Brands" includes both the "Douglas Brand" products, which are private label products branded Douglas or Nocibé, as well as an attractive, innovative and growing range of brands that we own, but that are neither called Douglas nor Nocibé but are positioned independently. Recent examples include our #INNERBEAUTY line of beauty nutrition supplements.

Our "Douglas Brand" products, which focus on color cosmetics, skin care and accessories are positioned in the entry-level segment and generally priced below comparable selective products. Such pricing increases the affordability of the products that we sell as a whole and we believe this improves the "Douglas" and "Nocibé" brands' price/value perception among consumers. We believe "Douglas Brand" products also help to increase store traffic, and are more "trend-oriented" targeting, in particular, new and younger customers, thereby rejuvenating and broadening our target customer base and image. Given higher gross margins related to our "Douglas Brand" offering also improves our average margins.

While we do not manufacture or develop any products ourselves, we co-operate with manufacturers and suppliers of our "Douglas Brand" products, who, in some cases manufacture the product exclusively for us. In this regard, we typically approach our "Douglas Brand" suppliers with a concept based on the results of our trend scouting and also work with design agencies regarding, for example, packaging.

We source our "Douglas Brand" products from a diversified portfolio of suppliers in Europe and Asia in order to facilitate price benchmarking and assist with negotiations. Generally, we engage the same suppliers as the large established beauty brands to ensure the required product quality. Before selecting a supplier for a new "Douglas Brand" product, we compare the price and quality of product of at least two potential suppliers. Our sourcing is based on an order-by-order concept, in which we select our suppliers and enter into individual contracts for each "Douglas Nocibé Collection" product or product line. Such contracts are usually entered into for an indefinite period and may typically be terminated with six months' notice.

Our sourcing contracts set demanding standards and incorporate provisions that require the supplier to comply with applicable laws and carry out certain tests relating to product safety while other tests are carried out by our own product managers in co-operation with a third-party testing facility. In addition, depending on the designated specification of the product, we may demand further tests be executed by the respective suppliers and/or third-party testing facilities, for example to measure how effective products are (e.g., the moisturizing qualities of a product) and regarding the product's response to transportation, and have processes in place to ensure appropriate product labeling. We have implemented a process to audit all new "Douglas Nocibé Collection" suppliers and existing suppliers every two years, as well as, in case of repeated non-conforming products or other difficulties, as required.

We also apply strict quality standards to our "Douglas Brand" products and notwithstanding their lower average price, our "Douglas Nocibé Collection" products generally have significantly higher gross margins than selective or exclusive products because of lower sourcing costs making them highly attractive.

Suppliers

We source our selective products from virtually all major national and international suppliers of beauty products, with which we have established close and long-standing relationships reflecting the inter-dependence of selective beauty suppliers and selective brand retailers like us. None of our suppliers amounted to more than 20 percent of our total purchasing.

With respect to selective products, we basically enter into three different types of contracts with our suppliers, namely selective distribution contracts, international framework and local supply trading agreements:

- Firstly, we often enter into long-term selective distribution contracts (or authorized retail agreements) with suppliers of selective beauty products, under which we are, on a country-by-country basis, authorized by such suppliers to distribute products belonging to a particular brand both in our stores and online provided that certain quality standards and other criteria are met.
- Secondly, we typically enter into yearly international framework trading agreements, in particular with our top suppliers, which contain the basic commercial agreement between us and the relevant supplier, setting forth the general terms of sale, in particular regarding invoice conditions, bonus payment terms, promotional activities and marketing development allowances granted to us by the supplier, general logistic conditions, as well as, the conditions for returning goods.
- Lastly, annual local trading agreements transpose the basic commercial agreement contained in the international framework trading agreements for each country or specific countries (due to the relevance of the individual market situation in each country, e.g., the different market position of each brand within such market) and set forth the specific terms of sale, details of marketing efforts and bonuses/discounts, merchandising (e.g., additional payments for a prominent placement of a product in one or more stores) and other similar terms.

We aim to constantly improve our purchasing terms and to negotiate further specific price reductions (such as, higher year-end discounts) by leveraging our bargaining power resulting from our huge store network and increasing sales. Depending on the nature of the price reduction, the discount can be either a discount “on the invoice” by the supplier, a year-end bonus tied to certain sales targets or cash discounts for early payment. Some agreements also provide cost sharing provisions under which the respective supplier participates in certain costs (for example, personnel or installation costs). We also aim to increase marketing-related investments from suppliers that support customer demand for their products, such as the co-financing of promotions, co-advertising, in-store promotions, customer mailings and product placements in the Douglas magazine.

With several of our top suppliers we negotiated Europe-wide framework trading agreements in order to streamline the supply-process, secure consistent margins, standardize terms and conditions and allow for an efficient centralized contract management. We strive to expand this practice to other sourcing activities with smaller suppliers.

In addition, we have implemented a suppliers’ code of conduct which has the objective of ensuring compliance with relevant social and environmental standards.

Logistics

Since August 2018 we have been operating a completely new central warehouse site near Wroclaw in Poland, uniting all our owned brand and exclusive brand warehouses under one roof. With roughly 25,000 m² warehousing space and additional 12,000 m² of so-called optional space the new facility offers Douglas enough storage space. 24 warehouse gates for loading and unloading trucks are ensuring to transact our products on short notice, especially in peak times such as during the Christmas season.

We have continuously increased our efforts relating to quality assurance and now operate a strict quality management system in particular focused on the processes relating to our "Douglas Nocibé Collection" products. This is complemented by quality assurance processes regarding selective and exclusive products offered by us.

We carefully manage our inventory with a strong focus on identifying the most relevant brands for our discerning customers and maintaining an attractive overall inventory "aging" profile. Thereby, we follow an approach strictly driven by our defined key performance indicators, tightly monitoring inventory turnover and out-of-stock products.

Information Technology

Our scalable and integrated IT platform is designed and organized both to support our daily business processes and the financial management of the Douglas-Group and to provide our management with financial and other information.

Employees

As of September 30, 2020, we employed 21,061 employees (headcount, including temporary employees, excluding trainees and apprentices). We also use temporary workers to meet the demands of the business during peak trading periods, in particular during the pre-Christmas and Christmas season. We employ part-time employees at the holding level and the store level, whereby the share of part-time employees at the store level is significantly higher.

Our sales staff compensation complies with the legal minimum wage, with an incentive system in place at the store level based on certain objectives.

In some jurisdictions, we are subject to national or regional collective bargaining agreements. While none of our German entities are bound by collective bargaining agreements, a small number of employment agreements include a reference clause with respect to the collective bargaining agreements for the retail sector.

As part of the employment compensation package, we provide different retirement benefit arrangements or similar benefits. For a description of pension schemes, please refer to "*Consolidated Financial Statements – Pension Provisions*".

Real Estate and Leases

The vast majority of our sites, including nearly all our stores, are rented. Our warehouse facility in Zossen is the only major real estate object owned by our Group. There are no encumbrances and no known environmental issues with respect to the freehold of our headquarters.

Legal and Regulatory Issues

Intellectual Property

Our portfolio of registered intellectual property rights consists of trademarks and design rights. Moreover, we possess several domain names. Most of the trademarks and domain names are registered with the Company's subsidiary Parfümerie Douglas GmbH, Düsseldorf, Germany, although Douglas Cosmetics GmbH, Düsseldorf, Germany, also owns a number of trademarks, and Douglas Marken- und Lizenzen GmbH & Co. KG, Zossen, Germany owns European Community trademarks "Douglas" protecting the Douglas logo, (also the new Douglas logo) which is licensed by way of intragroup license agreements to other Group companies. We own a large portfolio of trademarks, including word trademarks and word/device trademarks used by companies of our Group, and some design rights. We typically register our trademarks as European word and/or word/design-trademarks and additionally as international word and word/design-trademarks with the World Intellectual Property Organization (WIPO, headquartered in Geneva, Switzerland). Concerning our French subsidiaries (hereafter "Nocibé Group"), all trademarks and domain names are registered by Nocibé France. Most of the Nocibé Group's trademarks and design rights are mainly registered in France with the Institut National de la Propriété Industrielle and are protected only in France, but also with the European Union Intellectual Property Office for EU trademarks, as well with the WIPO for international trademarks in order to cover goods and services in Monaco.

Material Legal Disputes and Administrative Proceedings

Companies of our Group are involved in legal disputes and administrative proceedings as part of their ordinary business activities and this will likely continue to be the case in the future. It is impossible to determine or predict the outcome of cases pending or threatened. Legal disputes and administrative proceedings in which our Group companies have been involved during the past twelve months, or which are currently pending or threatened, mainly relate to employment matters, intellectual property, advertising or distribution practices, leases, and the adequacy of the squeeze-out compensation to be paid to former minority shareholders. The Company believes that other than the proceedings described in the section *"Risk Factors - We are or may become involved in litigation and administrative or arbitration proceedings, which may adversely affect our financial position"*, during a period covering the previous twelve months, no governmental, legal or arbitration proceedings (including any proceedings which are pending or threatened of which the Company is aware) may have or have had in the recent past significant effects on the Company's financial position or profitability.

Insurance

We have taken out comprehensive insurance policies in relation to risks associated with our business activities, such as policies covering our general liability, product and environmental liability, insurance of property and merchandise (including product transportation and warehouse insurance), Cyber/IT/electronic equipment as well as insurance covering business interruptions due to fire. Under these policies (and related underlying policies), insured losses include those resulting from natural and human risks such as business interruptions due to fire, product defects and events relating to the manipulation of products and losses relating to the handling of money, among others. In addition, we have worldwide coverage policies for D&O (directors & officers) liability and fidelity insurance, which are applicable for the Company and its subsidiaries. Furthermore, we have taken out certain additional insurance policies for our subsidiaries in certain countries (including, among others, Germany). Our insurance coverage is subject to usual exclusions, limits and deductibles. At the same time, we have identified several risks that cannot be insured on economically feasible terms and for which, therefore, we have chosen not to purchase insurance coverage. These risks include, for example, all risk business interruption and acts of terror.

The management team believes that we have adequate insurance coverage against all material risks that are typically insured by similar companies with comparable risk exposure. Insurance coverage is regularly verified and adjusted when necessary.

Regulatory Environment

We are subject to the applicable laws and regulations of the respective jurisdictions in which we operate. Our regulatory environment is characterized by numerous national, supranational and international laws and regulations. These include, in particular, requirements with respect to product liability and consumer protection. EU regulations (*EU-Verordnungen*) apply directly in all member states of the European Union (the "EU Member States"). As a result, our business is subject to these rules in all EU Member States. In contrast, EU directives (*EU-Richtlinien*), while binding EU Member States as to the result to be achieved, need to be implemented into national law. Hence, regarding those standards contained in EU directives that are applicable to our business, national implementing rules can differ slightly from one EU Member State to another. To the extent governed by EU regulations or national laws that are based on EU directives, the regulatory environment in most other EU Member States and the member states of the EEA is fairly similar to the regulatory framework in Germany. The regulatory requirements applicable to our business activities are subject to change, as they are continuously adapted at the national, European and international level. If we fail to comply with any of these laws and regulations, we may be subject to civil liability, administrative orders, fines, or even criminal sanctions.

The following provides a brief overview of selected regulations that are applicable to our business operations.

Foreign Trade and Customs Law

We source most of our products from Member of the European Union, but some of our suppliers are located outside of the European Union, e.g. in Asia or the United States of America.

Within the European internal market the principle of free movement of goods applies. With respect to import and export of goods from or to countries that are not members of the EU, we must comply with national and European foreign trade and customs regulations. At EU level our relevant regulatory framework is laid down in Council's Regulation (EEC) No 2913/92 of October 12, 1992 establishing the Community Customs Code ("CCC"). The CCC has been replaced by the Union Customs Code ("UCC") which was adopted on October 9, 2013 as Regulation (EU) No 952/2013 of the European Parliament and of the Council. This regulation entered into force on October 30, 2013 but the substantive provisions of the UCC apply as of May 1, 2016. The UCC shall, among other, simplify customs rules and procedures. However, there will be a transition phase until full implementation of the UCC in 2020 when all IT systems that support the UCC are completed.

Whereas imports and exports within the European Economic Area ("EEA") are in principle not liable to customs duty, the movement of goods beyond the frontiers of the EEA is subject to customs control between the customs union of the EU and EEA member states which are not EU Member States. The customs control charges, among other things, statutory import duties. Customs offices may from time to time initiate customs inspections to assess whether customs regulations have been infringed.

Consumer Protection Law

We must further comply with various consumer protection regulations with respect to the marketing and sale of products to customers, including our online selling activities.

Throughout the EU, consumer protection is extensively regulated, in particular, but not limited to, on the basis of the following EU directives:

- the Council Directive 93/13/EEC of April 5, 1993 on unfair terms in consumer contracts;
- the Directive 1999/44/EC of the European Parliament and of the Council of May 25, 1999 on certain aspects of the sale of consumer goods and associated guarantees;
- the Directive 2000/31/EC of the European Parliament and of the Council of June 8, 2000 on certain legal aspects of information society services, in particular electronic commerce, in the internal market (Directive on electronic commerce);
- the Directive 2002/58/EC of the European Parliament and of the Council of July 12, 2002 concerning the processing of personal data and the protection of privacy in the electronic communications sector (Directive on Privacy and Electronic Communications);
- the Directive 2005/29/EC of the European Parliament and of the Council of May 11, 2005 concerning unfair business-to-consumer commercial practices in the internal market (Unfair Commercial Practices Directive), which prohibits, among others, certain particularly aggressive or misleading commercial practices or advertising;
- the Directive 2011/83/EU of the European Parliament and of the Council of October 25, 2011 on consumer rights (the “Directive on Consumer Rights”) which replaced the Directive 97/7/EC of the European Parliament and of the Council of May 20, 1997 on the protection of consumers in respect of distance contracts with effect as of June 13, 2014; and
- the Directive 2013/11/EU of the European Parliament and the Council of May 21, 2013 on alternative dispute resolution for consumer disputes and amending Regulation (EC) No 2006/2004 and Directive 2009/22/EC (Directive on consumer ADR).
- the Directive 2019/2161/EU of the European Parliament and the Council of November 26, 2019 as regards the better enforcement and modernization of Union consumer protection rules (to be transposed into national law until November 28, 2021)

The aforementioned EU directives on consumer protection and the national laws which implement or complement these directives (such as, in Germany, the Act on the Implementation of the EU Consumer Rights Directive and on the Amendment of the Law on Housing (“*Gesetz zur Umsetzung der Verbraucherrechterichtlinie und zur Änderung des Gesetzes zur Regelung der Wohnungsvermittlung*”), which entered into force on June 13, 2014, and the French consumer code (“*code de la consummation*”) in France), impose extensive duties and responsibilities on retailers such as Douglas.

Data Protection Law

As retailers generally process customer data for marketing purposes, compliance with data protection laws must be ensured. The collection, processing and use of personal data is extensively regulated by both European and national legislation. At EU level, data protection law is from May 25, 2018 on primarily governed by Regulation (EU) 2016/679 of the European Parliament and of the Council of April 27, 2016 on the protection of natural persons with regard to the processing of personal data and on the free movement of such data, and repealing Directive 95/46/EC (General Data Protection Regulation). Where this Regulation provides for specifications or restrictions of its rules by Member State law, EU Member States may, as far as necessary for coherence and for making the national provisions comprehensible to the persons to whom they apply, incorporate elements of this Regulation into their national law. The objectives and principles of Directive 95/46/EC remain sound, but it has not prevented fragmentation in the implementation of data protection across the Union, legal uncertainty or a widespread public perception that there are significant risks to the protection of natural persons, in particular with regard to online activity. In order to ensure a consistent level of protection for natural persons throughout the Union and to prevent divergences hampering the free movement of personal data within the internal market, a Regulation was necessary to provide legal certainty and transparency for economic operators, including micro, small and medium-sized enterprises, and to provide natural persons in all EU Member States with the same level of legally enforceable rights and obligations and

responsibilities for controllers and processors, to ensure consistent monitoring of the processing of personal data, and equivalent sanctions in all EU Member States as well as effective cooperation between the supervisory authorities of different EU Member States. This Regulation is without prejudice to the application of Directive 2002/58/EC and 2009/136/EC. A new e-privacy regulation which will replace the previous e-privacy directive (Directive 2002/58/EC) and the so-called cookie directive (Directive 2009/136/EC) is still a pending legislative procedure on EU level and it is unclear at which point in time such regulation will enter into force. However, due to the recent judgment of the European Court of Justice (Planet 49, C-673/17) rules for the treatment of internet tracking technologies have been specified by the court. The European Court of Justice further issued another important judgment on European Data Protection laws stating that the transfer of personal data into the United States of America cannot be based on the EU/US Privacy Shield instrument. This decision also has an impact on data transfer to other countries outside the EU / EEA, if there is no adequacy decision by the EU Commission and must be observed by Douglas.

Regulations on Shop Closing Time

Most European countries have regulations on shop closing times, which particularly apply to shop closing times on weekends and holidays. Regulations on shop closing times during night hours on working days were suspended by several European countries as respective regulations were not required anymore after the implementation of Directive 2003/88/EC concerning certain aspects of the organization of working time. In Germany, closing times are regulated by the federal states (*Ladenschlussrecht*), there are strict regulations on shop closing times on weekends and public holidays, with only occasional exceptions with respect to opening hours on certain Sundays. The city retail businesses occasionally make use of regularly prolonged shopping hours. In France, the legal working times as well as the obligation to rest on Sunday (which is subject to some exceptions) are mainly regulated by the French labor code (code du travail).

Regulations on Personnel Leasing (Arbeitnehmerüberlassung)

Under the German Personnel Leasing Act (*Arbeitnehmerüberlassungsgesetz*) the use of leased employees (*Leiharbeitnehmer*) is only lawful if the lending company does have a personnel leasing permit and if further legal requirements (maximum duration of personnel leasing etc.) are met. There is always a potential risk that external personnel (e.g. working in the Douglas' stores, in particular at so-called counters that are operated by third companies) might be instructed and somehow integrated in Douglas' operations, which could qualify as unlawful "hidden personnel leasing". The risk of such an infringement of the law is mainly on the hiring company's side: an employment relationship between the employee of the (presumed) lending company and the hiring company will be established based on statutory provisions. Additionally, an infringement might trigger fines of up to € 30,000. In addition, both the hiring and lending company are jointly and severally liable for any payment obligations for social security contributions deriving from the fictional employment contract. With regard to wage tax, the lending company as employer is in general solely responsible. However, under certain circumstances, the hiring company might as well be held liable. We regularly review the actual situation and inform our staff accordingly to avoid said infringements.

Strikes and other trade union measures

As certain of our employees are members of trade unions or enjoy similar rights due to applicable laws in the various countries we operate in, there is always a genuine threat of strikes with considerable economic impacts; especially when employees are dissatisfied with their current salary or if they deem the prospective salary increase too low or below the pay rises in bargaining agreements (to which we had voluntarily oriented ourselves in Germany in the past but do not do so any more since fall 2019). This holds especially true for stores with works councils which are obviously more organized and more reachable for trade unions. Trade unions also tend to organize

strikes when they will have a significant negative economic impact on the company to be more successful. This is particularly relevant during the Christmas season.

EU Payment Services Directive

The Payment Service Directive 2 (EU) 2015/2366 (“*Payment Service Directive 2*”) regulates payment services and payment service providers throughout the EU. The Payment Service Directive 2 aims to, inter alia, better protect consumers when they pay online. This is reflected in the new requirement that when a payer initiates an electronic payment transaction, a strong customer authentication needs to take place. Such strong customer authentication is defined as an authentication process that validates the identity of the user of a payment service or of the payment transaction. More specifically, it indicates whether the use of a payment instrument is authorized. Such authorization process could have an impact on the conversion rate in online shops.

In addition, the Payment Service Directive 2 provides for specific rules on payment instruments such as gift cards. These rules have been narrowed down compared to the preceding Payment Service Directive 1 (Payment Service Directive 2007/64/EC). Gift cards and similar ‘limited network’ schemes need to be registered with the competent authorities. National implementations of the Payment Service Directive 2 and the application of these rules by the national regulatory authorities may vary from country to country.

Regulation on the Selective Channel

The selective distribution channel, as implemented by the suppliers of our Group, is subject to European and German competition law. In this respect, the following principles apply:

Art. 101 (1) Treaty on the Functioning of the European Union (“TFEU”) and Section 1 of the German Act against Restraints of Competitions (“Gesetz gegen Wettbewerbsbeschränkungen”—“GWB”) prohibit agreements which have an anticompetitive object or restrictive effects on competition, unless such agreements fall under so-called block exemptions or individual exemptions pursuant to Art. 101 (3) TFEU and Section 2 GWB. Contractual clauses violating European or German competition law are void which may also affect the remainder of the respective agreements. Furthermore, in such case the competent cartel authorities may initiate proceedings against the contractual parties and substantial fines can be imposed.

Cosmetics Regulation

On November 30, 2009, EU Regulation 1223/2009 of the European Parliament and of the Council (the “Cosmetic Products Regulation”) was adopted, which replaced the older Cosmetics Directive 76/768/EEC of July 27, 1976. Most of the provisions of the Cosmetic Products Regulation became applicable as from July 11, 2013. The Cosmetic Products Regulation is the main regulatory framework for finished cosmetic products as defined therein when placed on the EU market. In addition to the Cosmetic Products Regulation, other EU and/or national legislation may apply for certain aspects of the regulation of cosmetic products (e.g. cosmetic products including CBD or Cannabis as ingredients must comply with the narcotics laws). The Cosmetic Products Regulation provides an internationally recognized regime, which reinforces the safety of cosmetic products taking into consideration the latest technological developments, including the possible use of nanomaterial. Furthermore, producers must adopt the necessary measures to avoid safety threats, for example, by withdrawing unsafe products from the market, informing customers and recalling products that have already been supplied to customers. In this context, it is relevant to note that under the Cosmetic Products Regulation the primary responsible person is the “responsible person” in the sense of the Regulation. In case of private label products such as “Douglas Nocibé Collection” products we are the responsible person. In case we only act as distributor of cosmetic products, less restrictive rules apply. We review our “Douglas Nocibé Collection”, "Dr. Susanne von

Schmiedeberg", "#INNERBEAUTY" and other exclusive products, which are manufactured by third-party suppliers and which we then sell under our own brands, for compliance with the applicable regulations of the Cosmetic Products Regulation. For further information on the risks associated with our "Douglas Nocibé Collection" products, see *"Risk Factors—Risks Relating to Our Market Environment and Business—We are subject to risks in connection with the quality and timely delivery of our private label products and our relationship with the manufacturers of such products."*.

Food Law

Producers and distributors who place food products on the market in the European Union are considered food business operators and are thus obliged to ensure the safety of such products. Among other regulations, Regulation (EC) No 178/2002 of the European Parliament and of the Council of January 28, 2002, as last amended by Commission Regulation (EU) 2017/228 of February 9, 2017, laying down the general principles and requirements of food law, establishing the European Food Safety Authority and laying down procedures in matters of food safety, stipulates requirements for the safety of food and the measures to be taken in order to avoid safety threats, such as by withdrawing and/ or recalling unsafe products from the market. As mayor part of food safety, food business operators have to ensure the compliance with food hygiene regulations, such as Regulation (EC) No 852/2004 of the European Parliament and of the Council of April 29, 2004 on the hygiene of foodstuffs, as last amended by Regulation (EC) No 219/2009 of the European Parliament and of the Council of March 11, 2009, which requires food business operators to maintain a hazard analysis and critical control point concept. Furthermore, according to Regulation (EU) No 1169/2011 of the European Parliament and of the Council of October 25, 2011, as last amended by Regulation (EU) 2015/2283 of the European Parliament and of the Council of November 25, 2015, on the provision of food information to consumers the food business operator responsible for the food information have to ensure that all mandatory information on food is given and that other information is clear and not misleading.

We review our "#INNERBEAUTY" food supplements which are manufactured by third-party suppliers and which we then sell under our own brands, for compliance with the applicable food laws.

Medical Device Law

Medical devices are products or equipment intended generally for a medical use

In Europe, medical devices may only be placed on the market if a CE marking is duly attached. To attach a CE marking to a product, the product must fulfil the essential requirements (*Grundlegende Anforderungen*) provided for in the of three directives ("**Medical Device Directives**"), i.e. Directive 90/385/EEC regarding active implantable medical devices (*AIMD*); Directive 93/42/EEC regarding medical devices (*MDD*); or Directive 98/79/EC regarding in vitro diagnostic medical devices (*IVDD*). At present, a material change of the legal framework of producing and marketing medical devices is ongoing in the EU. On May 25, 2017, the Regulation (EU) 2017/745 of the European Parliament and of the Council of April 5, 2017 on medical devices ("**Medical Device Regulation**" or "**MDR**") entered into force. The MDR will step by step replace the Medical Device Directives governing the production and marketing of medical devices. The requirements that legal manufacturers of medical devices must observe will further increase. Manufacturers of currently approved medical devices and distributors will have a transition time until May 26, 2021 (date of application, which has been extended by the second corrigendum of the MDR dated December 3rd, 2019 by the European Parliament) to meet the requirements of the MDR. As we only act as distributor of medical devices, less restrictive rules apply compared to manufacturers of medical devices. However, the MDR provides for additional duties that we as distributor need to comply with as of May 26, 2020 on. For example, distributors shall verify that the device has been CE marked and that the EU declaration of conformity of the device has been drawn up or that the

Regulations Regarding Product Safety and Product Liability

Producers and distributors who place products on the market in the European Union must ensure that the products are safe. Among other regulations, Directive 2001/95/EC of the European Parliament and of the Council of December 3, 2001, as last amended by EC Regulation 596/2009 of June 18, 2009, on general product safety (the "EU Directive on Product Safety"), according to which manufacturers must put on the market products that comply with the general safety requirement, applies (as implemented in the individual EU countries). In addition, producers must provide consumers with the necessary information so that consumers are able to assess a product's inherent threat, particularly when this is not directly obvious. Furthermore, producers must adopt the necessary measures to avoid such threats, for example, by withdrawing unsafe products from the market, informing customers and recalling products that have already been supplied to customers. In this context, it is relevant to note that under the EU Directive on Product Safety - as well as pursuant to most other European and/or national legislation on product safety - any entity presenting itself as the manufacturer by affixing its name, trademark or other distinctive mark to a product qualifies as producer and must comply with the above-mentioned obligations. As we sell products manufactured by third parties under our own brands, we qualify as a producer. For certain products, additional requirements may apply, e.g. the labelling of certain clothes is regulated in the EU by the Textile Regulation (EU) No 1007/2011 on fibre names and related labelling and marking of the fibre composition of textile products.

In addition, because we sell our "Douglas Nocibé Collection" products (manufactured by third parties) under our own brands and import certain products from outside the EU, we qualify as producer of certain cosmetic and other products and are thus subject to applicable legislation on product liability. For example, all Member States of the European Union were required to implement EU Directive 85/374/EEC of July 25, 1985, as amended by Directive 1999/34/EC of May 10, 1999, on the approximation of the laws, regulations and administrative provisions of the Member States concerning liability for defective products ("Product Liability Directive"), which applies to all movables marketed in the European Economic area (with very few exceptions). The Product Liability Directive establishes the principle of strict liability, i.e., liability without fault of the producer, in cases of damage caused by a defective product. It covers death, personal injuries and damages to an item of property other than the defective product itself caused by defective products intended for private use or consumption. In the case of damage to an item of property, the injured party has to pay for damages up to an amount of € 500 himself. The Product Liability Directive does not stipulate any financial ceiling on the producer's liability, but allows the Member States to limit a producer's liability for damage from a death or personal injury and caused by identical items with the same defect to an amount of at least €70.0 million. For example, in Germany, the Product Liability Act stipulates a limit of €85.0 million. In addition, the Product Liability Directive does not prevent the legal systems of the Member States from granting additional or more extensive rights to injured parties based on grounds of contractual liability or on grounds of non-contractual liability.

Environmental laws

Environmental laws may be applicable for the disposal of cosmetics and may contain provisions regulating e.g. the special treatment of cosmetic disposal. The same applies to the packaging of cosmetic and other products. For instance, the EU Directive 94/62/EC of the European Parliament and of the Council of December 20, 1994, amended by Directive 2015/720/EU of April 29, 2015, on packaging and packaging waste (as implemented in the individual EU countries) must be complied with.

In addition, the Directive 2012/19/EU of the European Parliament and of the Council of July 4, 2012 on waste electrical and electronic equipment ("WEEE-Directive") may be applicable. The WEEE-Directive imposes the responsibility for the disposal of waste electrical and electronic equipment on the manufacturers or distributors of such equipment. The implementation of the EU

Directive 2018/851 into national law will have further implications on retailers regarding the avoidance of waste.

French Law about payment terms

With the modification of Article L441-6 of the French commercial on April 6, 2017 code states that if Parties do not agree on specific payment terms (e.g., through a specific provision included in the seller's general sales terms, the purchaser's general purchasing terms or in a contract), the payment term is automatically within 30 days after the receipt of the goods or of the provision of the services.

Parties are nevertheless allowed to negotiate the payment terms but in the following limit: (i) 60 days from the issuance of the invoice, or (ii) 45 calendar days starting from the end of the month, during which the invoice is issued.

In case of negotiated payment terms:

- this payment term needs to be expressly mentioned in the contract and,
- this payment term cannot be a grossly unfair disadvantage for the creditor.

Laws in preparation

In the middle of 2020, the German Federal Ministry of Justice and Consumer Protection presented a draft "Association Sanctions Act". The law has not yet been adopted and may still be amended, but the key principle of the current draft is to introduce a new type of offence called "association offence". It is envisaged that "associations" i.e. legal persons and associations of persons under private and public law could themselves become liable and subject to significant fines if obligations applicable to such associations were violated (e.g. tax offences, environmental offences and competition offences) or if a manager commits an association offence or if such an offence is committed by an employee for lack of adequate preventive measures. As it is expected that the Association Sanctions Act will become law (in an amended form) in sooner rather than later, Douglas is following the legislative process attentively and will continuously review and improve its compliance management system for its effectiveness.

Management

The ultimate authority within Douglas rests with Kirk Beauty Investments S.A., the holding company through which Kirk Beauty S.à r.l. and Lobelia Lux S.à r.l. invest in Douglas. The board of Kirk Beauty Investments S.A. comprises four members proposed for appointment by Kirk Beauty S.à r.l. and two members proposed for appointment by Lobelia Lux S.à r.l. The size and composition of the board of Kirk Beauty Investments S.A. may change, from time to time, for various reasons, including in order to have certain co-investors represented who may acquire direct or indirect participations in Kirk Beauty Investments S.A.

Management of Kirk Beauty One GmbH

Management

The holding company Kirk Beauty One GmbH was managed by CEO Tina Müller, by CFO Matthias Born, by CDO Vanessa Stützle and CRO Dr. Michael F. Keppel.

The business address for each of these Executive Board members is Luise-Rainer-Str. 7-11, 40235 Düsseldorf in Germany.

Name	Year of birth	Position
Tina Müller	1968	Chief Executive Officer
Matthias Born	1970	Chief Financial Officer
Vanessa Stützle	1978	Chief Digital Officer, CDO (from May 12, 2020)
Dr. Michael F. Keppel	1964	Chief Restructuring Officer, CRO (from October 28, 2020)

The following section summarizes the biographies of our Executive Board members:

Tina Müller

- CEO of Douglas GmbH since November 2017
- Previously, she was Chief Marketing Officer and a member of the Board at Adam Opel AG/Opel Group GmbH for four years.
- Prior to Opel, Tina Müller had been with Henkel as Chief Marketing Officer and Corporate Senior Vice President in leading international marketing and sales positions for 17 years.
- She studied business administration and economics in Germany and France (Diplom-Kauffrau / Maîtrise Science Économique).

Matthias Born

- CFO of Douglas GmbH since August 2019
- Previously, he was CFO and COO of CBR Fashion Group for seven years.
- As Group Senior Finance Director he worked for the Eurofins Scientific Group for four years. Previous responsibilities were with HörGut GmbH and, in various leadership positions, with ADVA Optical Networking.
- Matthias Born studied business administration at WHU Koblenz, Germany

Vanessa Stützle

- Chief Digital Officer of Douglas GmbH since May 2020
- EVP Ecommerce &CRM at Douglas GmbH from January 2018 - April 2020
- As Chief Digital Officer of the s.Oliver Group she has previously been responsible for the e-commerce business and loyalty programs of all the Group's brands.
- Due to further positions at ESPRIT and SBK Consulting Team GmbH, Vanessa Stützle looks back on a total of 16 years of experience in the field of digitalization in retail.
- Vanessa Stützle studied business administration at the University of Cologne, Germany.

Dr. Michael Keppel

- Chief Restructuring Officer (CRO) of Douglas GmbH since July 2020
- Since the founding of Keppel Managementpartners GmbH in Frankfurt in 2011, he has worked as an independent management consultant and manager in restructuring situations.
- In this capacity, and as a partner at his earlier employers Alvarez & Marsal and Alix Partners, he frequently supports companies as CRO. He has over 25 years of experience in restructuring, especially in the retail industry and comes from a family business in wholesale and retail.
- Michael Keppel studied economics at Albert-Ludwigs-University in Freiburg and business administration at the University of Cologne, Germany, and attended an Advanced Management Program at IESE Business School, Barcelona, Spain.

Management Practices

We are committed to fulfilling corporate governance requirements. We maintain internal guidelines (e.g., purchasing directives) and a code of conduct which is to be countersigned and adhered to by our management. In addition, an internal audit department regularly carries out examinations on different topics.

Certain Relationships and Related Party Transactions

For information on certain relationships and related party transactions please refer to the Notes of the "Consolidated Financial Statements" of this report.

Principal Shareholders

For information on principal shareholders, please refer to the Notes of the "Consolidated Financial Statements" of this report.

Description of Certain Financing Arrangements

Senior Secured Credit Facilities Agreement

Overview and Structure

The Senior Notes Issuer and the Senior Secured Notes Issuer have entered into the Senior Secured Credit Facilities Agreement with, among others, Deutsche Bank AG, London Branch as agent, Deutsche Bank AG, London Branch as security agent, and Deutsche Bank AG, London Branch, UniCredit Bank AG, Goldman Sachs International, J.P. Morgan Limited, Bayerische Landesbank, Commerzbank Aktiengesellschaft, Crédit Industriel et Commercial and Landesbank Baden-Württemberg as mandated lead arrangers.

The Senior Secured Credit Facilities Agreement has provided for the following:

- an original €1,220.0 million senior secured term loan B facility (the "Term Loan Facility B Original"); with amendment as of August 16, 2016 the amount has been extended to €1,370.0 million (the "Term Loan Facility B1"); by signing on August 18, 2017 a tranche of Facility B in the amount of €300.0 million (the "Term Loan Facility B2") was arranged, drawn in November 2017, so the amount has been extended to €1,670.0 million (the "Term Loan B Facility"),

and

- a €200.0 million senior secured multi-currency revolving credit facility (the "Revolving Credit Facility" and, together with the Term Loan B Facility, the "Senior Secured Credit Facilities" (each a "Senior Secured Credit Facility").

Interest and Fees

Loans under the Senior Secured Credit Facilities Agreement bear interest at rates per annum equal to EURIBOR or, for loans denominated in a currency other than euro, LIBOR (or other appropriate interbank offer rates for other currencies) in each case, subject to a floor of initially 1.0 percent for the Term Loan B Facility and 0.0 percent for the Revolving Credit Facility, and the following applicable margins:

- Initially 5.00 percent per annum in respect of loans under the Term Loan B Facility; with the beginning of August 16, 2016 this rate has been reduced to 3.75 percent per annum and 3.75 percent per annum in respect of loans under the Revolving Credit Facility;
- the 1.0 percent floor for the Term Loan B Facility was reduced to 0.0 percent as of February 14, 2017;
- with the beginning of August 1, 2017 the margin for the Term Loan Facility B1 has been reduced to 3.50 percent per annum;
- the tranche of the Term loan B Facility raised on August 18, 2017, in the amount of €300.0 million, (the Term Loan Facility B2), has an initial margin of 3.25 percent per annum;
- the senior secured multi-currency revolving credit facility in the amount of €200.0 million, (the Revolving Credit Facility), has a margin of 3.75 percent per annum

subject in each case to a margin ratchet based on the senior secured net leverage ratio (being the ratio of consolidated senior secured net debt of the Group to consolidated EBITDA of the Group (each as defined in the Senior Secured Credit Facilities Agreement)).

A commitment fee is payable on the aggregate undrawn and un-cancelled amount of the Revolving Credit Facility from the Completion Date to the end of the availability period applicable of the Revolving Credit Facility at a rate of 35 percent of the applicable margin for the Revolving Credit Facility. Commitment fees are payable quarterly in arrear and on the date the Revolving Credit Facility is cancelled in full or on the date on which the relevant lender cancels its commitment.

Default interest will be calculated as an additional 1 percent on the defaulted amount.

Certain Covenants

The Senior Secured Credit Facilities Agreement contains operating covenants, subject to certain agreed exceptions, including covenants restricting the ability of certain members of the Group to:

- create security;
- make investments (including granting loans and guarantees);
- incur indebtedness or enter into certain derivatives contracts;
- make fundamental changes (including by way of merger or consolidation);
- make restricted payments (including dividends and other distributions);
- change the nature of the business of the Group;
- enter into transactions with affiliates other than on arm's length terms;
- enter into burdensome agreements that would restrict the Group's ability to make dividends, to make or repay loans to obligors or grant security in favor of the Senior Secured Credit Facilities lenders;
- change the financial year of any member of the Group other than as reasonably acceptable to the agent or as set out in the tax structure memorandum relating to the Transaction;
- prepay, redeem, purchase or defeat certain junior indebtedness;
- issue equity interests; and
- designate subsidiaries as restricted or unrestricted subsidiaries.

The Senior Secured Credit Facilities Agreement also requires compliance with certain affirmative covenants, including covenants relating to:

- maintenance of relevant authorizations and consents;
- pari passu ranking;
- pension schemes;
- center of main interests;
- corporate rating;
- payment of taxes;
- maintenance of insurance;
- compliance with laws;
- sanctions, anti-corruption laws and anti-money laundering laws;
- compliance with environmental laws;
- holding companies;
- acquisition documents and equity documents;
- maintenance of guarantor coverage requirement (being 80 percent of consolidated EBITDA) and requirement for Material Subsidiaries (accounting for 5 percent of consolidated EBITDA) to become guarantors on an annual basis (within a 90-day grace period).

Senior Secured Notes

Overview and Structure

The Senior Secured Notes:

- are general senior obligations of the Senior Secured Notes Issuer;
- are secured;
- rank pari passu in right of payment with any existing and future Indebtedness of the Senior Secured Notes Issuer that is not expressly subordinated in right of payment to the Senior Secured Notes, including Indebtedness Incurred under the Senior Secured Credit Facilities Agreement;

- rank senior in right of payment to any existing and future Indebtedness of the Senior Secured Notes Issuer that is expressly subordinated in right of payment to the Senior Secured Notes;
- are effectively subordinated to any existing or future Indebtedness of the Senior Secured Notes Issuer and its Subsidiaries that is secured by property and assets that do not secure the Senior Secured Notes, to the extent of the value of the property and assets securing such Indebtedness;
- are guaranteed by the Senior Notes Issuer and certain subsidiaries;
- are structurally subordinated to all indebtedness and obligations of the Senior Secured Notes Issuer's subsidiaries that are not guarantors;
- have an aggregate principle amount of €300.0 million; and
- mature on July 15, 2022.

The Senior Secured Notes are represented by one or more registered Senior Secured Notes in global registered form, but in certain circumstances may be represented by Definitive Registered Notes.

Interest

Interest on the Senior Secured Notes will accrue at the rate of 6.25 percent per annum. Interest on the Senior Secured Notes:

- is payable in cash semi-annually in arrears on January 15 and July 15;
- is payable to the Holder of record of such Senior Secured Notes on the immediately preceding January 1 and July 1; and
- is computed on the basis of a 360-day year comprised of twelve 30-day months.

The rights of Holders to receive the payments of interest on such Senior Secured Notes are subject to the applicable procedures of the common depositary and Euroclear and Clearstream. If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Optional Redemption

The Senior Secured Notes Issuer may redeem all or part of the Senior Secured Notes at any time on or after July 15, 2018 at the redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest.

Commencing on July 15, 2020 and thereafter, the Senior Secured Notes Issuer may redeem all or part of the Senior Secured Notes at a redemption price equal to 100.000 percent of the principal amount thereof, plus accrued and unpaid interest and additional amounts.

Certain Covenants

The Senior Secured Notes Indenture limits, among other things, the ability of the Senior Secured Notes Issuer and the Senior Notes Issuer, respectively and their respective restricted subsidiaries to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- pay dividends, redeem capital stock and make certain investments;
- make certain other restricted payments;
- create or permit to exist certain liens;
- impose restrictions on the ability of the restricted subsidiaries to pay dividends;
- transfer or sell certain assets;
- merge or consolidate with other entities;

- enter into certain transactions with affiliates; and
- impair the security interests for the benefit of the holders of the Notes.

Certain of the covenants will be suspended if and for as long as we achieve investment-grade ratings. Each of the covenants in the Indenture will be subject to significant exceptions and qualifications.

Senior Notes

Overview and Structure

The Senior Notes:

- are general senior obligations of the Senior Notes Issuer;
- rank pari passu in right of payment with any existing and future Indebtedness of the Senior Notes Issuer that is not expressly subordinated in right of payment to the Senior Notes, including the Issuer's Guarantee of the Senior Secured Notes and the Issuer's Guarantee of the Senior Facilities Agreement;
- rank senior in right of payment to any future Indebtedness of the Senior Notes Issuer that is expressly subordinated in right of payment to the Senior Notes;
- are effectively subordinated to any existing or future Indebtedness of the Senior Notes Issuer and its Subsidiaries that is secured by property and assets that do not secure the Senior Notes or that is secured on a first-priority basis over property and assets that secure the Senior Notes on a second-priority basis (including the Senior Secured Notes and Indebtedness Incurred under the Senior Secured Credit Facilities Agreement), to the extent of the value of the property and assets securing such Indebtedness;
- are guaranteed by the Senior Secured Notes Issuer and certain subsidiaries;
- are structurally subordinated to all indebtedness and obligations of the Senior Notes Issuer's subsidiaries that are not guarantors;
- have an aggregate principle amount of €335.0 million; and
- mature on July 15, 2023.

The Senior Notes will be represented by one or more registered Senior Notes in global registered form, but in certain circumstances may be represented by Definitive Registered Notes.

Interest

Interest on the Senior Notes will accrue at the rate of 8.75 percent per annum. Interest on the Senior Notes is:

- payable in cash semi-annually in arrears on January 15 and July 15;
- payable to the Holder of record of such Senior Notes on the immediately preceding January 1 and July 1; and
- computed on the basis of a 360-day year comprised of twelve 30-day months.

The rights of Holders to receive the payments of interest on such Senior Notes are subject to the applicable procedures of the common depositary and Euroclear and Clearstream. If the due date for any payment in respect of any Notes is not a Business Day at the place at which such payment is due to be paid, the Holder thereof will not be entitled to payment of the amount due until the next succeeding Business Day at such place, and will not be entitled to any further interest or other payment as a result of any such delay.

Optional Redemption

The Senior Notes Issuer may redeem all or part of the Senior Notes at any time on or after July 15, 2018 at the redemption prices expressed as percentages of the principal amount, plus accrued and unpaid interest.

Commencing July 15, 2020 and thereafter, the Senior Notes Issuer may redeem all or part of the Senior Notes at a redemption price equal to 100.000 percent of the principal amount thereof, plus accrued and unpaid interest and additional amounts.

Certain Covenants

The Senior Notes Indenture limits, among other things, the ability of the Senior Secured Notes Issuer and the Senior Notes Issuer, respectively and their respective restricted subsidiaries to:

- incur or guarantee additional indebtedness and issue certain preferred stock;
- pay dividends, redeem capital stock and make certain investments;
- make certain other restricted payments;
- create or permit to exist certain liens;
- impose restrictions on the ability of the restricted subsidiaries to pay dividends;
- transfer or sell certain assets;
- merge or consolidate with other entities;
- enter into certain transactions with affiliates; and
- impair the security interests for the benefit of the holders of the Notes.

Certain of the covenants will be suspended if and for as long as we achieve investment-grade ratings. Each of the covenants in the Indentures will be subject to significant exceptions and qualifications.

Caps

In August 2015 Douglas Holding AG (today Douglas GmbH) closed interest rate caps with three banks (J.P. Morgan, UniCredit, CIC) with a strike rate of 1.0 percent over an initial nominal volume of €276.5 million (top up hedge with variable notional amount) and with a term until September 30, 2021. This volume has been increased up to €528.5 million as of September 30, 2020. We agreed upon deferred premium with quarterly instalments.

In March 2017 we closed additional interest rate caps with two banks (J.P. Morgan, UniCredit) with a strike rate of 1.0 percent over an initial nominal volume of €45.7 million (top up hedge with variable notional amount) and with a term until September 30, 2021. This volume has been increased up to €271.5 million as of September 30, 2020. We also agreed upon deferred premium with quarterly instalments.

Two additional interest rate caps were closed in December 2017 (UniCredit, Raiffeisen Bank International) with a strike rate of 1.0 percent over a fixed nominal volume of €150.0 million each and with a term until September 30, 2021. The premium was paid upfront.

With the additional interest rate caps, we are fixed now approximately by 75 percent (this corresponds to a value of €1.100 million at any time) related to the overall financing agreements (inclusive the secured and unsecured bonds).

Certain Definitions

General Definitions:

- "Acquisition" or "CVC Acquisition" has the meaning ascribed to it in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Presentation of the Financial Information Used in this Financial Report";
- "Acquisition Agreement" refers to the sale and purchase agreement regarding the sale and purchase of the Douglas-Group dated June 1, 2015, between Kirk Beauty Zero GmbH and AI Beauty & Cy S.C.A. and AI Beauty (Luxembourg) Finance S.à r.l., including all exhibits and schedules thereto;
- "Acquisition Documents" refers to the Acquisition Agreement and the Funds Guarantee;
- "CICE" refers to Credit d'impôt compétitivité et emploi;
- "Clearstream" refers to Clearstream Banking, société anonyme;
- "Company" refers to Kirk Beauty One GmbH;
- "Completion Date" refers to the date on which the proceeds from the offerings of the Senior Secured Notes and Senior Notes are released from the relevant escrow accounts following the consummation of the Acquisition;
- "CVC" refers to CVC Capital Partners Limited and its affiliates and direct or indirect subsidiaries;
- "Douglas," the "Douglas-Group," the "Group," "our Group" and other similar terms refer to Kirk Beauty One GmbH and its subsidiaries;
- "Douglas Nocibé Collection" refers to our private label (own branded) product portfolio, the "Douglas" brand and the "Nocibé" brand;
- "EFSF" refers to European Financial Stability Facility;
- "Equity Contribution" has the meaning assigned to it under "Management's Discussion and Analysis of Financial Condition and Results of Operations —Financing";
- "Euroclear" refers to Euroclear Bank SA/NV;
- "European Union" or "EU" refers to the European economic and political union;
- "Existing Facilities" refers to the senior facilities agreement dated June 26, 2015, among Deutsche Bank AG, London Branch as senior facility agent and security agent and several financial institutions as lenders providing for term loan facilities in the amount of €1,670.0 million and a revolving credit facility in the amount of €200.0 million (the "Existing Senior Facilities Agreement");
- "Financing" has the meaning ascribed to it in "Management's Discussion and Analysis of Financial Condition and Results of Operations - Financing";
- "Guarantors" collectively refers to the Senior Secured Note Guarantors and the Senior Note Guarantors, and references to "Guarantor" are to each of them;
- "IFRS" refers to International Financial Reporting Standards as adopted by the European Union (EU);
- "Indentures" refers to the Senior Secured Notes Indenture and the Senior Notes Indenture;
- "Member State" means a member state of the European Economic Area;
- "Non-Acquired Business" refers to the Confectionery Business, the Books Business, the Jewelry Business and the Fashion Business collectively;
- "Notes" refers to the Senior Secured Notes and the Senior Notes;
- "OECD" refers to Organization for Economic Co-operation and Development;
- "PPA" refers to Purchase Price Allocation;
- "Revolving Credit Facility" refers to a €200 million multi-currency revolving credit facility to be established under the Senior Secured Credit Facilities Agreement;
- "Security Agent" refers to Deutsche Bank AG, London Branch;
- "Senior Notes Indenture" refers to the indenture dated July 10, 2015 to the Issue Date governing the Senior Notes by and among, inter alias, the Senior Notes Issuer and the Senior Notes Trustee;
- "Senior Secured Credit Facilities" refers to the Term Loan B Facility, the Revolving Credit Facility and any incremental facility and/or any additional borrowings which may be made available under the Senior Secured Credit Facilities Agreement from time to time;
- "Senior Secured Credit Facilities Agreement" refers to the senior secured credit facilities agreement to be entered into, on or prior to the Completion Date (including by way of an

amendment and restatement of the Existing Senior Facilities Agreement) between, among others, the Senior Secured Notes Issuer and certain of its subsidiaries and Deutsche Bank AG, London Branch as agent and security agent, in each case, comprised of, as of the Completion Date, as amended from time to time, the Term Loan B Facility and the Revolving Credit Facility;

- "Senior Secured Notes Indenture" refers to the indenture dated July 10, 2015 to the Issue Date governing the Senior Secured Notes by and among, inter alias, the Senior Secured Notes Issuer and the Senior Secured Notes Trustee;
- "Senior Secured Notes Issuer" refers to Douglas GmbH (former Kirk Beauty Zero GmbH);
- "SKU" refers to Stock Keeping Unit;
- "Target" refers to Beauty Holding Zero GmbH;
- "Term Loan B Facility" refers to the €1.670.0 million term loan B facility established under the Senior Secured Credit Facilities Agreement;
- "Term Loan Facility Original" refers to the original €1,220.0 million senior secured term loan B facility;
- "Term Loan Facility B1" refers to the extended €1,370.0 million senior secured term loan B facility, extended by amendment as of August 16, 2016;
- "Term Loan Facility B2" refers to the tranche of the Term loan B Facility in the amount of €300.0 million, raised on August 18, 2017,
- "TopCo" refers to Kirk Beauty Two GmbH, the direct parent of the Senior Notes Issuer;
- "Transaction" refers to the CVC Acquisition and the Financing as described in "Management's Discussion and Analysis of Financial Condition and Results of Operations – Financing";
- "VAT" refers to Value-added tax;
- "we," "us," "our" and other similar terms refer to Kirk Beauty One GmbH and its subsidiaries.

For further definitions of financial figures, please refer to the F-Pages of this report.

DOUGLAS

Consolidated Financial Statements as of September 30, 2020

Kirk Beauty One GmbH, Düsseldorf

Consolidated Statement of Profit or Loss

of Kirk Beauty One GmbH for the period from October 1, 2019 through September 30, 2020

		Notes No.	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
1.	Sales	5	3,232.7	3,453.5
2.	Cost of raw materials, consumables and supplies and merchandise		-1,795.3	-1,880.6
3.	**Gross Profit**		**1,437.4**	**1,572.9**
4.	Other operating income	6	241.0	295.8
5.	Personnel expenses	7	-581.0	-642.7
6.	Other operating expenses	8	-641.0	-943.2
7.	Result from impairments on financial assets		0.1	-0.4
8.	**EBITDA (=reported EBITDA)**		**456.5**	**282.5**
9.	Amortization/depreciation/impairment	11-14	-724.1	-136.6
10.	**EBIT**		**-267.6**	**145.9**
11.	Financial income	9	50.3	58.9
12.	Financial expenses	9	-249.6	-124.4
13.	Financial result	9	-199.3	-65.5
14.	**EBT**		**-466.9**	**80.5**
15.	Income taxes	10	-50.2	-63.3
16.	**Profit (+) or Loss (-) of the period (Net Income)**		**-517.0**	**17.2**
	Attributable to owners of the parent		*-517.0*	*17.2*

Consolidated Reconciliation from Profit or Loss to Total Comprehensive Income

of Kirk Beauty One GmbH for the period from October 1, 2019 through September 30, 2020

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
Profit (+) or Loss (-) of the period (Net Income)	-517.0	17.2
Components that are or may be reclassified subsequently to the income statement		
Foreign currency translation differences arising from translating the financial statements of a foreign operation	-2.4	-1.4
Components that will not be reclassified to profit or loss (after related tax effects)		
Actuarial gains/losses from pension provisions	0.9	-5.4
Other comprehensive income	-1.5	-6.8
Total comprehensive income	**-518.6**	**10.4**
Attributable to owners of the parent	*-518.6*	*10.4*

Consolidated Statement of Financial Position

of Kirk Beauty One GmbH as of September 30, 2020

Assets		Notes No.	09/30/2020 EUR m	09/30/2019 EUR m
A.	Non-current assets			
I.	Intangible assets	11	2,045.1	2,347.6
II.	Property, plant and equipment	12	278.0	292.8
III.	Right-of-use assets from leases	12	1,230.9	0.0
IV.	Financial assets	18	851.8	569.8
V.	Deferred tax assets	14	60.2	85.6
			4,465.9	3,295.8
B.	Current assets			
I.	Inventories	16	738.6	744.4
II.	Trade accounts receivable	17	37.5	45.7
III.	Tax receivables		23.2	30.6
IV.	Financial assets	18	164.8	155.4
V.	Other assets	19	34.8	30.1
VI.	Cash and cash equivalents	20	256.3	81.0
			1,255.2	1,087.3
Total			5,721.1	4,383.0

Equity and Liabilities

		Notes No.	09/30/2020 EUR m	09/30/2019 EUR m
A.	Equity	21		
I.	Capital stock*		0.0	0.0
II.	Additional paid-in capital		1,125.1	1,125.1
III.	Reserves		-457.8	-266.0
			667.3	859.1
B.	Non-current liabilities			
I.	Pension provisions	22	37.9	40.1
II.	Other non-current provisions	23	58.1	53.8
III.	Financial liabilities	25	3,371.5	2,313.5
IV.	Other liabilities	26	14.6	8.9
V.	Deferred tax liabilities	15	193.7	196.9
			3,675.8	2,613.2
C.	Current liabilities			
I.	Current provisions	23	123.5	114.6
II.	Trade accounts payable	24	503.5	487.0
III.	Tax liabilities		68.7	60.9
IV.	Financial liabilities	25	458.6	37.5
V.	Other liabilities	26	223.7	210.8
			1,378.0	910.8
Total			5,721.1	4,383.0

*) Capital stock amounts to €25.000,00.

Statement of Changes in Group Equity

of Kirk Beauty One GmbH for the period from October 1, 2019 through September 30, 2020

	Attributable to owners of the parent						
				Reserves			
	Capital stock* EUR m	Additional paid-in capital EUR m	Other reserves EUR m	Reserves for pension provisions EUR m	Differences from currency translation EUR m	Total EUR m	Non-controlling interests EUR m
10/01/2019	0.0	1,125.1	-260.2	-2.9	-2.9	859.1	0.0
Error correction in current accounts	0.0	0.0	9.4	0.0	0.0	9.4	0.0
Adjustment on initial application of IFRS 16			-2.3			-2.3	
Adjusted balance 01/10/2019	0.0	1,125.1	-253.2	-2.9	-2.9	866.1	0.0
Currency translation					-2.4	-2.4	0.0
Effects from valuation of IAS 19				0.9		0.9	
Other comprehensive income	0.0	0.0	0.0	0.9	-2.4	-1.5	0.0
Profit (+) or Loss (-) of the period (Net Income)			-517.0			-517.0	0.0
Total comprehensive income	0.0	0.0	-517.0	0.9	-2.4	-518.6	0.0
Loss transfer by Kirk Beauty Two GmbH			319.6			319.6	0.0
Share-based Payment			0.2			0.2	
Transactions with shareholders	0.0	0.0	319.8	0.0	0.0	319.8	0.0
09/30/2020	**0.0**	**1,125.1**	**-450.4**	**-2.0**	**-5.3**	**667.3**	**0.0**

of Kirk Beauty One GmbH for the period from October 1, 2018 through September 30, 2019

		Attributable to owners of the parent					
			Reserves				
	Capital stock*	Additional paid-in capital	Other reserves	Reserves for pension provisions	Differences from currency translation	Total	Non-controlling interests
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
10/01/2018	0.0	1,125.1	-229.0	2.5	-1.6	896.9	0.0
Adjustment on initial application of IFRS 9, after taxes			-51.3			-51.3	
Adjusted balance 01/10/2018	0.0	1,125.1	-280.3	2.5	-1.6	845.5	0.0
Currency translation					-1.4	-1.4	
Effects from valuation of IAS 19				-5.4		-5.3	
Profit (+) or Loss (-) of the period (Net Income)			17.2			17.2	0.0
Total comprehensive income	0.0	0.0	17.2	-5.4	-1.3	10.4	0.0
Loss transfer by Kirk Beauty Two GmbH			2.8			2.8	
Share-based Payment			0.2			0.2	
Transactions with shareholders	0.0	0.0	3.0	0.0	0.0	3.0	0.0
09/30/2019	0.0	1,125.1	-260.2	-2.9	-2.9	859.0	0.0

Consolidated Statement of Cash Flows

of Kirk Beauty One GmbH for the period from October 1, 2019 through September 30, 2020

			Notes No.	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
1.		Profit (+) or Loss (-) of the period (Net Income)		-517.0	17.2
2.	+	Income taxes	10	50.2	63.3
3.	+	Financial result	9	199.3	65.5
4.	+	Amortization/depreciation/impairment	11 - 14	724.1	136.6
5.	=	EBITDA (=reported EBITDA)		456.5	282.5
6.	+/-	Increase/decrease in provisions	22, 23	5.8	29.4
7.	+/-	Other non-cash expense/income		-5.7	-7.2
8.	+/-	Loss/profit on the disposal of non-current assets		0.1	-10.1
9.	+/-	Changes in net working capital without liabilities from investments in non-current assets		41.9	-39.7
10.	+/-	Changes in other assets/liabilities not classifiable to investing or financing activities		16.1	-5.3
11.	-/+	Paid/reimbursed taxes		-21.1	-51.4
12.	=	Net cash flow from operating activities		493.6	198.3
13.	+	Proceeds from the disposal of non-current assets		2.3	25.1
14.	-	Investments in non-current assets		-107.8	-128.0
15.	-	Payments for the acquisition of consolidated companies and other business units		0.0	-3.5
16.	=	Net cash flow from investing activities		-105.5	-106.4
17.		Free cash flow (total of 12. and 16.)		388.2	91.9
18.	-	Payments for the repayment of financial liabilities		-258.4	-5.2
19.	+	Proceeds from borrowings		181.6	3.1
20.	-	Interest paid		-135.6	-111.6
21.	+	Interest received		0.2	0.0
22.	=	Net cash flow from financing activities		-212.2	-113.6
23.		Net change in cash and cash equivalents (total of 12., 16. and 22.)		176.0	-21.8
24.	+/-	Net change in cash and cash equivalents due to currency translation		-0.7	-0.1
25.	+	Cash and cash equivalents at the beginning of the reporting period		81.0	102.9
26.	=	Cash and cash equivalents at the end of the reporting period	20	256.3	81.0

The Consolidated Statement of Cash Flows is explained in Note 27, Consolidated Statement of Cash Flows.

Notes to the Consolidated Financial Statements

of Kirk Beauty One GmbH for the period from October 1, 2018

through September 30, 2019

Segment Reporting

of Kirk Beauty One GmbH for the period from October 1, 2019 through September 30, 2020

		Germany 10/01/2019-09/30/2020	10/01/2018-09/30/2019	France 10/01/2019-09/30/2020	10/01/2018-09/30/2019	South-Western Europe 10/01/2019-09/30/2020	10/01/2018-09/30/2019
Sales (net)	EUR m	1,270.4	1,289.1	688.0	767.1	929.8	1,051.5
Intersegment sales	EUR m	52.5	48.6	0.8	0.0	0.0	0.0
Sales	EUR m	1,322.9	1,337.8	688.8	767.1	929.8	1,051.5
EBITDA (=reported EBITDA)	**EUR m**	**109.3**	57.2	**141.6**	108.8	**130.2**	70.9
EBITDA-margin	**%**	**8.6**	4.4	**20.6**	14.2	**14.0**	6.7
Lease expenses and income according to former IAS 17 which are to be capitalized following IFRS 16	EUR m	-88.9	0.0	-45.2	0.0	-112.3	0.0
Key performance indicator to be adjusted	**EUR m**	**20.4**	57.2	**96.4**	108.8	**17.9**	70.9
EBITDA-margin in relation to the key performance indicator to be adjusted	**%**	**1.6**	4.4	**14.0**	14.2	**1.9**	6.7
Sum of adjustments	**EUR m**	**48.8**	38.6	**15.1**	6.6	**45.3**	21.2
Adjusted EBITDA	**EUR m**	**69.2**	95.8	**111.5**	115.3	**63.3**	92.1
Adjusted EBITDA-margin	**%**	**5.4**	7.4	**16.2**	15.0	**6.8**	8.8
Inventories	**EUR m**	**250.3**	249.1	**123.3**	120.7	**276.8**	291.0
Capital expenditure	EUR m	55.3	50.8	15.8	18.5	20.9	23.3

		Eastern Europe 10/01/2019-09/30/2020	10/01/2018-09/30/2019	Consolidation 10/01/2019-09/30/2020	10/01/2018-09/30/2019	Kirk Beauty One GmbH 10/01/2019-09/30/2020	10/01/2018-09/30/2019
Sales (net)	EUR m	344.5	345.8	0.0	0.0	3,232.7	3,453.5
Intersegment sales	EUR m	0.0	0.0	-53.2	-48.6	0.0	0.0
Sales	EUR m	344.5	345.8	-53.2	-48.6	3,232.7	3,453.5
EBITDA (=reported EBITDA)	**EUR m**	**74.4**	45.1	**1.0**	0.7	**456.5**	282.5
EBITDA-margin	**%**	**21.6**	13.0			**14.1**	8.2
Lease expenses and income according to former IAS 17 which are to be capitalized following IFRS 16	EUR m	-31.6	0.0	0.0	0.0	-278.0	0.0
Key performance indicator to be adjusted	**EUR m**	**42.9**	45.1	**1.0**	0.7	**178.6**	282.5
EBITDA-margin in relation to the key performance indicator to be adjusted	**%**	**12.4**	13.0			**5.5**	8.2
Sum of adjustments	**EUR m**	**4.4**	2.1	**0.0**	0.0	**113.7**	68.4
Adjusted EBITDA	**EUR m**	**47.3**	47.1	**1.0**	0.7	**292.3**	350.9
Adjusted EBITDA-margin	**%**	**13.7**	13.6			**9.0**	10.2
Inventories	EUR m	92.9	87.9	-4.7	-4.3	738.6	744.4
Capital expenditure	EUR m	13.4	16.1	0.0	0.0	105.4	108.6

The segment reporting is explained in Note 28, Segment reporting.

Principles

1 | General principles

Kirk Beauty One GmbH (Group parent company) is a limited liability company registered at Luise-Rainer-Str. 7-11, 40235 Düsseldorf, Germany and is registered in commercial register B of the district court of Düsseldorf under the registration number 79429.

The Consolidated Financial Statements of Kirk Beauty One GmbH and its subsidiaries (Kirk Beauty One Group, Douglas-Group, Group) as of September 30, 2020 (reporting date) comprise the reporting period beginning October 1, 2019 until September 30, 2020 (financial year, reporting period).

The Consolidated Financial Statements of Kirk Beauty One GmbH were prepared according to the International Financial Reporting Standards (IFRS). The Consolidated Financial Statements take into account all compulsory accounting standards and interpretations in the European Union adopted at that time.

This version of the Consolidated Financial Statements is in accordance with the provisions of Section 315e HGB (German Commercial Code). This forms the legal basis for accounting processes in Germany in accordance with international standards, together with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of July 19, 2002 on the application of international accounting standards.

2 | Accounting Standards

The financial statements of the domestic and foreign subsidiaries included in the Consolidated Financial Statements were prepared uniformly according to the applicable IFRS classification, accounting and measurement principles.

These Consolidated Financial Statements are generally based on the principle of historical cost. The main exceptions to this are financial instruments recognized at fair value and pension obligations measured using the projected unit credit method.

The Consolidated Financial Statements were prepared in euros (EUR/€). All amounts are presented in million euros (EUR m), unless otherwise indicated.

The Consolidated Statement of Profit or Loss was generally prepared according to the nature of expense method. By modification of the reporting structure defined in IAS 1.102, the cost of raw materials, consumables and supplies and merchandise is reported directly after sales in order to determine “Gross profit from retail business”, which is significant for retail operations.

The senior parent company is Kirk Beauty S.à r.l. with registered office in Luxembourg, whose business purpose is the holding of investments in companies. It prepares the Consolidated Financial Statements for the largest group of consolidated entities published in Luxembourg.

Due to the first-time application of the new lease standard IFRS 16 "Leases", comparability with prior-year figures is limited in some cases.

Assumption of going concern as the basis for accounting

The financial risks represent a going concern risk for the Douglas-Group. The following material uncertainties exist:

- the follow-up financing until maturity in 2022 and 2023 must succeed,
- the necessary and planned increase in earning power in the Group's transformation process must be achieved and thus solvency maintained, and
- the liquidity of the Group must not be further burdened by further delays in opening the branches.

The long-term financing of the Douglas-Group is provided by a senior syndicated loan agreement including a Revolving Credit Facility and Ancillary Facilities as well as corporate bonds issued. The risk of a lack of follow-up financing until maturity in 2022 or 2023 for the company's portfolio is generally and overall assessed as high, but the occurrence of this risk is considered to be rather low. Overall, the Douglas-Group has financial resources of €2,505.0 million at its disposal through the senior syndicated loan agreement including the Revolving Credit Facility and the corporate bonds issued. With the drawing of the Revolving Credit Facility and the Ancillary Facilities in the amount of €165.5 million in March 2020, the credit lines are almost exhausted. According to current planning, the Douglas-Group will not be in a position to repay these liabilities from its own funds when the non-current financial liabilities mature, so that refinancing will have to be successful.

During the term of the financing agreements, the Douglas-Group must, among other obligations, in particular service the cost of capital on time and maintain a certain ratio between adjusted EBITDA and debt (financial covenant). However, the obligation to comply with the ratio of Adjusted EBITDA to debt only arises when at least 40.0 percent or €80 million (threshold) of the Revolving Credit Facility has been drawn by Revolving Credit Facility Loans.

The ongoing servicing of the cost of capital generally assumes that the Douglas-Group's planning will not be significantly missed in terms of sales, earnings and cash flow development.

The COVID-19 pandemic has had and continues to have a substantial impact on the Douglas-Group's business. The original plans for sales and earnings for the financial year 2019/20 from October 2019 were significantly missed.

It is now clear that COVID-19 will also impact the Group's further development in financial year 2020/21. At present, a reduction in financing reserves is assumed for the Douglas Group, taking into account the current store closures and restrictions in some countries and the assumed openings from February. Each additional week of store closures further increases the liquidity risk.

The massive shift in business to digital retail and the compensation for the associated decline in store business, as well as the adjustment of the store network, are thus seen as a necessary step to increase profitability.

According to the liquidity planning there are only limited liquidity reserves beyond the reporting date of September 30, 2021 in order to maintain solvency at all times even in the event of further budget shortfalls or an extended period of store closures.

New or changed standards and interpretations

The new standards and interpretations or amendments to existing standards and interpretations presented below have been applied for the first time in these Consolidated Financial Statements:

The Group applied IFRS 16 (Leases) for the first time as of October 1, 2019. In addition, a number of other new standards had to be applied for the first time in financial year 2019/20, but these had no material impact on the Consolidated Financial Statements ending September 30, 2020.

IFSR 16 replaces the requirements of IAS 17 (Leases) and the related interpretations of IFRIC 4 (Determining Whether an Arrangement Contains a Lease), SIC-15 (Operating Leases – Incentives) and SIC-27 (Evaluating the Substance of Transactions in the Legal Form of a Lease).

The scope of IFRS 16 generally includes the accounting treatment of leases. A contract is or contains a lease if it grants the right to control the use of a specific asset over a specified period of time in return for payment.

IFRS 16 abolishes the classification of leases into operating leases and finance leases for lessees required by IAS 17 and replaces it with a uniform accounting model under which lessees are generally required to recognize a right-of-use asset and a corresponding lease liability for leases.

The right-of-use asset is amortized on a straight-line basis over the term of the lease, and the vast majority of the rental expense previously presented under IAS 17 as other operating expenses is now recognized as depreciation of the right-of-use asset. Furthermore, interest expense results from the ongoing accrual of interest on the lease liability.

Due to the presentation of lease payments as financing activities in accordance with IFRS 16, the cash inflow from operating activities and correspondingly the cash outflow from financing activities increase.

In contrast, IFRS 16 largely retains the rules for lessor accounting in accordance with IAS 17.

With its approximately 2,200 leased retail stores, the Douglas Group as lessee has a considerable number of leases formerly classified as operating leases under IAS 17. The new IFRS 16 therefore has a significant impact in the financial year 2019/20, particularly on the Consolidated Statement of Financial Position and Consolidated Statement of Profit or Loss, but also on the Consolidated Statement of Cash Flows.

The Group has applied IFRS 16 using the modified retrospective method. Comparative information for the prior financial year 2018/19 has therefore not been adjusted.

Previously, the Group determined at inception whether an arrangement contained or was a lease in accordance with IFRIC 4 (Determining whether an Arrangement contains a Lease). The Group now assesses whether an arrangement is or contains a lease based on the definition of a lease. On transition to IFRS 16, the Group elected not to apply the transition relief to retain the assessment of which transactions are leases. That is, the Group applied IFRS 16 to all contracts that contain a lease.

As a lessee, the Group predominantly leases retail stores for the distribution of its perfumery products, office and warehouse space. The Group has previously classified leases as operating leases or finance leases based on its assessment of whether the lease has transferred substantially all the risks and rewards incidental to ownership of the underlying asset to the Group. In accordance with IFRS 16, the Group recognizes right-of-use assets and lease liabilities for these leases.

At the provision date or upon modification of a contract containing a lease component, the Group allocates the contractually agreed consideration on the basis of the relative individual prices. For real estate leases, this means that a separation of lease and non-lease components is made so that the payments related to the non-lease component are recognized in profit or loss.

On transition from IAS 17 to IFRS 16, the lease liabilities for these leases were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate as of October 1, 2019.

The basis for determining the incremental borrowing rate is the risk-free interest rate, which is determined using the swap curves of the respective currencies of the corresponding lease payments. Since country risks are already taken into account in these risk-free interest rates, no separate component is added. In order to reflect the default risk of Douglas and the parent company Kirk Beauty One GmbH, a credit premium is included. An additional liquidity premium is not required beyond the credit spread. In the next step, a collateral discount was deducted, which results from the fact that a lease contract provides for a special form of collateral by the lease object for the lessor. This collateral leads to a better credit rating for the lessee. The final component of the calculation of the incremental borrowing rate was the term of the lease.

The following shows the interest rate matrix at five-year intervals:

	Lease term			
	1 - 5 years	6 - 10 years	11 -15 years	16 - 20 years
EUR	0.31% - 0.97%	1.21% - 2.19%	2.34% - 2.87%	2.93% - 3.20%
BGN	0.26% - 1.15 %	1.39% - 2.52%	2.74% - 3.31%	3.32% - 3.65%
HRK	0.76% - 1.47%	1.71% - 2.71%	2.89% - 3.51%	3.59% - 3.85%
CZK	2.87% - 3.44%	3.61% - 4.30%	4.37% - 4.60%	4.59% - 4.68%
HUF	0.95% - 1.84%	2.13% - 3.30%	3.49% - 4.15%	4.24% - 4.62%
PLN	2.40% - 3.12%	3.34% - 4.28%	4.41% - 4.84%	4.88% - 5.04%
RON	3.67% - 4.36%	4.58% - 5.57%	5.74% - 6.30%	6.35% - 6.58%
CHF	0.00% - 0.64%	0.89% - 1.91%	2.07% - 2.62%	2.69% - 2.96%

Rights-of-use assets are measured at an amount equal to the lease liability adjusted by the amount of the lease payments made in advance or deferred. The Group applies this approach to all leases.

Deferred payments resulting from leases between the Douglas-Group as lessee and external third parties were recognized directly in equity at the date of initial application, October 1, 2019.

The Group has taken advantage of a number of other transition reliefs in applying IFRS 16 to leases formerly classified as operating leases under IAS 17. Specifically, the Group has:

- neither recognized right-of-use assets nor lease liabilities for leases where the underlying asset is of low value,
- The Group leases other assets (e.g. coffee machines, cell phones, etc.) with contractual terms of up to 12 months. These lease agreements are classified as current and the Group has decided to make use of the relief provided by IFRS 16.5 and to recognize neither right-of-use assets nor lease liabilities for these lease agreements.
- not performed an impairment test and instead assessed whether its leases were onerous immediately before the date of initial application in accordance with IAS 37 (Provisions, Contingent Liabilities and Contingent Assets),

- disregarded the initial direct costs when measuring the right-of-use asset at the date of initial application, and
- retroactively determined the term of leases if a contract provides for renewal or termination options.

The Group is not required to make adjustments for leases in which it is the lessor, except for subleases, at the IFRS 16transition date. The Group has subleased some of its leased commercial branches. Under IAS 17, head leases and subleases were classified as operating leases. Under the now mandatory application of IFRS 16, the Group has concluded that the subleases are essentially finance leases.

The reconciliation of lease liabilities as of September 30, 2019 (closing balance in accordance with IAS 17) to October 1, 2019 (opening balance in accordance with IFRS 16) is presented below:

	EUR m
Obligations from operating leases as of September 30, 2019	**1,136.6**
Other changes	17.6
Obligations from operating leases as of September 30, 2019 (adjusted)	**1,119.0**
Adjustments based on different assessments of extension and termination options	323.0
Adjustments due to future rental price changes	111.0
Gross value of lease liabilities as of October 1st, 2019	1,552.9
Discounting	91.8
Lease liabilities as of October 1st, 2019	**1,461.1**

The following overview provides a summary of newly implemented or revised IASB accounting standards and interpretations that were not yet applied by Kirk Beauty One GmbH in financial year 2019/20, as they were either not yet compulsory or not yet approved by the European Commission.

	New standards/Interpretations not yet applicable		Published by IASB	Date of first-time adoption in the EU	Endorsed by European Commission	Probable impact on the Kirk Group
IFRS 4, IFRS 9, IFRS 7, IAS 39, IFRS 16	Insurance Contracts, Financial Instruments, Financial Instruments: Disclosures, Financial Instruments: Recognition and Measurement, Leases	Amendment: Interest Rate Benchmark Reform - Phase 2	08/27/2020	01/01/2021	Not yet	No impact
IAS 1	Presentation of Financial Statements	Amendment: Classification of Liabilities as current or non-current - Deferral of Effective Date	07/15/2020	01/01/2023	Not yet	No impact
IFRS 4	Insurance Contracts	Amendment: Extension of the temporary Exemption from applying IFRS 9	06/25/2020	01/01/2021	00.01,1900	No impact
IFRS 16	Leases	Amendment: Covid-19-related Rent Concessions	05/28/2020	06/01/2020	00.01,1900	No impact
IFRS 3	Business Combinations	Amendment: Reference to the Conceptual Framework	05/14/2020	01/01/2022	Not yet	No impact
IAS 16	Property, plant and equipment	Amendment: Proceeds before intended Use	05/14/2020	01/01/2022	Not yet	No impact
IAS 37	Provisions, Contingent Liabilities and Contingent Assets	Amendment: Onerous Contracts - Cost of Fulfilling a Contract	05/14/2020	01/01/2022	Not yet	No impact
Improvement Project 2018-2020	Annual Improvements to IFRSs 2018-2020 Cycle	Improvement of existing Standards	05/14/2020	01/01/2022	Not yet	No impact
IAS 1	Presentation of Financial Statements	Amendment: Classification of Liabilities as current or non-current	01/23/2020	01/01/2022	Not yet	No impact
IFRS 9, IAS 39, IFRS 7	Financial Instruments, Financial Instruments: Recognition and Measurement, Financial Instruments: Disclosures	Amendment: Interest Rate Benchmark Reform	26.09.2019	01.01.2020	01/15/2020	No impact
IAS 1, IAS 8	Presentation of Financial Statements, Accounting Policies, Changes in Accounting Estimates and Errors	Amendment: Definition of material	31.10.2018	01.01.2020	11/29/2019	No impact
IFRS 3	Business Combinations	Amendment: Definition of a Business	22.10.2018	01.01.2020	04/21/2020	No impact
Conceptual framework		Amendment: revised Definitions of an Asset and a Liability as well as new Guidance on Measurement and Derecognition, Presentation and Disclosure	29.03.2018	01.01.2020	11/29/2019	No impact
IFRS 17	Insurance Contracts		18.05.2017	01/01/2023	Not yet	No impact
IFRS 10, IAS 28	Consolidated Financial Statements and Investments in Associates and Joint Ventures	Amendment: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	11.09.2014	Deferred	Not yet	No material impact

Each standard will be adopted for the first time at the point at which adoption will be compulsory for the company.

3 | Consolidation principles

Group of consolidated companies

All German and foreign companies over which Kirk Beauty One GmbH has direct or indirect control are fully consolidated in the Consolidated Financial Statements. Control exists when Kirk Beauty One GmbH obtains power, when Kirk Beauty One is exposed to variable returns from its investments with the investee and when it is able to influence these returns. These companies are fully consolidated when the Group obtains control and deconsolidated when control ceases.

	Germany	Other countries	Total
10/01/2019	22	37	59
Companies consolidated for the first time	1	0	1
Deconsolidated companies	0	1	1
Merged companies	0	3	3
09/30/2020	23	33	56

Two companies in which the Group does not hold a majority stake, but on which the Group does have a significant influence, were not recognized using the at-equity method. These companies solely provide intercompany services for the Douglas-Group and are of minor importance to the net assets, financial position and results of operations of the Group due to their extremely low business volumes. In addition, some of these companies have different reporting dates and do not prepare interim financial statements. Because of this, no financial information regarding these companies is available as of the reporting date and the fair values cannot be reliably determined. The carrying amount of these investments recognized under financial assets amounts to €38 thousand in total.

The list of shareholdings is shown under Note 33, Other explanatory notes.

Acquisitions

Acquisition of Niche Beauty in the financial year 2018/19

With the aim of further expanding Douglas' position in the attractive luxury segment, a 51 percent interest in Niche-Beauty.COM GmbH, based in Hamburg, was acquired in July 2019. It was included in the Consolidated Financial Statements for the first time as of August 1, 2019. Niche Beauty is of minor significance for the net assets, financial position and results of operations of the Douglas Group in the 2019/20 financial year.

The purchase price allocation (PPA) of the acquisition of Niche-Beauty.COM GmbH, made in the prior financial year 2018/19, was completed in the financial year without any change compared to the prior year's financial statements.

Consolidation methods

Capital consolidation is conducted by offsetting acquisition costs against the Group’s interest in the consolidated subsidiary’s net assets at fair value on the acquisition date. Any positive differences are capitalized as goodwill and tested annually for impairment. Any negative differences are

recognized in profit or loss. Any identifiable net assets including hidden reserves and liabilities due to minority shareholders are carried as non-controlling interests.

Receivables from and corresponding payables to consolidated companies are eliminated against each other. Interim profits from delivery of goods and rendering of services within the Group are eliminated in the Consolidated Financial Statements to the extent that these do not relate to sales realized with third parties. Sales and other income from intercompany delivery of goods and rendering of services are offset against corresponding expenses.

Currency translation

These Consolidated Financial Statements are presented in euros (Group currency), the functional currency of the Group parent company. The annual financial statements of foreign subsidiaries whose functional currency is not the same as the Group currency are translated into euros according to the functional currency concept. The functional currency of the subsidiaries is the currency of the main economic area in which the subsidiary operates. This is generally the respective national currency.

The assets and liabilities are translated using the exchange rate on the reporting date; income and expenses are generally translated at the exchange rate on the day of the transaction, approximated by the Group's average exchange rate for the reporting period. The resulting currency translation differences are recognized directly in equity under other comprehensive income and within reserves in equity.

The following exchange rates were used for currency translation for the annual financial statements of foreign subsidiaries denominated in foreign currencies.

		Average exchange rate 10/01/2019-09/30/2020 EUR	Closing rate 09/30/2020 EUR	Average exchange rate 10/01/2018-09/30/2019 EUR	Closing rate 09/30/2019 EUR
Bulgarian Lev	BGN	0.51130	0.51130	0.51130	0.51130
Swiss Franc	CHF	0.93035	0.92558	0.89074	0.92191
Czech Koruna	CZK	0.03819	0.03672	0.03885	0.03874
Croatian Kuna	HRK	0.13318	0.13234	0.13490	0.13493
Hungarian Forint	HUF	0.00291	0.00274	0.00310	0.00299
Polish Zloty	PLN	0.22787	0.21996	0.23252	0.22840
Romanian Lei	RON	0.20782	0.20523	0.21191	0.21054
Turkish Lira	TRY	0.13704	0.10990	0.15813	0.16263
U.S. Dollar	USD	0.89294	0.85412	0.88646	0.91836

Foreign currency transactions are recognized in the functional currency as translated at the applicable exchange rate at the time of the transaction. Monetary assets and liabilities are translated at the exchange rate on the reporting date. All differences resulting from currency translation are recognized in profit or loss in the Consolidated Statement of Profit or Loss.

4 | Accounting and valuation principles

Intangible assets

Goodwill arising from capital consolidation, which represents the excess of acquisition cost over the fair value of identifiable net assets acquired, is recognized according to the requirements of IFRS 3 and tested for impairment annually or upon occurrence of a triggering event.

For the purposes of impairment testing, goodwill is allocated to the group of cash-generating units (CGU) that is expected to profit from synergies arising from the acquisition. A cash-generating unit (CGU) is defined as an individual retail store or an online shop. The ceiling for goodwill allocation is generally determined by the operating segment and hence the respective stand-alone country in which Douglas operates.

If, as part of this impairment test, the company determines that the recoverable amount of the group of CGUs is less than its carrying amount, associated goodwill is written down and recognized in profit or loss. An impairment loss in respect of goodwill is not reversed even if the reasons for the impairment cease to exist in subsequent periods.

Other intangible assets are carried at (amortized) cost. There are no qualifying assets within the meaning of IAS 23 within the Douglas-Group, so that borrowing costs are not included when calculating acquisition costs. Intangible assets with definite useful lives are subject to straight-line amortization over their useful lives and are depreciated on a “pro rata temporis”-basis in the year of purchase.

Intangible assets with indefinite useful lives are not amortized. These assets are reviewed for impairment at least once a year and if there are indications of impairment. If the recoverable amount is below the carrying amount, the asset is written down to its fair value.

Intangible assets with an indefinite useful life are the trademarks Douglas and Nocibé and leasehold rights in France.

Intangible assets that are subject to amortization are only subject to an impairment test if there are triggering events indicating impairment.

Reviews must be carried out in subsequent years to see if indications of impairment exist to suggest that an impairment made in the prior years no longer exists or has been reduced. If this is the case, the impairment is reversed up to the recoverable amount, but to a maximum of the amortized carrying amount.

The useful lives underpinning the straight-line amortization for intangible assets are determined on the basis of the **estimated useful lives** for each asset class and are as follows.

Class of non-current assets	Years
Software	3-5
Leasehold rights that do not have indefinite useful lives	2-15
Customer bases	5-10

The useful life applied to brands with definite useful lives is 15 years.

Property, plant and equipment

Items of property, plant and equipment are carried at (amortized) cost. There are no qualifying assets within the meaning of IAS 23 within the Douglas-Group, so that borrowing costs are not included when calculating acquisition costs. Items of property, plant and equipment are subject to straight-line depreciation over their (expected) useful lives and are depreciated on a “pro rata temporis”-basis in the year of purchase.

An impairment test is conducted for the corresponding asset if indications of impairment exist. Tangible assets are derecognized when removed or further economic benefits are no longer expected from that asset’s use. The gain or loss from the disposal of the asset arises from the difference between its net realizable value and carrying amount.

The useful lives underpinning the straight-line depreciation for property, plant and equipment are determined on the basis of the **estimated useful lives** for each asset class and are as follows.

Class of non-current assets	Years
Buildings	10-50
Store fittings, office and operating equipment	3-10

Leases

Right-of-use assets arising from leases are presented separately in the Consolidated Statement of Financial Position and broken down by class of asset in Note 13.

Lease liabilities are reported under non-current or current financial liabilities and explained in more detail under Note 25, Financial liabilities, and Note 33, Other explanatory notes / Leases.

As a rule, the Douglas-Group acts as lessee, in particular of real estate, and sometimes, in the context of subleases, also as lessor.

The Douglas-Group predominantly leases retail stores – ca. 2,200 as of September 30, 2020 - for the sale of its perfumery products. The term of the lease agreements is typically between five and ten years. To ensure the greatest possible flexibility, the majority of the leases contain options, exercisable once or several times, to extend the leases for a certain number of years after this period (in many cases for a further five years). Due to its core activities in stationary retailing, the Group generally operates its retail stores on a long-term basis. Expiring real estate leases are regularly replaced by new, similar real estate leases. The Group estimates that the potential future lease payments will therefore generally develop steadily in line with general market trends in real estate rental prices, irrespective of any unexercised term options of the existing individual agreements.

The leases can generally be terminated unilaterally by the Douglas Group, although in some cases a contractual penalty may apply in the event of premature termination by the lessee. In some cases, there are also bilateral termination options. The majority of the lease agreements provide for annual rent adjustments based on changes in local price indices.

In principle, there are only a few cases in which Kirk Beauty One GmbH acts as lessor. Essentially, the Group acts as lessor in those agreements in which a leased property is sublet to a third party (sublease). The majority of these leases are classified as finance leases. Leases in which Kirk Beauty One GmbH acts as lessor and the lease is classified as an operating lease are the absolute exception and of minor significance.

Contracts for leased retail stores may give rise to restoration obligations for leasehold improvements, the discounted value of which is recognized as a provision. The discounted value of the obligation is capitalized as part of the acquisition cost of the right-of-use asset from leases and amortized over the expected useful life.

IFRS 16 has been applied for the first time in the financial year 2019/20. Further explanations can be found in Note 2, Accounting Standards, in the section "New and amended standards and interpretations," under Note 13, Right-of-use assets, under Note 25, Financial liabilities, and Note 33, Other explanatory notes / Leases.

Financial assets

Except for current trade accounts receivable and derivatives, all financial instruments are recognized on the settlement date. Trade accounts receivable are recognized at the date on which they arise. Derivatives that are allocated to the "measured at fair value through profit or loss" category are recognized on the trade date.

All financial instruments must be measured at fair value upon initial recognition. If financial instruments are not subsequently measured at fair value through profit or loss, transaction costs directly attributable to the acquisition or issue are recognized additionally. Current trade accounts receivable are initially measured at the transaction price.

Financial assets are measured at amortized cost if they are held within a business model solely for the purpose of collecting the contractual cash flows (business model “hold”) and the contractual terms only result in interest and principal payments on the outstanding principal amount at specified points in time.

Debt instruments are measured at fair value through other comprehensive income if they are held as part of a business model to collect the contractual cash flows and to sell the financial assets (business model "hold and sell") and the contractual terms only result in interest and principal payments on the outstanding principal amount at specified points in time.

On initial recognition of an equity investment (e.g. an equity participation) that is not held for trading purposes, the Group may irrevocably elect to recognize consequential changes in fair value through other comprehensive income. This choice is made on a case-by-case basis for each investment.

All financial assets that are not measured at amortized cost or at fair value through other comprehensive income are measured at fair value through profit or loss.

Financial assets are derecognized either upon settlement or when all main opportunities and risks are transferred.

Financial assets denominated in a foreign currency are translated to the functional currency of the acquiring Group company at the date of acquisition. An adjustment to the respective closing rate is made on each reporting date and recognized in profit or loss. Interest income and expense relating to financial assets are matched to the period in the financial result.

Financial liabilities are derecognized when the contractual obligations have been fulfilled, cancelled or expired.

Fair Value

The input factors used to determine fair value are divided into three hierarchy levels (Level 1, Level 2 and Level 3). Fair value is the price at which an asset would be sold or a liability transferred in an orderly transaction on the principal market or, if none exists, in the most advantageous market to which the Group has access on the measurement date. The fair value of a liability reflects the risk of non-performance. Fair value measurements based on Level 1 input factors are price quotations in active markets that can be determined for the asset being measured, such as quoted prices. Fair value measurements based on factors whose measurement can be derived directly or indirectly from observable market data fall under Level 2. The valuation technique used incorporates all factors that market participants would consider in determining the price of such a transaction. The valuation on Level 3 is based on pricing models which are based on input factors that are not observable in the market.

Kirk Beauty One Group only measures interest rate caps and options held by non-controlling interests at fair value.[2] The fair value measurement of interest rate caps falls under the second hierarchy level (level 2), as the valuation is based on observable market interest rates.

Kirk Beauty One Group measures liabilities from contingent purchase price payments at fair value.[3] The input factors on which the valuation is based are assigned to level 2 or level 3 of the valuation hierarchy.

Amortized cost

Amortized cost is determined on acquisition using the effective interest method, less any impairment, and taking into account discounts and premiums, including directly attributable transaction costs and fees that form an integral part of the effective interest rate.

For current assets and liabilities, the carrying amount is regarded as an appropriate approximation of fair value due to the short period between their recognition and maturity.

Subsequent measurement and gains and losses

Net gains and losses, including interest and dividend income from financial instruments measured at fair value through profit or loss, are recognized in profit or loss.

Financial instruments measured at amortized cost are measured using the effective interest method. Amortized cost is reduced by impairment losses. Interest income, exchange rate differences and impairments are recognized in profit or loss. Gains or losses from derecognition are also recognized in profit or loss.

Impairment of financial assets

The Group recognizes valuation allowances for expected credit losses on financial assets that are not measured at fair value through profit or loss. For these financial assets – with exception of trade accounts receivable, which are subject to a simplified approach – initial recognition in level 1 of the "expected credit loss model" involves a determination of the expected credit loss from a default event in the twelve months following the financial statement date or a shorter period, if the expected term is less than twelve months at the financial statement date. If there is a significant increase in credit risk, it is transferred to level 2 of the model. For these financial instruments and for trade accounts receivable, credit losses over the total term to maturity are determined on level 2 of the general model. If there is objective evidence of impairment, the

[2] Cf. No. 26, Fair value of financial instruments
[3] Cf. No. 26, Fair value of financial instruments

financial assets are assigned to level 3 of the model. The expected credit losses are determined on an individual item basis depending on various factors, e.g. past due, counterparties and country risks.

Cash and cash equivalents measured at amortized cost are subject to the general model of expected credit losses. As the counterparties are exclusively counterparties with at least an investment grade rating (BBB+ or higher), a low credit risk is assumed for these financial instruments.

If the requirements for a low credit risk are not met, an assessment of the change in credit risk is required. In determining whether the credit risk of a financial asset has increased significantly since initial recognition and in estimating expected credit losses, Kirk Beauty One GmbH takes into account appropriate information that is relevant and available without undue expense of time and money. For other financial assets carried at amortized cost, the credit risk is continuously monitored on the basis of bond quotes and ratings if these are available in liquid form. Furthermore, a significantly increased credit risk is assumed when a financial asset is more than 30 days overdue.

There is objective evidence of impairment if Kirk Beauty One GmbH anticipates adverse effects on expected cash flows. These include, for example, significant financial difficulties on the part of the issuer or debtor, indications of insolvency or other restructuring proceedings as well as deterioration in market conditions. In this sense, financial assets are deemed to have defaulted if they are more than 90 days overdue. The gross carrying amount of a financial asset is written down if a reasonable estimate is that the financial asset will not be recoverable in full or in part.

12-months credit losses are the portion of expected credit losses resulting from default events that are possible within twelve months of the reporting date (or a shorter period if the expected maturity is less than twelve months).

Expenses or income from impairment losses or reversals of impairment losses for expected credit losses on financial assets are reported under the line item "Result from impairments on financial assets" in the Consolidated Statement of Profit or Loss. Impairment losses for financial assets in the general approach are insignificant.

Derivative financial instruments

Derivative financial instruments are in place to reduce cash flow fluctuations. Derivative financial instruments are neither used nor issued for speculative purposes.

Derivative financial instruments are recognized at fair value both upon initial and subsequent measurement. This value can be positive or negative; if it is positive, an asset is recognized; if it is negative, a liability is recognized. The fair value of derivative financial instruments corresponds to the amount the Group company either would have to pay or would receive upon termination of the financial instrument on the reporting date. The calculation of the fair value takes into account the interest rates and forward rates in effect as of the financial statement date.

Gains and losses from fair value measurement, to the extent that they relate to designated derivative financial instruments qualifying as hedged items, are recognized directly in equity under a separate equity item in line with the rules for hedge accounting.

Derivative financial instruments that do not qualify as hedged items to hedge against cash flow risks are measured at fair value and recognized in profit or loss. The amounts recorded under equity increase or reduce profit or loss as soon as the hedged cash flows from the underlying transaction are recognized in the Consolidated Statement of Profit or Loss.

With regard to currency rate risks non-derivative financial liabilities as part of a net investment hedge are implemented to cover currency rate risks arising from net investments in non-Group foreign currencies. Accounting for net investment hedges generally follows the rules for cash flow hedges.

No business transactions to be recognized under the rules for hedge accounting existed either as of the financial statement date or as of the prior-year financial statement date.

Trade accounts receivable and other receivables

Trade accounts receivable are recognized at the transaction price and other receivables are recognized at fair value at the time of revenue recognition. For subsequent measurement, please refer to the preceding explanations in the section "Financial assets" and Note 17, Trade accounts receivable.

Cash and cash equivalents

Cash and cash equivalents, which include money accounts and short-term money deposits with banks, are measured at amortized cost, based on the business model „hold“ and the fulfilment of the cash flow criterion, and have residual terms of a maximum of three months at the point of acquisition.

Inventories

Merchandise is recognized at the lower of cost and net realizable value. Acquisition costs are identified either by using the average cost method or, in some minor countries, by using the retail method based on the selling price using reasonable valuation allowance deductions. Interest on borrowings is not included in the acquisition costs, as inventories, most of which constitute acquired trading merchandise, are not qualifying assets as defined by IAS 23. The net realizable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to sell the inventory. Ageing as well as fashion and other risks were considered, to the extent needed, as part of measurement at the net realizable value. Raw materials, consumables and supplies are recognized at their acquisition costs.

Income taxes

Tax expenses comprise both current and deferred taxes. Current and deferred taxes are recognized in profit or loss, except for those associated with a business combination or items recognized directly in equity or in other comprehensive income.

Current taxes

Current taxes constitute anticipated tax liabilities or assets on the taxable income or loss generated in the reporting period, calculated on the basis of tax rates applying on the reporting date or shortly afterwards, as well as adjustments to tax liabilities or assets in previous periods. The amount of the anticipated tax liabilities or assets represents a best estimate in consideration of uncertain tax situations, if applicable. Current tax liabilities also include all tax liabilities resulting from the declaration of dividends.

Deferred taxes

Deferred taxes are recognized for temporary differences between the carrying amounts in the Consolidated Financial Statements and the tax base to the extent that these differences will lead to tax refunds or charges in future. Deferred taxes are measured taking into account the tax rates and tax regulations which are expected to be in force when the differences are reversed. Deferred tax assets are only recognized to the extent that there is taxable income expected on the date on which the difference is reversed.

If the future tax advantage from loss carryforwards can be utilized with sufficient certainty in future periods, deferred tax assets are recognized. Deferred tax assets are offset against deferred tax liabilities if such liabilities exist against the same tax authority.

Provisions

Provisions are recognized if there is a legal or constructive obligation to third parties arising from past events and if the future cash outflow to fulfill this commitment can be estimated reliably. The carrying amount of the provision is based—for individual risks—on the best estimate of the settlement considering all recognizable risks, or—for a large population of risks—the amount computed according to the expected value method. Non-current provisions are recognized at their present value as of the reporting date. The maturity of long-term human resources commitments is based on the date the employee leaves the company or on the timing of forecasted cash outflows. The maturity of long-term real estate commitments is based on the term of the lease contract or the estimated date of an early termination of the lease contract. Provisions for restoration obligations are recognized if contractual agreements and experience show that there is a probability of at least 50 percent that claims will be made against Kirk Beauty One Group from this obligation. Provisions for restructuring measures are recognized if a constructive obligation to restructure was formalized as of the reporting date. This is the case if a detailed restructuring plan has been formally adopted and its key elements communicated vis-à-vis those affected or if the implementation of the plan has already begun. Restructuring provisions only comprise obligatory restructuring expenses.

Provisions for pensions are accounted for in line with the requirements of IAS 19. Actuarial calculations of provisions for defined benefit plans use the projected unit credit method. As part of this measurement, the pensions and entitlements known on the reporting date are taken into account as well as the increases in salaries and pensions to be expected in future. For funded pension plans, the same interest rate chosen to determine interest expenses resulting from the measurement of obligations is also to be used to calculate interest income from plan assets. If changes to these calculation assumptions result in differences between the identified pension obligations and the pension obligations determined as of the financial statement date, actuarial gains or losses arise. These actuarial gains and losses and other valuation changes are recognized directly in other comprehensive income and within reserves in equity.

Plan assets designated at fair value and liabilities from pension plans are presented in a net amount. Plan assets are maintained in qualified policies that are pledged to the employees. The interest portion included in pension expense is presented as interest expense within the financial result. Obligations similar to pension provisions such as part-time work schemes and termination benefits are also disclosed according to the requirements of IAS 19.

Financial liabilities

With the exception of contingent purchase price obligations resulting from business combinations, financial liabilities are initially recognized at fair value and subsequently measured at amortized cost. Transaction costs attributable to the acquisition are included in the recognition of financial liabilities. If there is a difference between the amount paid and the amount to be paid upon final maturity, this difference is amortized over the term according to the effective interest rate method. Financial liabilities are derecognized when the obligation is extinguished or expired (e. g. limitation of time). A financial liability is also derecognized if there has been a material change in the contractual terms of an existing financial liability or part thereof. All trade accounts payable have a maturity of less than one year and are non-interest bearing. Kirk Beauty One Group recognizes liabilities at amortized costs comprising liabilities to banks, liabilities from Senior Notes and trade accounts payable. The election to initially recognize financial liabilities at fair value through profit or loss was not applied by the Kirk Beauty One Group.

Contract liabilities

A basic impact of IFRS 15 concerns options regularly granted as part of customer loyalty programs, to acquire additional goods or services at a discounted price in the future. With the initial sale, part of the transaction price must be allocated to the resulting option. Sales will be accrued as contract liability under other financial liabilities. Revenue recognition for the option occurs at the time the right is redeemed or expired.

Participants in the Douglas-Group's customer loyalty programs receive bonus points from purchases made, which they can exchange for discount vouchers for subsequent purchases when certain thresholds are reached. The bonus points represent independently identifiable goods or services within the meaning of IFRS 15 and are therefore to be recognized as a separate performance obligation. Upon purchase, the transaction price is allocated to the independent performance obligations on the basis of the relative individual sale prices. For the Douglas-Group, the transaction price corresponds to the sales price of the goods and services purchased by the customer. In the absence of observable individual sales prices for the bonus points, these are estimated on the basis of the price discount, taking into account probabilities of redemption. A contract liability is recognized under other financial liabilities in the amount of the performance obligation attributable to the bonus points granted. The contractual liability is released when the bonus points are redeemed or expire.

Government Grants

Government grants are recognized when there is reasonable assurance that the grants will be received and the entity will comply with the conditions attaching to them. Government grants related to specific expenses are recognized as a deduction from those expenses. The grants are recognized in the period in which the expenses that are to be compensated by the government grants are recognized.

Revenue recognition

Sales are recognized on delivery of goods to the customer or after the performance of a service is complete. Obligations from customer loyalty programs, such as bonus points, are measured at fair value and offset directly against sales. Sales arising therefrom are first recognized upon redemption of the bonus points. Deferred sales are reversed or utilized in line with the way customers redeem

their gift vouchers and are also reported under sales. Interest income and interest expense are recognized in the financial result on an accrual basis.

Use of judgements

Douglas makes discretionary decisions when determining the term of leases, taking into account renewal and / or termination options. The assessment of whether these options are exercised with sufficient certainty affects the term and consequently also the measurement of the lease liability and the right of use of a lease. The classification of lessor-related leases as operating or finance leases is also subject to discretionary decisions.

Impairment losses under IFRS 9 are based on judgments, particularly with regard to the determination of the probability of occurrence of scenarios and the credit risk (loss rate).

Assumptions and estimates

Assumptions and estimates have been made in the preparation of the Consolidated Financial Statements that impact the disclosure and amount of the assets and liabilities, income and expenses carried in these statements. These assumptions and estimates were used, in particular, in the determination of useful lives[4], valuing provisions and pension provisions[5], assessing the impairment of goodwill[6], measuring provisions[7] and uncertain tax positions and measuring instruments which are issued as part of share-based payment programs[8] as well as estimating the probability that future tax refunds will be realized. In addition, assumptions and estimates are of significance in determining the fair values and acquisition costs associated with business combinations. Actual values may vary in individual cases from the assumptions and estimates made. Changes are recognized in income as soon as more detailed information is known. In particular, the assessment of the recoverability of goodwill and the estimation of the realizability of future tax relief were significantly affected by the COVID-19 pandemic.

The discount rate used to measure provisions for pensions and similar obligations of the German Group companies was estimated for the first time as of September 30, 2020 on the basis of a modified selection of high-quality corporate bonds. This more precise selection leads to an increase in the discount rate of 0.35 percentage points compared to the previous system, corresponding to a reduction in the defined benefit obligation of approximately €1.5 million.

[4] Cf. No.11, Intangible assets and property, plant and equipment
[5] Cf. No. 20, Provisions and No. 19, Pension provisions
[6] Cf. No. 11, Intangible assets and property, plant and equipment
[7] Cf. No. 20, Provisions
[8] Cf. No. 29, Other explanatory notes

Results of the financial year 2019/20 - Notes on the Consolidated Statement of Profit or Loss

5 | Sales

	01.10.2019-30.09.2020 EUR m	01.10.2018-30.09.2019 EUR m
Store sales	2,392.4	2,839.7
E-commerce sales	821.5	584.1
Other	18.8	29.6
Total	**3,232.7**	3,453.5

For the presentation of sales by region, see the segment reporting.

6 | Other operating income

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
Income services rendered to third parties	169.3	206.7
Income from leasing and sub-leasing	4.8	18.1
Income from disposal of assets	0.0	10.4
Income from customer cards	13.1	12.1
Income from reversal of provisions	10.3	12.9
Income from commissions	1.5	3.5
Income from the derecognition of liabilities	2.7	2.7
Income from insurance claims	1.8	2.3
Other income	37.6	27.1
Total	**241.0**	295.8

7 | Personnel expenses

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
Wages and salaries	472.2	521.8
Social security, pensions and other benefits costs	108.8	120.9
Total	**581.0**	642.7

8 | Other operating expenses

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
Marketing and advertising costs	197.8	201.8
Goods handling costs	129.6	99.7
Other services	116.3	124.6
Rent and utilities	59.6	358.2
IT costs	29.2	29.1
Expenses from sub-leasing	0.0	10.3
Repair costs	10.4	11.6
Fees and contributions	12.8	13.9
Travel and vehicle expenses	5.5	9.4
Equipment and consumables	12.6	11.3
Office costs and postage	9.2	10.0
Credit card fees	14.3	13.6
Other expenses	44.0	49.8
Total	**641.0**	943.2

The significant decrease in “rents and energy costs” compared to the prior year results from the first-time application of IFRS 16 in the financial year 2019/20.

9 | Financial result

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
Interest from loans and receivables	48.3	45.7
Income from other investments	0.2	0.7
Interest from compounding lease receivables	0.3	0.0
Income from discounting other provisions	0.1	0.0
Income from foreign exchange differences	1.5	0.6
Result from impairments on financial assets	0.0	11.9
Total financial income	**50.3**	58.9
Expense for financial liabilities at amortized cost	-119.8	-119.6
Interest expense from compounding lease liabilities	-24.8	0.0
Interest expense from compounding other provisions	-0.1	-0.2
Interest expense from compounding pension provisions	-0.3	-0.6
Expense from non-controlling options	-1.3	-1.3
Expense from foreign exchange differences	-6.8	-1.3
Expense for financial assets / liabilities at fair value	-4.8	-1.4
Result from impairments on financial assets	-91.8	0.0
Total financial expense	**-249.6**	-124.4
Financial result	**-199.3**	-65.5

The financial expense for the non-controlling options relates to the results of third-party shareholders, whose interests are reported as payables, as these either have an option right or involve German partnerships, as well as the effect of revaluation as of the reporting date.

Net result by valuation category

The following table shows the net result by valuation category for the period ended September 30, 2020.

	Fair Value valuation EUR m	Currency translation EUR m	Impairment EUR m	Income from other investments EUR m	Interest income EUR m	Interest expense EUR m	Total EUR m
Measured at amortized cost			-93.4		48.3		-45.1
Financial liabilities measured at amortized cost	-0.3					-120.4	-120.7
At Fair Value through profit or loss	-0.1		-3.2	0.2		-0.3	-3.4
Net profit by valuation category	-0.4	0.0	-96.6	0.2	48.3	-120.7	-169.2
Lease assets and liabilities					0.3	-24.8	-24.5
Assets and liabilities that are not financial instruments		-5.3			0.1	-0.4	-5.6
Financial result	**-0.4**	**-5.3**	**-96.6**	**0.2**	**48.7**	**-145.9**	**-199.3**

The following table shows the net result by valuation category for the period ended September 30, 2019.

	Fair Value valuation EUR m	Currency translation EUR m	Impairment EUR m	Income from other investments EUR m	Interest income EUR m	Interest expense EUR m	Total EUR m
Measured at amortized cost			11.9		45.6		57.5
Financial liabilities measured at amortized cost						-119.6	-119.6
At Fair Value through profit or loss	-1.7			0.7		-1.0	-2.0
Net profit by valuation category	-1.7	0.0	11.9	0.7	45.6	-120.6	-64.1
Assets and liabilities that are not financial instruments		-0.7			0.1	-0.8	-1.4
Financial result	-1.7	-0.7	11.9	0.7	45.7	-121.4	-65.5

As in the prior year, impairment losses on trade accounts receivable classified to the category “measured at amortized cost” are reported under other operating expenses, unless they are determined using the expected credit loss model according to IFRS 9. These impairment losses are shown separately in the income statement. Fair value measurement of financial assets classified to the category “at fair value through profit or loss” leads to a financial expense of €0.1 million (prior year: €1.7 million) in the financial year.

10 | Income taxes

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
Current tax result	32.6	74.9
thereof domestic (Germany)	*4.0*	*30.7*
thereof foreign entities	*28.6*	*44.2*
Deferred taxes	17.6	-11.6
thereof from temporary differences	*26.8*	*-16.2*
thereof from loss carryforwards	*-9.2*	*4.6*
Total	50.2	63.3

The actual tax result includes tax expenses for prior years amounting to €7.9 million (prior year: €27.2 million). These mainly result from findings of ongoing tax audits in France (in the prior year in France and in Germany).

Deferred tax expenses from temporary differences include expenses of €40.5 million (prior year: €0.0 million) resulting from additions to the valuation allowance or the non-recognition of deferred tax assets. The valuation allowances mainly relate to the German tax group.

The expected weighted tax rate (32 percent, consisting of 15.8 percent corporate income tax and 16.2 percent trade tax) is basically the same as the tax rate of the Group parent company. In France, a change in the tax rate from 34.4 percent to now 28.9 percent resulted in tax income of €1.0 million in the financial year 2019/20.

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
Earnings before tax (EBT)	-466.9	80.5
Expected tax rate	32.0%	32.0%
Expected tax expense (prior year: expected tax income)	**-149.4**	25.7
Tax rate effects from domestic and cross border tax jurisdictions	-6.1	-8.6
Trade tax modifications (additions / reductions)	6.1	4.7
Non-period income tax expense/income	7.9	27.0
Non-deductible tax operating expenses	7.7	7.4
Unrecognized deferred tax assets due to operating losses	24.2	9.1
Utilization of unrecognized tax assets due to operating losses	0.0	-2.3
Differences mainly resulting from non-consideration of impairments on goodwill	89.5	0.0
Change in permanent differences	29.4	0.0
Write-down of deferred tax assets	40.5	
Other	0.4	0.3
Current tax expense	50.2	63.3

The non-deductible tax operating expenses are mainly due to non-deductible interest in connection with the so-called interest barrier regulation in Germany.

Assets, Equity and Liabilities - Notes to the Consolidated Statement of Financial Position

11 | Intangible assets

The following table shows the development of intangible assets for financial year 2019/20.

	Goodwill EUR m	Leasehold interests and similar rights and assets EUR m	Advance payments for intangible assets EUR m	Total EUR m
Acquisition costs				
10/01/2019	1,912.0	1,136.8	3.8	3,052.6
Currency translation adjustments		-0.1		-0.1
Additions		33.9	3.5	37.4
Disposals		-4.1		-4.1
Reclassifications		6.5	-2.5	4.0
09/30/2020	**1,912.0**	**1,173.0**	**4.8**	**3,089.8**
Accumulated amortization/depreciation/impairmen t				
10/01/2019	398.3	306.7	0.0	705.0
Currency translation adjustments		-0.1		-0.1
Amortization or Depreciation		53.2		53.2
Impairment	279.7	9.3		289.0
Disposals		-2.4		-2.4
09/30/2020	**678.0**	**366.7**	**0.0**	**1,044.7**
Net book values				
09/30/2020	**1,234.0**	**806.3**	**4.8**	**2,045.1**

Of the additions to leasehold interests and similar rights and assets, €1.5 million (prior year: €0.9 million) relate to internally generated intangible assets.

The following table shows the development of intangible assets for financial year 2018/19.

	Goodwill EUR m	Leasehold interests and similar rights and assets EUR m	Advance payments for intangible assets EUR m	Total EUR m
Acquisition costs				
10/01/2018	1,904.7	1,103.0	4.9	3,012.6
Currency translation adjustments		0.1		0.1
Increases/decreases resulting from business combinations	7.3	2.8		10.1
Additions		31.6	3.7	35.3
Disposals		-5.0	-0.2	-5.2
Reclassifications		4.3	-4.6	-0.3
09/30/2019	1,912.0	1,136.8	3.8	3,052.6
Accumulated amortization/depreciation/impairment				
10/01/2018	398.3	253.7	0.0	652.0
Currency translation adjustments		0.1		0.1
Amortization or Depreciation		51.1	0.2	51.3
Impairment		7.4		7.4
Disposals		-4.8	-0.2	-5.0
Reclassifications		-0.8		-0.8
09/30/2019	398.3	306.7	0.0	705.0
Net book values				
09/30/2019	1,513.7	830.1	3.8	2,347.6

Prior year´s addition to goodwill of €7.3 million relates in full to the acquisition of Niche Beauty.

12 | Property, plant and equipment

The following table shows the development of property, plant and equipment for financial year 2019/20.

	Land and buildings EUR m	Other equipment, operating and office equipment EUR m	Advance payments on assets under construction EUR m	Total EUR m
Acquisition costs				
10/01/2019	497.1	656.9	20.2	1,174.2
Currency translation adjustments	-1.6	-2.5	-0.1	-4.2
Additions	13.3	37.0	17.6	67.9
Disposals	-10.7	-17.7	-0.8	-29.2
Reclassifications	4.2	7.4	-15.6	-4.0
09/30/2020	**502.3**	**681.1**	**21.3**	**1,204.7**
Accumulated amortization/depreciation/impairment				
10/01/2019	372.0	509.4	0.0	881.4
Error correction in current accounts	-13.8			-13.8
Currency translation adjustments	-1.0	-1.8		-2.8
Amortization or Depreciation	24.7	46.3		71.0
Impairment	6.4	12.1	1.1	19.6
Disposals	-10.6	-17.9		-28.5
09/30/2020	**377.7**	**548.1**	**0.9**	**926.7**
Net book values				
09/30/2020	**124.6**	**133.0**	**20.4**	**278.0**

The error correction in current accounts results from the adjustment of the expected useful life of a building and has been corrected in equity.

Purchase commitments for approved capital expenditure in property, plant and equipment or intangible assets totaled €23.8 million as of the reporting date (prior year: €30.8 million).

The following table shows the development of property, plant and equipment for financial year 2018/19.

	Land and buildings EUR m	Other equipment, operating and office equipment EUR m	Advance payments on assets under construction EUR m	Total EUR m
Acquisition costs				
10/01/2018	527.6	630.1	36.7	1,194.4
Currency translation adjustments	-0.1	-0.6		-0.7
Additions	23.0	43.4	6.8	73.2
Disposals	-63.3	-28.1	-1.6	-93.0
Reclassifications	9.9	12.1	-21.7	0.3
09/30/2019	497.1	656.9	20.2	1,174.2
Accumulated amortization/depreciation/impairment				
10/01/2018	392.6	488.6	0.0	881.2
Currency translation adjustments	0.2	-0.3		-0.1
Amortization or Depreciation	26.2	43.8		70.0
Impairment	2.4	4.8	0.6	7.8
Disposals	-50.2	-27.5	-0.6	-78.3
Reclassifications	0.8			0.8
09/30/2019	372.0	509.4	0.0	881.4
Net book values				
09/30/2019	125.1	147.5	20.2	292.8

13 | Right of Use Assets

The following table shows the development of rights of use under leases for financial year 2019/20.

	Right of use asset property EUR m	Right of use asset cars EUR m	Right of use asset other EUR m	Right of use asset advance payments EUR m	Total EUR m
Acquisition costs					
10/01/2019	**1,422.4**	**3.1**	**0.0**	**0.0**	**1,425.5**
Currency translation adjustments	-5.6				-5.6
Additions	144.8	0.8			145.6
Disposals	-44.5				-44.5
09/30/2020	**1,517.1**	**3.9**	**0.0**	**0.0**	**1,521.0**
Accumulated amortization/depreciation/impairment					
10/01/2019	0.0	0.0	0.0	0.0	0.0
Currency translation adjustments	-1.0				-1.0
Amortization or Depreciation	279.8	1.5			281.3
Impairment	10.0				10.0
Disposals	-0.2				-0.2
09/30/2020	**288.6**	**1.5**	**0.0**	**0.0**	**290.1**
Net book values					
09/30/2020	**1,228.5**	**2.4**	**0.0**	**0.0**	**1,230.9**

14 | Impairment of assets according to IAS 36

Impairment tests at store level, as cash-generating units (CGUs), lead to write-downs totaling €19.6 million (prior year: €7.8 million), of which €10.2 million (prior year: €4.3 million) were attributable to the segment Germany, €3.2 million (prior year: €2.1 million) to France, €5.0 million (prior year: €0.8 million) to South-Western Europe and €1.2 million (prior year: €0.6 million) to Eastern Europe. Triggering events for subjecting stores to impairment testing are, in particular, negative contribution margins as a result of a decline in customer frequency, also due to Corona, and planned store closures.

For impairment testing the carrying amount of the CGU or rather groups of CGUs is compared to its recoverable amount. The recoverable amount is calculated as being the value in use based on discounted future cash flows from internal forecasts. Planning assumptions include sales growth, gross profit/EBITDA forecasts, estimates of replacement investments in the store network, the ratio of personnel expenses to sales and other cost ratios relating to individual stores. The forecasts are based on the residual term of the respective lease agreements including any extension options. The forecast term is between one and fifteen years. Calculations are based on interest rates of between 5.5 percent and 9.0 percent (prior year: between 5.1 percent and 9.2 percent) before taxes.

The carrying amount of intangible assets with indefinite useful lives amounted to a total of €1,963.4 million (prior year: €2,253.9 million) as of the reporting date, of which €1,234.0 million (prior year: €1,513.7 million) is attributable to goodwill. A further €534.4 million is attributable to the Douglas brand, as in the prior year, and €172.7 million to the Nocibé brand, as in the prior year. As the brands are powered by ongoing brand maintenance measures, the Group considers their useful lives to be indefinite. The Douglas brand was allocated to the relevant operating segments for the purposes of impairment testing (thereof €247.8 million to Germany, €77.9 million to Italy, €50.1 million to the Netherlands and €41.8 million to Poland); the Nocibé brand was exclusively allocated to France. In addition, French location advantages associated with leasehold interests purchased from prior tenants were capitalized at €22.3 million (prior year: €33.1 million) in relation to the useful lives and irrespective of the terms of the lease contracts.

Goodwill, trademarks with indefinite useful lives and location advantages associated with leasehold interests with indefinite useful lives are subject to impairment testing once each year.

As is the case for impairment tests for tangible assets, the carrying amount of the CGU (or groups of CGUs) is compared to the recoverable amount of the CGU (or groups of CGUs).

With the exception of brands, the recoverable amount is defined in the Kirk Beauty One Group as the value in use based on discounted future cash flows from internal forecasts. Planning assumptions include sales growth, adjusted EBITDA expectations and estimated perpetual growth rate and cost of capital.

For the brands, the recoverable amount is the fair value (level 3) determined using a recognized valuation technique (license price analogy). The key assumptions used to determine the fair value of the brands are the change in sales revenue, the license rate and the cost of capital. A sales-related license rate was derived from the earnings contributions generated with the brand and a typified licensor share.

The following table shows the allocation of goodwill to reportable and operating segments.

	09/30/2020		09/30/2019	
	Reportable segment	Operating segment	Reportable segment	Operating segment
Germany	**446.3**	446.3	603.4	603.4
France	**436.8**	436.8	436.8	436.8
South-Western Europe	**255.5**		371.8	
The Netherlands		200.2		200.2
Austria		44.4		46.9
Italy		3.2		116.9
Other countries South-Western Europe		7.7		7.8
Eastern Europe	**95.4**		101.8	
Poland		62.5		62.5
Other countries Eastern Europe		32.9		39.3
	1,234.1	1,234.1	1,513.8	1,513.8

The underlying forecasts used to determine the value in use are based on detailed forecast periods of three years, which corresponds to the companies' standardized forecasting system, and the perpetual annuity applying from this point.

Due to the Corona-related lower sales in the financial year 2019/20 and the planned expansion of the online sales share, we are assuming strong average annual sales growth for the France and Italy

operating segments in the detailed planning phase, significantly growing sales in the Netherlands and strongly growing sales in Germany. In Poland, particularly strong annual sales growth is expected. In all the countries described here, we expect a slight increase in market share. In general, we expect that our market penetration on the one hand and the implementation of efficiency enhancement measures on the other will enable us to largely offset future increases in costs, so that we anticipate virtually unchanged adjusted EBITDA margins in Germany, the Netherlands and Italy, moderately growing adjusted EBITDA margins in Poland and moderately declining adjusted EBITDA margins in France. All other business segments not mentioned here only play a minor role regarding the amount of goodwill allocated to them.

The calculation of the perpetual annuity is based on a risk-adjusted growth rate of 1.0 percent.

The following interest rates were applied for discounting purposes.

	09/30/2020		09/30/2019	
	after tax in percent	before tax in percent	after tax in percent	before tax in percent
Germany	6.1%	8.8%	6.1%	8.3%
France	6.4%	8.9%	6.7%	9.4%
South-Western Europe				
The Netherlands	6.2%	8.2%	6.1%	7.8%
Austria	6.8%	9.1%	6.4%	8.1%
Italy	8.1%	10.6%	9.0%	11.6%
Other countries South-Western Europe	6.9% - 7.2%	9.1% - 9.2%	7.2% - 8.2%	9.1% - 10.0%
Eastern Europe				
Poland	8.2%	10.1%	7.3%	8.9%
Other countries Eastern Europe	7.2% - 9.7%	8.5% - 10.8%	7.1% - 9.8%	8.7% - 11.0%

Impairment testing of goodwill resulted in goodwill impairment losses in the amount of €279.7 million (prior year: €0.0 million) in the reporting period. In addition, the impairment test of intangible assets with indefinite useful lives (location advantages associated with lease agreements in operating segment France) resulted in an impairment loss in segment France of €9.3 million in the reporting period (prior year: €0.0 million).

The impairment losses relate to the reportable segment Germany in the amount of €157.1 million, the reportable segment South-Western Europe in the amount of €116.3 million and the reportable segment Eastern Europe in the amount of €6.4 million. In the reportable segment South-Western Europe, impairment losses relate to the operating segment Italy with a goodwill impairment loss of €113.7 million, the operating segment Austria with €2.5 million and Portugal with less than €0.1 million. In Eastern Europe, the operating segment Romania was affected by impairment losses on goodwill in the amount of €5.5 million, the operating segment Croatia accounted for €0.8 million and the Czech Republic for less than €0.1 million. The recoverable amount for the business segment Germany was €632.0 million, for Italy €134.0 million, for Austria €71.3 million, for Portugal €22.0 million, for Romania €11.8 million, for Croatia €12.5 million and for the Czech Republic €10.1 million.

The key planning assumptions for operating segment Germany in estimating value in use were revenue growth over the next three financial years of 8.6 percent on average, with adjusted EBITDA margins in the range of 7.2 percent to 7.6 percent. Due to the impairment loss recognized

for Germany, the recoverable amount was equal to the carrying amount. Consequently, any unfavorable development of a material assumption would lead to a further impairment loss.

15 | Deferred taxes

Deferred taxes are calculated on the differences between the IFRS carrying amount and the tax base and can be broken down to the individual financial statement items as follows.

	09/30/2020		09/30/2019	
	Assets EUR m	Liabilities EUR m	Assets EUR m	Liabilities EUR m
Intangible assets	3.1	187.7	1.2	195.0
Property, plant and equipment	13.8	5.7	6.5	1.0
Inventories	19.4	0.0	14.6	0.0
Financial assets	1.6	3.5	22.2	2.0
Other assets	0.6	0.0	1.2	1.2
Provisions	20.8	0.8	30.9	0.0
Financial liabilities	6.5	0.9	6.2	4.0
Other financial liabilities	9.4	0.1	7.7	0.0
Tax loss carryforward	10.1	0.0	1.4	0.0
Write-down of deferred tax assets	-20.1	0.0	0.0	0.0
Total	65.2	198.7	91.9	203.2
Offsetting	-5.0	-5.0	-6.3	-6.3
Carrying amount	60.2	193.7	85.6	196.9

The temporary differences taken as a basis for the calculation of deferred taxes mainly result from fair value measurements of assets in the course of business combinations as well as the revaluation of financial assets in accordance with IFRS 9. Deferred tax expenses in the amount of €0.3 million (prior year: €0.7 million) for pension provisions were directly recognized in other comprehensive income. As of September 30, 2020, there are further tax loss carryforwards of €267.4 million (prior year: €314.1 million) for which no deferred tax assets have been recognized. Of this amount, €4.5 million (prior year: €12.4 million) will expire in the next five to seven years. Tax loss carryforwards in the amount of €0.1 million (prior year: €8.7 million), for which no deferred tax assets had been recognized, were utilized in the period under review.

Deferred tax assets on loss carryforwards were recognized for entities which forecasts gave substantial indications of recoverability.

In accordance with IAS 12, deferred tax liabilities are recognized on the difference between the equity share of a subsidiary included in the Consolidated Statement of Financial Position and the carrying amount of the investment in the subsidiary recognized in the parent company's tax balance sheet (outside basis differences), if realization is expected. As of the reporting date, outside basis differences amounted to €19.2 million (prior year: €19.2 million), for which no deferred taxes were recognized.

16 | Inventories

	09/30/2020 EUR m	09/30/2019 EUR m
Finished goods and merchandise	733.0	738.7
Raw materials, consumables and supplies	5.3	5.6
Advances to suppliers for merchandise	0.2	0.1
Total	**738.6**	744.4

Write-downs to the net realizable value resulted in impairment losses of €24.9 million in the period ended September 30, 2020 (prior year: €32.6 million).

Inventories are regularly subject to the customary retention of title.

17 | Trade accounts receivable

Trade accounts receivable primarily include receivables from credit card organizations as well as from Douglas Card customers.

Values determined using the expected credit loss model in accordance with IFRS 9 are presented separately in the Consolidated Statement of Profit or Loss. Trade accounts receivable are due immediately, do not bear interest and are therefore not exposed to any interest rate risk. The carrying amounts of the receivables are basically equivalent to their fair values. The maximum default risk as of the reporting date corresponds to the carrying amount.

Assessment of expected credit losses

In order to estimate the expected credit losses on trade accounts receivable, an allowance matrix is used.

The default risk is mainly influenced by individual characteristics of customers and the geographical location. In order to calculate expected credit losses, trade accounts receivable with comparable credit risk characteristics are classified into different portfolios based on geographical location and customer characteristics. Historical patterns of payment behavior and the ageing structure of receivables are analyzed individually for each portfolio and used as a starting point for determining the loss rate. Together with the amount at risk of default, the expected credit loss is determined for each portfolio and maturity band. The calculated loss rate per portfolio is adjusted downstream if significant changes in the macroeconomic situation are expected.

The following table provides information on the estimated credit risk and expected credit losses for trade accounts receivable and contract assets as of September 30, 2020.

	Weighted average loss rate %	Gross carrying amount EUR m	Loss allowance EUR m	Credit-impaired
Current (not past due)	0.73	5.5	0.0	No
1–30 days past due	1.19	8.9	0.1	No
31–60 days past due	7.96	1.5	0.1	No
61–90 days past due	52.69	0.3	0.2	No
More than 90 days past due	85.00	0.1	0.1	Yes
Total		**16.3**	**0.5**	
Trade accounts receivable not subject to risk	-	21.2	0.0	
Trade accounts receivable as of September 30		**37.5**	**0.5**	

Kirk Beauty One GmbH does not demand securities for claims arising from deliveries and services. The Group does not have any trade receivables or contract assets, for which no impairment is recognized due to the existence of collateral.

Movement in the allowance for impairment in respect of trade receivables and contract assets

As a result of default risks, valuation allowances amounting to €19.2 million (prior year: €19.2 million) exist at the reporting date.

The development of allowances related to trade receivables and contract assets is shown in the following table:

	2019/2020 EUR m	2018/2019 EUR m
As of October 1	**19.2**	8.3
Adjustment on initial application of IFRS 9	0.0	0.3
As of October 1 under IFRS 9	**19.2**	8.6
Additions	1.5	11.2
Reversal	-0.7	0.0
Utilization	-0.8	-0.6
As of September 30	**19.2**	19.2

Prior year´s additions were adjusted by €9.3 million due to better information, with no effect on the Consolidated Statement of Profit or Loss or the Consolidated Statement of Financial Position.

18 | Financial assets

Financial assets include long-term receivables from shareholders, bonus/advertising cost subsidies, equity participations, lease receivables and other financial receivables. Except for equity participations, financial assets are classified and measured on the basis of the business model and the cash flow criterion; they are managed within the business model “hold” and the cash flow

criterion is considered fulfilled. Consequently, they are measured at amortized cost, except for equity participations.

Equity participations represent financial investments in unlisted equity instruments. There was no intention to sell said equity participations as of the reporting date. Depending on how the equity instruments are managed, they are measured at fair value through profit or loss.

Financial assets overview

	09/30/2020 Total	With a remaining term of		09/30/2019 Total	With a remaining term of	
		Up to 1 year	More than 1 year		Up to 1 year	More than 1 year
	EUR m	EUR m	EUR m	EUR m	EUR m	EUR m
Receivables against shareholders	831.4	0.1	831.3	562.5	0.1	562.4
Bonuses/advertising subsidies	122.5	122.5		123.2	123.2	
Equity participations	2.1	-	-	5.3	-	-
Lease receivables	54.1	36.4	17.7	25.8	25.8	
Other financial assets	6.4	5.8	0.6	8.4	6.3	2.1
Total	**1,016.6**	**164.8**	**849.6**	725.2	155.4	564.5

Receivables against shareholders are interest-bearing. The gross receivable from the shareholder, Kirk Beauty Two GmbH, is subordinated in the amount of €507.3 million.

Receivables from supplier bonuses and advertising subsidies are due in the short term and do not bear interest.

The carrying amount of the equity participation in the GPD Group was fully impaired, with impairment losses amounting to €3.2 million in financial year 2019/20.

All other financial assets are non-interest-bearing financial instruments. The carrying amounts of other financial assets are basically equivalent to their fair values.

As of the reporting date, other financial assets in the amount of €0.0 million (prior year: €0.0 million) had been pledged as collateral for bank loans and Senior Notes.

Development of write downs on other financial assets

The following table contains an analysis of other financial assets

	09/30/2020 EUR m	09/30/2019 EUR m
Financial assets		
Not due	*1,001.1*	*565.2*
Past due < 30 days	*9.8*	*160.0*
Past due > 30 days	*5.7*	*0.0*
Total	**1,016.6**	725.2

No cash receipts relating to receivables fully written-off in prior periods were recognized in the financial year 2019/20. The maximum default risk corresponds to the carrying value as of the reporting date.

The impairment of financial assets is presented below, broken down by the levels of the expected credit loss model.

Level 1 - Probability of default for the next twelve months

	2019/2020 EUR m	2018/2019 EUR m
As of October 1	1.8	1.5
Adjustment on initial application of IFRS 9	0.0	0.0
Adjusted balance as of October 1	1.8	1.5
Additions	5.2	0.3
Utilization	-0.1	0.0
As of September 30	**6.9**	1.8

Level 2 - Probability of default for the entire term

	2019/2020 EUR m	2018/2019 EUR m
As of October 1	63.3	0.0
Adjustment on initial application of IFRS 9		75.2
Adjusted balance as of October 1	63.3	75.2
Additions	91.8	
Reversal		-11.9
As of September 30	**155.1**	63.3

The level 2 impairment relates to receivables from the shareholder Kirk Beauty Two GmbH with a gross carrying amount of €986.4 million (prior year: €625.7 million). The classification results from liquidly traded bonds of the shareholder´s investment, which are quoted below the issue price. The credit risk was derived from rating-equivalent credit default swaps.

The credit risk was derived from credit default swaps, based on a "CCC+" rating (Moody's) dated June 3, 2020, which results in a probability of default depending on the remaining term and a loss given default of 69 percent (prior year: 63 percent). The contracts contain termination rights which are not shown separately in the statement of financial position and which are taken into account in the credit exposure via various scenarios. There is no objective evidence of impairment or a fundamentally impaired creditworthiness for these receivables.

Offsetting financial assets and financial liabilities

The amounts not offset in the statement of financial position include both derivative financial instruments (interest rate caps) and their outstanding purchase price payment. Set-off agreements or similar agreements exist for these financial instruments; however, they do not meet the set-off criteria according to IAS 32.

09/30/2020	Gross value EUR m	Offsetting EUR m	Carrying amount EUR m	Contingent offsetting amount EUR m	Financial guaranties received / granted EUR m	Net amount EUR m
Financial assets						
Derivative financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities						
Purchase price liability arising from derivative financial instruments	-2.0	0.0	-2.0	0.0	0.0	-2.0

09/30/2019	Gross value EUR m	Offsetting EUR m	Carrying amount EUR m	Contingent offsetting amount EUR m	Financial guaranties received / granted EUR m	Net amount EUR m
Financial assets						
Derivative financial instruments	0.0	0.0	0.0	0.0	0.0	0.0
Financial liabilities						
Purchase price liability arising from derivative financial instruments	-4.1	0.0	-4.1	0.0	0.0	-4.1

19 | Other assets

Other assets primarily include prepaid expenses.

20 | Cash and cash equivalents

The largest item of cash and cash equivalents is bank balances (original term up to 3 months). It also includes checks and cash in hand. Cash and cash equivalents represent highly liquid financial investments that can be converted into cash at any time and are only subject to insignificant fluctuations in value. The Consolidated Statement of Cash Flows provides a detailed analysis of the movement in cash and cash equivalents. The maximum default risk corresponds to the carrying value as of the reporting date.

Kirk Beauty One GmbH allocates cash and cash equivalents to the business model “hold”. Based on the business model and the fulfilment of the cash flow criterion, cash and cash equivalents are measured at amortized cost. All carrying amounts correspond to the fair values.

Cash and cash equivalents measured at amortized cost are subject to the general approach of the expected credit loss model. As Kirk Beauty One GmbH only makes investments in counterparties with at least investment grade rating (BBB-), a low credit risk is assumed for these financial instruments. Kirk Beauty One GmbH uses credit default swap spreads and rating information to determine the expected credit losses for cash and cash equivalents. The calculated amount of expected credit losses is insignificant.

As of the reporting date, bank balances in the amount of €221.9 million (prior year: €52.9 million) had been pledged as collateral for bank loans and Senior Notes. Under the terms of agreement, all

rights and powers in respect of the accounts may be fully exercised so that the pledged bank balances continue to form part of cash and cash equivalents.

Security can only be enforced by the lenders if the majority of them instruct the agent to make the debt due and payable with immediate effect. This requires a prior breach of the terms of the contract, which has not been resolved before the expiration of a specified grace period.

21 | Equity

Capital stock

Issued capital stock remained unchanged at €25,000.00 on the reporting date. Capital was entirely paid in.

Additional paid-in capital

Additional paid-in capital includes capital contributions of Kirk Beauty One GmbH shareholders in excess of subscribed capital.

Reserves

	09/30/2020 EUR m	09/30/2019 EUR m
Other reserves	-450.5	-260.2
Reserve for the recognition of actuarial gains/losses from pension provisions	-3.1	-4.4
Deferred taxes recognized directly in equity	1.1	1.4
Reserve for currency translation differences	-5.3	-2.9
Total	**-457.8**	-266.0

Profit appropriation / loss compensation claim

Kirk Beauty Two GmbH is the sole shareholder of Kirk Beauty One GmbH. A profit and loss transfer agreement was concluded between Kirk Beauty One GmbH and Kirk Beauty Two GmbH effective as of October 1, 2015 as part of the establishment of a corporation tax and trade tax group. In the separate financial statements of Kirk Beauty One GmbH prepared according to the German Commercial Code (HGB) for the period from October 1, 2019 through September 30, 2020, a loss for the period, before profit or loss transfer, of €319.6 million (prior year: €2.8 million) was incurred and compensated by Kirk Beauty Two GmbH. The loss compensation is disclosed in the Statement of Changes in Group Equity as a transaction with shareholders.

Share-based payments

A management participation program for key employees and other executive employees of the Group has been set up in a management participation company, established as a shareholder of Kirk Beauty International S.A., a company above the group of consolidated companies of

Kirk Beauty One GmbH. This management participation program allows the management and other management personnel to invest in the Douglas-Group and, in the event of the current majority shareholder departing (through a sale or IPO), participate in the anticipated value increase. The management participation program grants members the opportunity to indirectly acquire shares in Kirk Beauty International S.A. in a particular structure. The participants' investment allows them to indirectly participate in the returns and value developments of a defined portfolio consisting of ordinary shares, preferred shares and preferred equity certificates (PECs). Preferred shares and PECs have defined returns on capital employed. PECs take precedence over preferred shares, which in turn take precedence over ordinary shares, when it comes to servicing.

Given that Kirk Beauty One Group companies are not obliged to settle share-based payments themselves, this constitutes a share-based payment with settlement through equity instruments in accordance with IFRS 2.43B (b).

The purchase prices for the transfer of shares to members of the management participation program who joined the program when it was established were determined on the basis of the purchase price of the former Beauty Holding Group (now Kirk Beauty One Group) on August 13, 2015. The purchase prices of the shares of participants who joined the program at a later date were determined according to the portfolio value calculated on the basis of a mark-to-market valuation of the Group (using the latest company planning and multiples derived from market data). In valuing the preferred shares and the PECs, the amount of the contractually agreed accumulated interest and preferred dividends amortized to the accession date (grant date) is taken into consideration.

Members may only sell acquired shares to Kirk Beauty Investments S.A. If a member leaves the program, Kirk Beauty Investments S.A. is entitled to buy back his shares (call option).

If they sell their shares prematurely or leave the Kirk Beauty One Group as "good leavers," members shall receive a payment for a contractually defined share of the portfolio, which is vested until the date of departure, equating to the higher of the current market value of the shares or the purchase price less any received reimbursements. For the non-vested share, "good leavers" receive the lower of the current market value or the purchase price less any received reimbursements. Five years after the accession date, "good leavers" receive 100 percent of the market value of their portfolio upon termination. "Bad leavers" receive the lower of current market value and purchase price.

If a defined exit event occurs (which may include an initial public offering or a similar transaction, in which all or substantially all of the Group's assets are sold, so that the current investors retain less than 50 percent of the shares), the proceeds from the sale, after the deduction of costs, will be used to service the above-mentioned instruments, including accrued interest, in the following order: PECs, preferred shares and lastly ordinary shares. Investors are required to cooperate in an exit event and participate pro rata in the proceeds of the sale in accordance with the portfolio they hold.

In order to determine IFRS 2 personnel expense for the period, the purchase prices to be paid by plan participants were compared to the fair values of the share classes at the respective accession date (grant date). If plan participants have purchased instruments at a price below fair value, the grant date fair value is determined as the difference between purchase price and fair value at the accession date. Fair values of the instruments were determined by means of discounted cash flow assessments of the Kirk Beauty One Group, based on business plans valid on the grant dates, taking into account the seasonal development of working capital and the change in net debt. The cost of capital parameters were derived on a quarterly basis and include the risk-free interest calculated using the Svensson methodology, the relevant market risk premium, the average unlevered beta and debt-equity ratio derived from the applicable peer group and a country-

specific weighted tax rate. In addition, a weighted country-specific risk premium according to Damodaran and a credit spread between a ten-year German government bond and a bond determined using a synthetic rating of the Kirk Beauty One Group were taken into account.

The resulting enterprise value has been allocated to the different share classes and PECs, taking into account the nominal values of PECs and preferred shares as option prices for the valuation of the classes of instruments according to the Black-Scholes method, including contractual and accumulated interest and preferred dividend amounts and any repurchase programs as of the accession date. Black-Scholes models were calculated using the same assumptions regarding risk-free interest rate, volatility and expected maturity of the program, which was set at five years beginning August 15, 2015. It was also assumed that no plan participants will leave the program within the remaining term and that no dividends will be paid or repurchase programs will be executed. The calculation of purchase prices per instrument for the three share classes takes into account a discount for the lack of marketability ("DLOM") of the two share classes and the PECs. DLOM was determined using the Finnerty approach.

The parameters used in calculation are as follows.

Parameters	2019/2020	2018/2019
Risk-free interest rate	n/a	0.60%
Market risk premium	n/a	7.00%
Unlevered beta	n/a	0.85
Volatility	n/a	24.90%
WACC after tax	n/a	7.19%
DLOM	n/a	6.36%

As no shares were issued in financial year 2019/20, a new valuation at the grant date was obsolete.

The fair values of benefits granted to employees at the inception of the program were as follows: ordinary shares 3.25 Euro, preferred shares 0.00 Euro and PECs 0.00 Euro.

No shares were issued in the financial year. The weighted average fair value of the benefits arising from the new shares issued to employees in the prior year was 0.19 Euro per share for ordinary shares, 0.00 Euro for preferred shares and 0.00 Euro for PECs.

The weighted average of the purchase prices of the shares issued to the plan participants existing at the reporting date is 1.12 Euro (prior year: 1.11 Euro) for the ordinary shares, 1.16 Euro (prior year: 1.15 Euro) for the preferred shares and 0.01 Euro (prior year: 0.01 Euro) for the PECs. The purchase prices of the ordinary shares ranged from 0.00 Euro to 7.41 Euro, the preferred shares from 1.00 Euro to 1.42 Euro and the PECs from 0.01 Euro.

The following table shows the development of instruments granted to employees during the financial year.

Statement of changes in instruments granted - 10/01/2019 - 09/30/2020

	Ordinary shares	Preferred shares	PECs
10/01/2019	**690,352**	**1,072,025**	**169,796,695**
Instruments returned	-37,500	-58,233	-9,076,730
09/30/2020	**652,852**	**1,013,792**	**160,719,965**

Statement of changes in instruments granted - 10/01/2018 - 09/30/2019

	Ordinary shares	Preferred shares	PECs
10/01/2018	701,688	1,089,628	169,840,342
Instruments granted	101,164	157,095	24,486,310
Instruments returned	-112,500	-174,698	-24,529,957
09/30/2019	690,352	1,072,025	169,796,695

The amount of benefits granted to employees as of the reporting date totals €0.7 million, thereof €0.7 million vested (prior year: €0.8 million, thereof €0.6 million vested). Due to the classification as equity settled share-based payment program, the grant date fair value of benefits granted in the form of instruments is recorded as personnel expense over the vesting period; the offsetting entry is made in other reserves in equity. Personnel expenses from share-based payments of €0.2 million (prior year: €0.2 million) were recorded for the period ended September 30, 2020.

22 | Pension provisions

Pension provisions are recognized for funded and non-funded employer-financed commitments arising from pension entitlements and ongoing payments to employees and former employees as well as their surviving dependents. They are also recognized for purely employee-funded commitments from deferred compensation. The pension entitlements usually relate to payments for contractually agreed retirement pensions as a monthly amount. These commitments are accounted for in accordance with the requirements of IAS 19. Accordingly, actuarial gains/losses are recognized directly and in full via a separate equity component.

Valuations are based on actuarial reports using the following parameters.

	Germany %	France %	The Netherlands %	Switzerland %
09/30/2020				
Interest rate	1.00	0.65	0.80	0.14
Pension benefit increase rate	1.50	0.00	2.00	0.00

	Germany %	France %	The Netherlands %	Switzerland %
09/30/2019				
Interest rate	0.70	0.45	0.50	0.16
Pension benefit increase rate	1.50	0.00	2.00	0.00

Dr. Heubeck’s 2018 “Mortality Tables” or comparable country-specific mortality tables were used as a basis for the biometric parameters.

An amount of €26.4 million (prior year: €30.5 million) was paid for defined contribution plans in the period ended September 30, 2020.

The following table shows a **reconciliation of the defined benefit obligation (DBO) to the defined benefit liability (DBL)**.

	09/30/2020		09/30/2019	
	Unfunded obligation EUR m	Funded obligation EUR m	Unfunded obligation EUR m	Funded obligation EUR m
DBO	34.2	20.8	36.3	21.9
Fair value of plan assets		-17.1	0.0	-18.1
Liability	**34.2**	**3.7**	**36.3**	**3.8**

The following table shows the **development of the defined benefit obligation**.

	2019/2020		2018/2019	
	Unfunded obligation EUR m	Funded obligation EUR m	Unfunded obligation EUR m	Funded obligation EUR m
DBO at the beginning of the period	36.3	21.9	30.8	17.6
Actuarial gains/losses resulting from adjustments of financial assumptions	-1.1	-0.1	6.3	3.3
Service cost	0.5	0.4	0.4	0.3
Interest expense	0.2	0.1	0.5	0.3
Curtailments	-0.2	0.0	-0.3	0.0
Pension payments	-1.5	-1.5	-1.4	0.0
Currency translation adjustments	0.0	0.0	0.0	0.4
DBO at the end of the period	**34.2**	**20.8**	**36.3**	**21.9**

The following table compares the **income and expenses from pension obligations**.

	2019/2020		2018/2019	
	Unfunded obligation EUR m	Funded obligation EUR m	Unfunded obligation EUR m	Funded obligation EUR m
Service cost	0.5	0.4	0.4	0.3
Interest expense	0.2	0.1	0.5	0.3
Expected return on plan assets	0.0	0.0	0.0	-0.2
Gains/losses from curtailment	-0.2	0.0	-0.3	0.0
Period pension expenses	**0.5**	**0.5**	**0.6**	**0.4**

No further disclosures are made regarding **losses from curtailment** due to the minor significance of this item.

The **development of plan assets** is shown in the following table.

	2019/2020 EUR m	2018/2019 EUR m
Plan assets at the beginning of the period	18.1	15.2
Actuarial gains/losses resulting from adjustments of financial assumptions	0.0	2.1
Expected return on plan assets	0.0	0.2
Contributions	0.4	0.3
Payments	-1.4	0.0
Currency translation adjustments	0.0	0.3
Plan assets at the end of the period	**17.1**	**18.1**

The fair value of plan assets at the end of the period is attributable to the following **asset classes**.

	2019/2020 EUR m	2018/2019 EUR m
Insurance contracts	11.5	12.3
Equity instruments	1.8	1.7
Debt instruments	1.2	1.6
Property	1.2	1.2
Alternative assets (private equity, hedge funds, infrastructure)	0.4	0.6
Cash and cash equivalents	0.1	0.3
Other	0.9	0.4
Plan assets at the end of the period	**17.1**	**18.1**

Pension payments in the amount of €2.2 million and contributions to plan assets in the amount of €0.4 million are expected for the period ended September 30, 2021. An increase of 0.7 percentage points in the discount rate would reduce the present value of the defined benefit obligations by €5.3 million. A decrease of 0.7 percentage points in the discount rate would increase the benefit obligations by €6.2 million. An increase or a decrease of 0.5 percentage points in the expected pension trend with all other parameters remaining unchanged would increase the present value of the defined benefit obligations by €2.9 million or decrease the present value of the defined benefit obligations by €1.6 million, respectively. The weighted average duration of all obligations is 14.9 years as of the reporting date.

23 | Provisions

Statement of changes in non-current provisions - 10/01/2019 - 09/30/2020

	Human resources commitments EUR m	Real estate commitments EUR m	Other provisions EUR m	Total EUR m
10/01/2019	18.0	18.1	17.7	53.8
Utilization	-0.7	-1.0	-1.3	-3.0
Reversal	0.0	-0.2	-0.4	-0.6
Additions	0.3	5.3	2.5	8.1
Reclassification to current provisions	0.0	0.6	-0.8	-0.2
Interest	0.0	0.0	0.0	0.0
09/30/2020	17.6	22.8	17.7	58.1

Statement of changes in non-current provisions - 10/01/2018 - 09/30/2019

	Human resources commitments EUR m	Real estate commitments EUR m	Other provisions EUR m	Total EUR m
10/01/2018	18.0	14.1	9.8	41.9
Utilization	-1.9	-0.9	-1.7	-4.5
Reversal	0.0	-0.1	0.0	-0.1
Additions	1.8	5.1	9.8	16.7
Reclassification to current provisions	0.0	-0.2	-0.2	-0.4
Interest	0.1	0.1	0.0	0.2
09/30/2019	18.0	18.1	17.7	53.8

Non-current human resources commitments primarily concern compensation for length of service as well as anniversary provisions.

Real estate commitments predominantly concern provisions for restoration obligations.

Other provisions mainly concern legal costs.

Discount rates for non-current provisions are between 0 percent and 1 percent depending on the term and country.

Statement of changes in current provisions - 10/01/20189- 09/30/2020

	Human resources commitments EUR m	Real estate commitments EUR m	Other provisions EUR m	Total EUR m
10/01/2019	**72.2**	**1.5**	**40.9**	**114.6**
Utilization	-54.3	-1.0	-11.1	-66.4
Reversal	-4.3	-0.3	-3.5	-8.1
Additions	60.5	2.3	20.7	83.5
Reclassification from non-current provisions	0.0	0.2	0.0	0.2
Currency translation adjustment	-0.2		-0.1	-0.3
09/30/2020	**73.9**	**2.7**	**46.9**	**123.5**

Statement of changes in current provisions - 10/01/2018 - 09/30/2019

	Human resources commitments EUR m	Real estate commitments EUR m	Other provisions EUR m	Total EUR m
10/01/2018	**65.7**	**4.8**	**32.1**	**102.6**
Adjustment on initial application of IFRS 9			0.3	0.3
Adjusted balance 01/10/2018	**65.7**	**4.8**	**32.4**	**102.9**
Utilization	-60.0	-3.7	-15.4	-79.1
Reversal	-4.6	-0.5	-5.2	-10.3
Additions	71.1	0.7	28.9	100.7
Reclassification from non-current provisions	0.0	0.2	0.2	0.4
09/30/2019	**72.2**	**1.5**	**40.9**	**114.6**

Provisions for human resources commitments were primarily recognized for bonuses, holiday claims, Christmas bonuses and settlements.

Real estate commitments mainly concern incidental rental costs.

Other provisions were mainly recognized for litigation risks and corresponding legal costs.

Current provisions are expected to be utilized in the period ending September 30, 2021 and with cash outflows equaling the amounts recognized.

24 | Trade accounts payable

All business transactions recognized under trade accounts payable have remaining terms of less than one year.

25 | Financial liabilities

	09/30/2020				09/30/2019			
		Remaining term				Remaining term		
	Total EUR m	< 1 year EUR m	1 to 5 years EUR m	> 5years EUR m	Total EUR m	< 1 year EUR m	1 to 5 years EUR m	> 5years EUR m
Liabilities to bank	**1,838.0**	*167.6*	*1,670.5*	*0.0*	1,670.2	*0.2*	*1,670.0*	*0.0*
Lease liabilities	**1,331.8**	*276.3*	*1,052.7*	*2.7*	4.4	*4.4*	*0.0*	*0.0*
Senior Notes and Senior Secured Notes	**637.5**	*10.0*	*627.5*	*0.0*	634.4	*10.0*	*624.3*	*0.0*
Financial liabilities from options held by non-controlling interests	**3.7**	*0.0*	*3.7*	*0.0*	3.7	*0.0*	*3.7*	*0.0*
Liabilities from contingent considerations	**13.5**	*0.2*	*13.3*	*0.0*	27.9	*15.2*	*12.7*	*0.0*
Purchase price liability arising from derivative financial instruments	**2.0**	*2.0*	*0.0*	*0.0*	4.1	*2.0*	*2.1*	*0.0*
Liabilities to third-party shareholders	**1.1**	*0.0*	*1.1*	*0.0*	0.6	*0.0*	*0.6*	*0.0*
Miscellaneous financial liabilities	**2.5**	2.5	0.1	*0.0*	5.8	5.7	0.0	0.0
Total financial liabilities	3,830.1	***458.6***	***3,368.8***	*2.7*	2,350.9	*37.5*	*2,313.5*	*0.0*

Liabilities to minority shareholders

Regarding the minority shareholders of one subsidiary in Bulgaria, an obligation exists to acquire their shares as soon as they are tendered by the minority shareholders. Additionally, one German partnership has cancellation rights with the consequence that in the event of termination, compensation at fair value would be payable to the minority shareholders. This results in a commitment of €3.9 million (prior year: €3.6 million) as of the financial statement date.

The contingent selling price for the shares in Profumerie Douglas S.p.A. agreed in connection with the acquisition of the Limoni and La Gardenia Group with the parent company of the selling companies, Orlando Italy S.r.l., was recognized in the prior financial year at its fair value of €15.0 million as a liability to minority shareholders as of the financial statement date and was settled in full in the financial year 2019/20.

The fair value of the minimum purchase price liability for the acquisition of the remaining minority interests in Parfümerie AKZENTE GmbH in the amount of €7.9 million (prior year: €7.6 million) is presented as a liability to minority shareholders as well.

The contingent purchase price liability associated with the acquisition of the remaining 49 percent interest in Niche-Beauty.COM GmbH was recognized at its fair value of €5.3 million (prior year: €5.2 million) as a liability to minority shareholders as of the financial statement date.

26 | Other liabilities

	09/30/2020				09/30/2019			
		Remaining term				Remaining term		
	Total EUR m	< 1 year EUR m	1 to 5 years EUR m	> 5years EUR m	Total EUR m	< 1 year EUR m	1 to 5 years EUR m	> 5years EUR m
Coupons not yet redeemed	146.8	*146.8*	*0.0*	*0.0*	139.4	*139.4*	*0.0*	*0.0*
Contract liabilities (Customer loyalty programs)	40.7	*40.7*	*0.0*	*0.0*	33.8	*33.8*	*0.0*	*0.0*
Total liabilities in kind	**187.5**	**187.5**	**0.0**	**0.0**	173.2	173.2	0.0	0.0
Personnel liabilities	17.9	*17.9*	*0.0*	*0.0*	18.0	*18.0*	*0.0*	*0.0*
Supplier bonus accruals	4.5	*4.5*	*0.0*	*0.0*	5.7	*5.7*	*0.0*	*0.0*
Accrued rental payments	1.0	*1.0*	*0.0*	*0.0*	0.7	*0.7*	*0.0*	*0.0*
Miscellaneous other financial liabilities	27.3	*12.7*	*13.8*	*0.7*	22.1	*13.2*	*7.6*	*1.3*
Total miscellaneous other liabilities	**50.8**	**36.2**	**13.8**	**0.7**	46.5	37.6	7.6	1.3
Total other liabilities	**238.3**	**223.7**	**13.8**	**0.7**	219.7	210.8	7.6	1.3

Miscellaneous other financial liabilities mainly include deferred Douglas Card commissions in the amount of €5.3 million (prior year: €5.6 million).

Further disclosures

27 | Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows shows how the Group's cash and cash equivalents have changed in the course of the financial year as a result of cash inflows and outflows. The Consolidated Statement of Cash Flows distinguishes between changes in cash and cash equivalents resulting from operating activities, investing activities and financing activities.

Cash and cash equivalents amounted to €256.3 million (prior year: €81.0 million) as of September 30, 2020 and consisted exclusively of cash and cash equivalents as reported in the Consolidated Statement of Financial Position.

Cash inflow from operating activities totaled €523.0 million (prior year: €198.3 million) in the financial year 2019/20, of which €278.0 million resulted from the reclassification of rental payments to cash flows from financing activities in connection with the first-time application of IFRS 16 in financial year 2019/20. The rental payments previously reported as cash outflow from operating activities are now largely classified as repayments of lease liabilities and thus as financing activities.

The increase in provisions of €5.8 million (prior year: €29.4 million) includes the change in non-current and current provisions, in the prior year corrected for additions from company acquisitions, which are reported in cash flow from investing activities. Changes in working capital (without liabilities from investments in non-current assets) of minus €41.9 million (prior year: minus €39.7 million) and changes in other assets and liabilities not classifiable to investing or financing activities in the amount of minus €45.5 million (prior year: minus €5.3 million) show the change in the corresponding positions, adjusted for amounts attributable to investing or financing activities.

Working capital of the Douglas-Group comprises inventories, trade accounts receivable, trade accounts payable (including liabilities from investments in non-current assets), receivables from advertising cost subsidies, sales promotion and supplier bonuses as well as liabilities from coupons not yet redeemed.

Cash outflow for investing activities came to €105.5 million (prior year: €106.4 million) in the reporting period. €0.0 million were attributable to acquisitions (prior year: €3.5 million).

The sale of the former headquarter property in Hagen resulted in a cash inflow from investing activities of €23.2 million in the prior year.

Cash outflow for financing activities amounted to €241.6 million (prior year: €113.6 million). The year-on-year increase in cash outflow is due to the first-time application of IFRS 16 in the financial year 2019/20, as described above. This is offset by the liquidity-related utilization of the Revolving Credit Facility (RCF).

The following table shows a reconciliation of cash flows from financing liabilities to the changes in financial liabilities reported in the Consolidated Statement of Financial Position.

	Liabilities to bank EUR m	Senior Notes and Senior Secured Notes EUR m	Purchase price liability arising from derivative financial instruments EUR m	Lease liabilities EUR m	Financial liabilities from options held by non-controlling interests EUR m	Liabilities from contingent considerations EUR m	Other financial liabilities EUR m	Total financial liabilities EUR m
Net book value as of October 1, 2019	1,670.2	634.4	4.1	4.3	3.7	27.9	6.4	2,351.0
Adjustment on initial application of IFRS 16				1,461.1				1,461.1
Adjusted net book value as of October 1, 2019	1,670.2	634.4	4.1	1,465.4	3.7	27.9	6.4	3,812.1
Interest expense	63.5	51.3		24.8	0.7	0.6		140.9
Currency translation adjustments				-4.6				-4.6
Additions to lease liabilities				145.6				145.6
Disposals from lease liabilities				-51.0				-51.0
Other changes							-0.8	-0.8
Changes without effect on cash flow from financing activities	**63.5**	**51.3**	**0.0**	**114.8**	**0.7**	**0.6**	**-0.8**	**230.1**
Drawing of facilities	181.6							181.6
Redemption of facilities	-14.1		-2.1	-226.5	-0.7	-15.0		-258.4
Interest paid	-63.2	-48.1		-22.1			-2.2	-135.6
Interest received							0.2	0.2
Effect on cash flow from financing activities	**104.3**	**-48.1**	**-2.1**	**-248.6**	**-0.7**	**-15.0**	**-2.0**	**-212.2**
Net book value as of September 30, 2020	**1,838.0**	**637.6**	**2.0**	**1,331.7**	**3.7**	**13.5**	**3.6**	**3,830.1**

	Liabilities to bank EUR m	Senior Notes and Senior Secured Notes EUR m	Purchase price liability arising from derivative financial instruments EUR m	Lease liabilities EUR m	Financial liabilities from options held by non-controlling interests EUR m	Liabilities from contingent consideratio ns EUR m	Other financial liabilities EUR m	Total financial liabilities EUR m
Net book value as of October 1, 2018	1,670.4	631.2	6.1	2.9	3.5	22.1	1.0	2,337.2
Interest expense	61.3	51.3			0.7	0.6		113.9
Additions from acquisitions						5.2		5.2
Loss assumption and corporate income tax allocation Kirk Beauty Two GmbH							5.2	5.2
Other changes				1.4			1.7	3.1
Changes without effect on cash flow from financing activities	61.3	51.3	0.0	1.4	0.7	5.8	6.9	127.4
Drawing of facilities	3.3							3.3
Redemption of facilities	-3.3		-2.0					-5.3
Interest paid	-61.5	-48.1			-0.5		-1.5	-111.6
Effect on cash flow from financing activities	-61.5	-48.1	-2.0	0.0	-0.5	0.0	-1.5	-113.6
Net book value as of September 30, 2019	1,670.2	634.4	4.1	4.3	3.7	27.9	6.4	2,351.0

28 | Segment reporting

Fundamentals

As the leading specialty retailer in Europe, the Douglas-Group operates 2,372 perfumeries (including franchise branches) and a variety of online web shops in 26 European countries, in which primarily perfumery, cosmetic and skincare products and food supplements are sold to end customers. Business is conducted on the basis of an omnichannel approach that interlinks the store and online business in a way that ensures that customers are optimally served via both channels.

Chief Operating Decision Maker, reportable and operating segments

The reporting segments are categorized on the basis of their organizational and decision-making structure and the content of the internal reporting to the chief operating decision-maker.

The Board of Directors of Douglas GmbH is the chief operating decision-maker in the meaning of IFRS 8. It steers the Douglas-Group, it is responsible for allocating resources to the business

segments at the highest level and it assesses and monitors their profitability. The Board of Directors of Douglas GmbH is also the Board of Directors of Kirk Beauty One GmbH.

Below the chief operating decision-maker, the segment managers are responsible for the operating business and in turn report to the chief operating decision-maker.

Based on the internal organizational and reporting structure, the segment managers are deployed at country level, which means that steering and monitoring by the chief operating decision-maker also takes place on country level.

The operating segments Germany and France are shown separately in the segment report (reportable segments), as they differ considerably from the other countries (market position and market strategy, particularly with the market presence under the Nocibé brand in France).

The current and expected gross profit margins and EBITDA margins, market position, economic circumstances, customer base, sales organization, supplier structure and regulatory environment in the South-Western European countries Italy, Spain, the Netherlands, Austria, Portugal, Switzerland, Monaco and Andorra on the one hand and the Eastern European countries Poland, Hungary, the Czech Republic, Latvia, Lithuania, Romania, Bulgaria, Croatia, Slovakia and Estonia on the other hand are mostly homogeneous. For this reason, the individual operating segments were combined under the reportable segments South-Western Europe and Eastern Europe. Parfumdreams and Niche Beauty were allocated to the reportable segment Germany since Parfumdreams and Niche Beauty are steered and controlled from Germany and generate the majority of their revenues in Germany as well.

As of the reporting date, the Douglas-Group’s reportable segments were Germany, France, South-Western Europe and Eastern Europe.

Segment Performance Indicator

The segment performance indicator is Adjusted EBITDA.

Alongside sales, adjusted EBITDA is the Douglas-Group’s key financial performance indicator that is used to assess the performance of the segments and manage resource allocation.

Internal licensing costs and other similar costs charged from the segment Germany to the segments South-Western Europe and Eastern Europe were not included in the presentation of segment EBITDA and adjusted segment EBITDA, in accordance with the internal steering logic.

Adjusted EBITDA is defined as follows:

The EBITDA reported in the Consolidated Statement of Profit or Loss is adjusted for those lease expenses and income in accordance with the former IAS 17 that are to be capitalized in accordance with IFRS 16. The resulting "key performance indicator to be adjusted" is adjusted for those items which, in the opinion and decision of the management of Kirk Beauty One GmbH, are non-regularly recurring, exceptional or unsuitable for internal control.

Adjustments

The adjustments are basically divided into the following five categories: "Credit card fees," "Purchase price allocations (PPA)," "Restructuring costs and severance payments," "Consulting fees" and "Other adjustments“. In the prior year, the adjustments made to inventory impairment losses were also reported separately due to their materiality. In view of the abnormal situation and

uniqueness of the COVID-19 pandemic, certain related expenses and income have also, in the opinion of management, to be adjusted and have been disclosed separately in the category "COVID-19-effects".

The respective categories are primarily attributable to the following matters:

- Credit card fees:

  Fees charged for the use of credit cards are classified as financial expenses and are reclassified to these
- Purchase Price Allocations (PPA):

  EBITDA effects in profit or loss concerning the amortization of hidden reserves disclosed in connection with business combinations
- Restructuring costs and severance payments:

  Expenses in connection with the sale or termination of a business unit, the closure or sale of a group of stores, significant changes in the structure of management or fundamental reorganizations. Within this context, expenses in the form of severance payments and salary continuation payments without replacement of the position, furthermore in the case of management positions at national or Group level irrespective of the replacement of the position, are to be mentioned in particular.
- Consulting fees:

  In relation to strategic projects, acquisitions and financing
- COVID-19-effects:

  Include, in particular, personnel and rent-related vacancy costs in connection with our closed stores and other additional costs caused by the coronavirus pandemic.
- Other adjustments

  Other matters that do not recur on a regular basis, are exceptional or are not suitable for internal management. These include in particular: Restructuring expenses that are not personnel-related, write-downs of receivables, impairment losses on inventories if not reported separately due to materiality, income from the reversal of previously adjusted provisions.

The reconciliation of reported EBITDA to adjusted EBITDA is presented below, followed by an explanation of the main business transactions.

Reconciliation of reported EBITDA to adjusted EBITDA

	10/01/2019-09/30/2020 EUR m	01.10.2018-30.09.2019 EUR m
EBITDA (=reported EBITDA)	**456.5**	282.5
Lease expenses and income according to former IAS 17 which are to be capitalized following IFRS 16	-278.0	0.0
Key performance indicator to be adjusted	**178.6**	282.5
Credit card fees	14.9	14.8
Purchase Price Allocations (PPA)	5.9	5.3
Restructuring costs and severance payments	13.3	12.1
Consulting fees	19.5	12.7
Write-down of inventories	-2.5	21.8
COVID-19-effects	61.6	0.0
Other adjustments	1.0	1.7
Sum of adjustments	**113.7**	68.4
Adjusted EBITDA	**292.3**	350.9

- Write-down of inventories

  Income from the reversal of an impairment loss of €2.5 million recognized in the prior year.
- COVID-19-effects:

  These mainly resulted from the closure of our stores, mainly in the form of rental-related vacancy costs of €32.5 million and personnel-related vacancy costs of €15.5 million, as well as costs of €2.8 million for external staffing. Additional direct costs amounted to €9.7 million and mainly included expenses for the purchase of hygiene articles such as disinfectants and masks. Cleaning costs, additional IT costs such as extended service IT services to ensure remote work in the home office. There were also COVID-19-related inventory valuation effects amounting to €3.7 million. Adjustments for government grants amounting to €2.8 million had an opposite effect.
- Other adjustments:

  These include in particular expenses from the optimization of our branch structure amounting to €9.2 million and write-downs in connection with receivables at risk of default amounting to €2.6 million. Offsetting these items are mainly compensation from our former shareholder in the amount of €5.5 million, income from the reversal of a previously adjusted provision for legal disputes in the amount of €1.5 million, other income in connection with legal disputes totaling €3.5 million and the reversal of various provisions in the amount of €2.3 million (prior year mainly: Integration and reorganization costs of €5.6 million, legal disputes of €4.8 million and, offsetting these items, income from the sale of the former Hagen headquarters property of €10.3 million).

Other explanations on segment reporting

The recognized segment sales correspond to sales with external third parties. Internal sales account for sales between individual segments. The allocation of segment sales is based on the registered office of the selling unit. The allocation of sales to the reporting segment is based on the registered location of the selling company.

Transfers between segments are generally performed at the same prices that would apply if the transactions were executed with third parties (arm's length transactions).

The monthly reporting to the chief operating decision-maker only shows the inventories of individual segments as segment assets. Inventories shown in segment reporting include purchased goods, raw materials, consumables and supplies and advance payments for inventories.

Capital expenditure shown in segment reporting relates to additions made to intangible assets and property, plant and equipment.

Non-current assets

	09/30/2020 EUR m	09/30/2019 EUR m
Germany	1,570.7	1,305.5
France	862.6	710.8
Other countries	1,120.6	624.1
Total	**3,553.9**	2,640.4

The non-current assets presented for all segments comprise intangible assets, property, plant and equipment and rights-of-use assets from leases located in Germany and abroad. Non-current financial assets and deferred tax assets were excluded. Segment liabilities are not regularly reported to the chief operating decision maker.

29 | Fair value of financial instruments

The following tables represent the carrying amounts and fair values of financial instruments as of the reporting date. The items are classified according to IFRS 9[9] and are also categorized into a three-stage fair value hierarchy, which structures the data used for the fair value calculation according to its market relevance.

Financial instruments categorized in accordance with IFRS 9- 09/30/2020

	Net book value EUR m	Category	Not measured at fair value EUR m	Fair value through profit or loss EUR m	Fair Value through OCI EUR m	Fair Value EUR m	Level
Trade accounts receivable	**37.5**	**AC**	**37.5**			**37.5**	**2**
Cash and cash equivalents	**256.3**	**AC**	**256.3**				
Financial assets							
Receivables against shareholders	831.4	AC	831.4			831.4	2
Equity participations	2.1	FVtPL		2.1		2.1	2
Miscellaneous financial assets	183.1	AC	183.1			183.1	2
Total financial assets	**1,016.6**						
Trade accounts payable	**503.5**	**AC**	**503.5**			**503.5**	**2**
Financial liabilities							
Purchase price liability arising from derivative financial instruments	2.0	AC	2.0			2.0	2
Liabilities to bank	1,838.0	AC	1,838.0			1,838.0	2
Liabilities from Senior Secured Notes	301.0	AC	301.0			274.8	1
Liabilities from Senior Notes	336.5	AC	336.5			224.8	1
Liabilities from minority options	3.7	AC	3.7			3.7	2
Liabilities from contingent considerations	13.4	FVtPL		13.4		13.4	3
Miscellaneous financial liabilities	3.6	AC	3.6			3.6	2
Total financial liabilities according to IFRS 9	**2,498.3**						
Lease liabilities according to IFRS 16	1,331.8						
Total financial liabilities in total	**3,830.1**						

[9] Abbreviations used for the categories of financial instruments according to IFRS 9
AC – Measured at amortized cost;
OfL – Other financial liabilities;
FVtPL – Measured at fair value through profit or loss

Financial instruments categorized in accordance with IFRS 9- 09/30/2019

	Net book value EUR m	Category	Not measured at fair value EUR m	Fair value through profit or loss EUR m	Fair Value through OCI EUR m	Fair Value EUR m	Level
Trade accounts receivable	45.7	AC	45.7			45.7	2
Cash and cash equivalents	81.0	AC	81.0				
Financial assets							
Receivables against shareholders	562.4	AC	562.4			562.4	2
Equity participations	5.3	FVtPL		5.3		5.3	2
Other financial assets	157.5	AC	157.5			157.5	2
Total financial assets	725.2						
Trade accounts payable	487.0	AC	487.0			487.0	2
Financial liabilities							
Purchase price liability arising from derivative financial instruments	4.1	AC	4.1			4.1	2
Liabilities to bank	1,670.2	AC	1,670.2			1,670.2	2
Liabilities from Senior Secured Notes	299.5	AC	299.5			300.3	1
Liabilities from Senior Notes	334.9	AC	334.9			264.7	1
Liabilities from minority options	3.7	AC	3.7			3.7	2
Liabilities from contingent considerations	12.9	FVtPL		12.9		12.9	2
Liabilities from contingent considerations	15.0	FVtPL		15.0		15.0	3
Miscellaneous financial liabilities	10.7	AC	10.7			10.7	2
Total financial liabilities according to IFRS 9	2,350.9						

Fair values of the Notes liabilities are calculated on the basis of market prices quoted on active markets (level 1).

A mark-to-market measurement based on yield curves available on the market is conducted for the interest rate caps presented as derivative financial instruments under “Assets” (level 2).

The contingent purchase price liability associated with the acquisition of the remaining 49 percent of the shares in Niche-Beauty.COM GmbH was recognized as a liability to minority shareholders at its fair value of €5.3 million as of the reporting date. The remaining 49 percent of the shares were acquired with economic effect from January 1, 2022 and subject to the condition precedent of payment of the second purchase price tranche. The purchase price of the 49 percent stake is also determined by the achievement of certain economic performance indicators. The lower limit is €3.5 million, the upper limit €6.0 million. The expected value was determined on the basis of an equal distribution of the performance indicators within a range around the target achievement level. The expected value was discounted at an interest rate of 1.5 percent. The sensitivity of the fair value lies between the lower limit of €3.5 million and the upper limit of €6.0 million.

In terms of trade accounts receivable and trade accounts payable, fair values equal the carrying amounts due to the short maturities involved. In case of receivables from the parent company Kirk Beauty Two GmbH, the carrying amount is identical to the fair value as well, as the interest rate was negotiated in accordance with standard market conditions. Since then, market interest rates have changed slightly. On the other hand, the credit risk has increased. Since the carrying amount already takes the credit risk until maturity into account, it substantially equals fair value still.

Fair values of liabilities to banks are based on expected cash flows within the range of contractual agreements, discounted with a credit-risk-adjusted rate. Calculating the fair value of the syndicated bank loan, a particularity exists. In addition to the variable EURIBOR base rate, adjustments to the credit margin are also regularly made within legally defined boundaries. Credit margins are reassessed on a quarterly basis, regarding the development of certain corporate key figures. The reassessment is based on ratios that the syndicate would also include in the assessment of credit risk. As a result, interest expectations as of the reporting date are largely equivalent to fair credit interest assessment. As there were no interest accruals as of the reporting date, the fair value only deviates from the nominal value of the liability to an immaterial extent.

Fair values of other financial instruments are calculated using the present values of contractually agreed payments in consideration of country-specific interest yield curves.

Equity participations are measured at fair value. No sale of these equity participations is planned as of the reporting date.

30 | Management of financial risks

The financial management of Kirk Beauty One GmbH is responsible for the Group's financing and supports decision-makers of German and foreign Group companies in respect of all financial issues.

The financial risks relevant to the Group, such as liquidity risks, the risk of interest rate changes, default risks and risks from cash flow fluctuations, are adequately controlled and monitored by the financial management of Kirk Beauty One GmbH.

Liquidity risk

With regard to liquidity risks, reference is made to the explanations provided under Note 2 in section Assumption of going concern as the basis for accounting.

The Group generally has access to various sources for the funding of business operations, investments and potential acquisitions. This includes existing cash and cash equivalents, net cash flow from operating activities and bank credits as well as Senior Secured Notes and Senior Notes.

All German subsidiaries and the significant subsidiaries based abroad are linked to a cash management system (cash pooling). By combining financing volumes, short-term liquidity surpluses of individual Group companies can be used to finance the cash requirements of other Group companies. This leads to a reduction of the debt financing volume and an optimization of cash investments, thus having a positive impact on the Group's net interest result.

As of the reporting date, financing agreements totaled €2,505.0 million and comprised the following.

- €635.0 million Notes, comprising €300.0 million Senior Secured Notes and €335.0 million Senior Notes,
- €1,670.0 million Senior Facilities Agreement ("Term Loan B Facility"), consisting of €1,370.0 million from "Term Loan Facility B1" and €300.0 million from "Term Loan Facility B2" and
- €200.0 million from a Revolving Credit Facility (RCF).

The Senior Secured Notes and the Senior Notes bear fixed interest rates of 6.25 percent and 8.75 percent respectively. The interest on the "Term Loan Facility B1" of €1,370.0 million is based on EURIBOR plus a margin of 3.5 percent. EURIBOR plus a margin of 3.25 percent has been agreed

for the “Term Loan Facility B2” in the amount of €300.0 million. The Senior Facilities Agreement contains a 0.0 percent EURIBOR floor (prior year: 0.0 percent).

The nominal value of the Revolving Credit Facility amounted to €165.5 million at the reporting date, consisting of a Revolving Credit Facility Loan of €74.3 million and Ancillary Facilities of €91.2 million. Furthermore, the RCF was utilized by way of collateral in particular in the form of rental guarantees in the amount of €17.4 million (prior year: €13.8 million).

The Revolving Credit Facility Loan bears interest at EURIBOR plus a margin of 3.75 percent. Interest on the Ancillary Facilities is based on EURIBOR plus a line-related margin of up to 3.75 percent.

The Senior Facilities Agreement has a maturity until August 2022 and the Revolving Credit Facility until February 2022. The Senior Secured Notes mature in July 2022 and the Unsecured Senior Notes mature in July 2023.

The Senior Secured Notes as well the Senior Facilities Agreement are secured by collateral. The following assets were pledged as collateral: bank balances, shares in certain Group companies and internal accounts receivable as well as assets from interest cap agreements.

In the event of borrower default, the lenders have the opportunity to initiate a contractually defined process, which aims to bring about the immediate due payment of the liability and the utilization of the pledged collateral.

Financing liabilities (without current accounts and Revolving Credit Facility)

	09/30/2020		09/30/2019	
	Nominal amount EUR m	Carrying amount EUR m	Nominal amount EUR m	Carrying amount EUR m
Senior Secured Notes	300.0	301.0	300.0	299.5
Senior Notes	335.0	336.5	335.0	334.9
Term Loan B Facility	1,670.0	1,670.0	1,670.0	1,670.0
Revolving Credit Facility	165.5	166.1	0.0	0.0
Other borrowings	2.0	2.0	0.0	0.0
Total	**2,472.4**	**2,475.6**	2,305.0	2,304.3

Carrying amounts include accruals.

Individual companies also have access to bilateral credit lines, none of which (prior year: €0.0 million) had been utilized as of the reporting date. In addition, government loans totaling €2.0 million were drawn down from national aid programs.

Kirk Beauty One GmbH and its subsidiaries have to meet certain other obligations and key financial covenants, if 40.0 percent of the Revolving Credit Facility is drawn in the form of Revolving Credit Facility Loans. The Revolving Credit Facility Loan was valued at €74.3 million as of the reporting date, which corresponds to a utilization of less than 40 percent of the RCF.

The utilization of the RCF through Ancillary Facilities in the amount of €91.2 million (prior year: €0.0 million) and collateral in the form of rental guarantees in the amount of €17.4 million (prior year: €13.8 million) is of no significance for the calculation of and compliance with financial covenants. Accordingly, compliance with these financial covenants agreed in the loan agreement is not relevant as of September 30, 2020.

Besides these financial covenants, the Group also has to meet certain qualitative covenants.

If the obligations are not met, the lenders are entitled to cancel the loan agreements with immediate effect and call upon all pledged collateral.

Considering the high debt ratio, there is a concentration of risk as of the reporting date regarding the types of debt financing described, which is monitored with particular care by management. A complete repayment from the generated funds is only possible over a very long period of time. It is expected that a (partial) redemption could take place as part of a sale or IPO. Alternatively, refinancing could take place until the year 2022. The interest rate to be expected by then depends on the interest rate environment to be observed as well as leverage and rating.

	Carrying amount EUR m	Payments due within the next 30 days EUR m		Payments due within 30 to 90 days EUR m		Payments due within 90 to 360 days EUR m		Payments due over a period of 1 to 5 years EUR m		Payments due after more than 5 years EUR m	
	09/30/2020	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Liabilities to bank	1,838.0		0.6		16.1	1.5	52.6	1,836.0	68.9		
Senior Notes and Senior Secured Notes	637.5						48.1	635.0	68.1		
Trade accounts payable	503.5	232.4		236.6		34.4					
Financial liabilities from options held by non-controlling interests	3.7							3.7			
Liabilities from contingent considerations	13.4							13.4			
Purchase price liability arising from derivative financial instruments	2.0			0.5		1.5					
Other financial instruments	3.6	2.5						1.1			

	Carrying amount EUR m	Payments due within the next 30 days EUR m		Payments due within 30 to 90 days EUR m		Payments due within 90 to 360 days EUR m		Payments due over a period of 1 to 5 years EUR m		Payments due after more than 5 years EUR m	
	09/30/2019	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest	Redemption	Interest
Liabilities to bank	1,670.2		0.3		15.8		63.4	1,670.0	115.1		
Senior Notes and Senior Secured Notes	634.4						48.1	635.0	116.2		
Trade accounts payable	487.0	217.1		216.6		53.2					
Financial liabilities from options held by non-controlling interests	3.7							3.7			
Liabilities from contingent considerations	27.9	15.0						12.9			
Purchase price liability arising from derivative financial instruments	4.1			0.5		1.5		2.1			
Other financial instruments	10.7	10.1						0.6			

All financial liabilities existing as of the reporting date and for which payments were already contractually agreed are included in the table. Payments for future liabilities which did not exist as of the reporting date are not included. Floating interest rate payments were determined on the basis of the interest rates known as of the reporting date. Financial liabilities cancellable at all times are always classified to the earliest time slot. Amounts denominated in foreign currencies are translated to euros using the closing rate.

Interest rate risk

The interest rate risk is the result of fluctuations in interest rates on the capital markets. The loans attributable to the Group from the Senior Facilities Agreement generally bear variable interest based on the EURIBOR. In addition, the Senior Facilities Agreement of €1,670 million contains an interest rate floor, which is effective at 0.0 percent. To reduce the risk of cash flow fluctuations due to changes in interest rates of variable loans, the Group entered into interest rate hedging agreements.

Interest rate caps are in place to hedge against the risk of interest rate fluctuations over a total nominal volume of €1,100.0 million. These caps reduce the risk of an increase in EURIBOR to a maximum of 1.0 percent. The resulting cash flows can affect the interest result during the period from October 1, 2015 through September 30, 2021. The Senior Facilities Agreement contains an interest rate floor at 0.0 percent EURIBOR. The cash flows from this agreement will affect the interest result until August 13, 2022.

	09/30/2020		09/30/2019	
	Reference amount EUR m	Fair values: Financial assets EUR m	Reference amount EUR m	Fair values: Financial assets EUR m
Interest rate caps	1,100.0	0.0	1,100.0	0.0
of which not part of a hedge relationship	*1,100.0*	*0.0*	*1,100.0*	*0.0*

A sensitivity analysis was conducted to quantify the interest rate risk. Subject to this analysis was the Senior Facilities Agreement, which bears interest rate risks based on the EURIBOR as far as it is not part of a hedging relationship. A relative increase in the interest rate by 100 base points would affect interest expenses in the amount of roughly €9.5 million.

Currency risk

Operating units of the Kirk Beauty One Group largely conduct their activities in the respective functional currency. The currency risk of the Group is considered to be low, as 90 percent of the Group's sales (prior year: 91 percent) were effected in euros in the financial year 2019/20 and merchandise was purchased almost exclusively in euros. Differences arising from the translation of foreign currencies to the parent's currency for the preparation of the Consolidated Financial Statements do not impact currency risk.

A sensitivity analysis was conducted in line with the requirements of IFRS 7. This analysis includes the effects from foreign currency positions measured at the closing date rate pursuant to IAS 21 through profit or loss.

The effects recognized in profit or loss from foreign currency exchange rate fluctuations on financial instruments denominated in foreign currency but not designated as hedged items as part of foreign currency hedging transactions have been included in the sensitivity analysis. This means that Kirk Beauty One Group would be exposed to risks of €0.3 million in the event of an improvement or deterioration in the value of the Euro exchange rate of 5 percent.

Default risk

Default risk is the risk of financial losses if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The default risk generally arises from all financial assets in the portfolio, such as trade accounts receivable, other receivables, cash investments with bank partners and derivatives with a positive market value. The carrying amounts of the financial assets and contract assets correspond to the maximum default risk.

Arising from the increased focus of the e-commerce channel, the entities of the Kirk Beauty One Group are faced with a receivables default risk, which is a system-inherent risk in mail-order retail. For this reason, the companies operate an effective and constantly optimized debtor management system including consistent dunning procedures.

A default risk may arise from the default of a banking partner, in particular as a result of insolvency in the context of financial investments or positive market values from derivatives. The Kirk Beauty One Group counters this risk by concluding transactions concerning both financial investments and financial instruments exclusively with first-class banks. At the same time, the volume is distributed among several counterparties in order to avoid concentration risks. Due to the difficult global economic situation, larger financial investments are avoided as far as possible or only concluded with first-class German banks.

Capital management

The subject of capital management is equity under IFRS. The goal of the Kirk Beauty One Group's capital management is to assure that the Group can continue to meet its financial obligations and that the covenants from the syndicated loans are met. A further goal of capital management is to increase the enterprise value on a long-term basis. A secondary aim of the capital management

strategy is to ensure that all Group companies have appropriate equity according to local needs, such that external capital requirements were always met in the past financial year. This is to be achieved through the constant improvement of cash flow and EBITDA.

	09/30/2020 EUR m	09/30/2019 EUR m
Equity	667.3	859.1
Debt	**5,053.8**	3,523.9
Liabilities to bank	1,838.0	1,670.2
Senior Notes and Senior Secured Notes	637.5	634.4
Cash and cash equivalents	256.3	81.0
Net debt	**2,219.3**	2,223.5

Net debt is defined as the sum of liabilities to banks and Notes liabilities, offset by cash and cash equivalents.

31 | Related party transaction with companies and persons

The Kirk Beauty One Group had the following delivery and supply relationships with related parties in the past financial year.

	10/01/2019- 09/30/2020 EUR m	10/01/2018- 09/30/2019 EUR m
Deliveries and services provided		
Shareholders (interest only)	48.1	45.0
Members of management in key positions	0.0	0.0
Other related companies and related persons	*0.0*	*0.0*
thereof associates	*0.0*	*0.0*
Total	**48.1**	45.0
Deliveries and services received		
Shareholders	0.0	0.0
Members of management in key positions	0.0	0.0
Other related companies and related persons	6.5	7.6
Total	**6.5**	7.6

Kirk Beauty Two GmbH is shareholder of Kirk Beauty One GmbH. Business relationships with related companies and persons are effected under the same conditions as with third parties (arm’s length transaction). The ultimate parent company is Kirk Beauty S.à r.l., Luxembourg.

Share holder

A profit and loss transfer agreement was concluded between Kirk Beauty One GmbH and Kirk Beauty Two GmbH effective as of October 1, 2015 as part of the establishment of a corporation tax and trade tax group. In the separate financial statements of Kirk Beauty One GmbH prepared according to the German Commercial Code (HGB) for the period from October 1, 2019 through September 30, 2020, a loss for the period before profit and loss transfer of €319.6 million (prior year: €2.8 million) was incurred; this loss for the period was compensated by Kirk Beauty Two GmbH. A verbal corporate tax allocation contract exists as of the reporting date. The corporate tax allocation amount was €0.0 million in the financial year 2019/20 (prior year: €8.0 million).

Receivables from related companies/persons amounted to €831.3 million as of the reporting date (prior year: €562.4 million); liabilities to related parties came to €0.0 million (prior year: €5.8 million). These receivables result from claims regarding the assumption of loss by Kirk Beauty Two GmbH and cash pooling transactions, converted into shareholder loans for satisfaction purposes, and include an impairment loss of €155.1 million (prior year: €63.3 million) in accordance with IFRS 9 as of the reporting date.

Key management personnel and total remuneration of the Board of Management

Key management personnel

Key management personnel includes the members of management of the Kirk Beauty One Group and the Supervisory Board of Douglas GmbH.

Expenses for short-term benefits to key management personnel amount to €3.1 million (prior year: €3.0 million), of which €0.2 million (prior year: €0.2 million) is attributable to the Supervisory Board. Expenses for termination benefits of key management personnel amounted to €0.0 million (prior year: €0.2 million). In accordance with IFRS 2, expenses from share-based payments to key management personnel amounted to €0.0 million (prior year: €0.0 million).

Total remuneration of the Board of Management l

Total remuneration for the management of the Kirk Beauty One Group amounted to €2.9 million for the financial year 2019/20 (prior year: €2.8 million). Total remuneration includes the share-based payment at fair value upon grant of €0.0 million (prior year: €0.0 million). The total remuneration of former members of the Board of Management and their surviving dependents amounted to €1.0 million (prior year: €1.2 million). Pension obligations (DBO) to former members of the Board of Management and their surviving dependents amounted to €20.6 million as of September 30, 2020 (prior year: €21.9 million).

32 | Other financial obligations and contingent liabilities

All information on this has already been disclosed in the previous chapters.

33 | Other explanatory notes

Shareholdings

Name and registered office	09/30/2020
Companies included in the Consolidated Financial Statements	**Share in %**
Kirk Beauty One GmbH, Düsseldorf	
Douglas GmbH, Düsseldorf	100.0
Parfümerie Douglas GmbH, Düsseldorf	100.0
Parfümerie Douglas Deutschland GmbH, Düsseldorf	100.0
Douglas Cosmetics GmbH, Düsseldorf	100.0
Parfümerie Douglas International GmbH, Düsseldorf	100.0
Parfümerie Douglas Ges.m.b.H., Vienna/Austria	100.0
Parfumerie Douglas Nederland B.V., Nijmegen/The Netherlands	100.0
Parfümerie Douglas AG, Baar/Switzerland	100.0
Parfumerie Douglas Inc., Westport/USA	100.0
Perfumeria Douglas Portugal Lda., Lisbon/Portugal	100.0

Douglas Ungarn Kft., Budapest/Hungary	100.0
Douglas Polska SP.z.o.o., Warsaw/Poland	100.0
Parfumerie Douglas Monaco S.A.M., Monaco/Monaco	100.0
Douglas Investment B.V., Nijmegen/The Netherlands	100.0
Parfumerie Douglas s.r.o., Prague/Czech Republic	100.0
Douglas Parfümeri Limited Sirketi, Istanbul/Turkey	100.0
UAB "Douglas LT", Vilnius/Lithuania	100.0
SIA "Douglas Latvia", Riga/Latvia	100.0
SIA "Douglas Baltic", Riga/Latvia	100.0
Parf. Douglas S.R.L., Bucharest/Romania	100.0
Parfumerie Douglas Bulgaria ood, Sofia/Bulgaria	76.0
DESG-Douglas Verwaltungs- und Beteiligungs GmbH, Zossen	100.0
Douglas Parfumerije d.o.o., Zagreb/Croatia	100.0
Douglas Einkaufs- und Service-Gesellschaft mbH & Co. KG, Zossen	100.0
Douglas Eigenverwaltungsgesellschaft mbH, Zossen (formerly Douglas Logistik GmbH)	100.0
Douglas Marken und Lizenzen Verwaltungsgesellschaft mbH, Zossen	100.0
Douglas Marken und Lizenzen GmbH & Co. KG, Zossen	100.0
Douglas Franchise B.V., Nijmegen/The Netherlands	100.0
Groupe Nocibé SAS, Villeneuve d'Ascq/France	100.0
Nocibé France SAS, Villeneuve d'Ascq/France	100.0
Nocibé France Distribution SAS, Villeneuve d'Ascq/France	100.0
Douglas Vastgoed B.V. I, Nijmegen/The Netherlands	100.0
Douglas Vastgoed B.V. II, Nijmegen/The Netherlands	100.0
Kirk Beauty Netherlands Holding B.V., Nijmegen/The Netherlands	100.0
Kirk Beauty Netherlands B.V., Nijmegen/The Netherlands	100.0
Groupe Douglas France SAS, Villeneuve d'Ascq/France	100.0
Parfümerie Douglas Slowenska s.r.o., Bratislava/Slowakia	100.0
Compania de Almacenaje, Distribucion y Servicios S.A., Madrid/Spain	100.0
Douglas Spain SA, Madrid/Spain (formerly Ibérica de Droguería y Perfumería S.A.U.)	100.0
Douglas Italia S.p.A., Milan/Italy (formerly Limoni S.p.A.)	100.0
Passera distribució S.L., Andorra	100.0
Douglas Italia Co. Investment S.r.l.	100.0
Ultimate Skin Aesthetics GmbH, Düsseldorf	100.0
Parfümerie AKZENTE GmbH, Pfedelbach	80.0
Ltd. Douglas Estonia, Tallinn/Estonia	100.0
DOUGLAS Informatik & Service GmbH, Hagen	100.0
Niche-Beauty.COM GmbH, Hamburg	51.0
Beauty Media Solutions GmbH, Düsseldorf	100.0
Parfümerie Douglas Megastore GmbH, Düsseldorf	100.0
inter-moda GmbH, Hagen	100.0
Buch & Medien GmbH, Hagen	100.0
Douglas GmbH & Co. Objekt Zeil KG, Pullach im Isartal	88.0
DOUGLAS Grundbesitz GmbH, Hagen	100.0
Douglas Finance B.V., Nijmegen/The Netherlands	100.0
Douglas Grundstücks- und Verwaltungsgesellschaft Zossen mbH, Zossen	100.0
Associated companies	
Hapag Lloyd Reisebüro Hagen Verwaltungs GmbH, Hannover	30.0

Hapag Lloyd Reisebüro Hagen GmbH & Co. KG, Hannover	30.0
GPD Cartera 2, S.L., Madrid/Spain	20.0

Due to their minor significance for the Group's net assets, financial position and results of operations and insufficient available financial information, the associated companies were measured at cost.

Leases

Other amounts recognized in the Consolidated Statement of Profit or Loss in financial year 2019/20

	10/01/2019-09/30/2020 EUR m
Expenses for variable lease payments not included in the measurement of lease liabilities	2.5
Income from the sublease of rights of use	0.3
Expenses for short-term leases	0.0
Expenses for leases on an asset of low value	0.8

Operating leases in accordance with IAS 17 in the prior financial year 2018/19

	10/01/2019-09/30/2019 EUR m
Lease expense	281.5
Income from subleases presented in other income	97.4
Expenses from contingent lease payments	0.0

Notes to operating leases in accordance with IAS 17 in the prior Consolidated Financial Statements of financial year 2018/19

Contracts qualifying as operating leases in the Kirk Beauty One Group mainly comprise store lease agreements. These contracts are generally concluded for a basic lease period of five years and are equipped with lease extension options. The values reported do not include any lease extension options. The lease payments are based partly on variable and partly on fixed lease rates. The minimum lease payments under operating leases amount to €281.5 million (prior year: €281.6 million). Contingent lease payments resulting from sales-based lease agreements amounted to €0.7 million as of the reporting date (prior year: €1.0 million).

	Less than 1 year EUR m		1 to 5 years EUR m		More than 5 years EUR m		Total EUR m	
	09/30/2019	09/30/2018	09/30/2019	09/30/2018	09/30/2019	09/30/2018	09/30/2019	09/30/2018
Obligations from operating leases	296.3	333.6	672.3	745.2	168.0	208.1	1,136.6	1,286.9
Income from subleases	24.9	27.0	54.1	47.3	18.4	22.6	97.4	96.9

Maturity analysis of undiscounted lease receivables in financial year 2019/20

	09/30/2020 EUR m
Less than one year	6.2
One to two years	6.0
Two to three years	4.4
Three to four years	3.8
Four to five years	2.1
More than five years	1.4
Total amount of undiscounted lease receivables	**23.9**
Unrealized financial income	0.6
Net investment in the lease	**23.3**

Maturity analysis of undiscounted lease liabilities in financial year 2019/20

	09/30/2020 EUR m
Less than one year	283.6
One to five years	877.4
More than five years	216.0
Total	**1,377.0**

Government Grants

In order to mitigate the economic disadvantages resulting from the COVID-19 pandemic, the Douglas-Group received monetary subsidies from the public sector, mainly in the form of subsidies for personnel expenses and social security contributions.

In the financial year 2019/20, government grants of €29.4 million were awarded, of which €26.4 million was recognized as a reduction in expense and €3.0 million as other income.

Average number of employees

The average number of persons employed was:

	10/01/2019 - 09/30/2020	10/01/2018 - 09/30/2019
Salaried employees	21,016	21,708
Apprentices	501	552
Total	**21,517**	22,260

Options according to Sections 264 (3) and 264b German Commercial Code (HGB)

In application of Sections 264 (3) and 264b German Commercial Code (HGB), the following German subsidiaries have refrained from preparing notes to the financial statements and a management report as well as from disclosing their annual financial statements.

		Refrain/Exemption from		
Company	Registered Office	preparation of notes	preparation of management report	disclosing annual financial statements
Douglas GmbH	Düsseldorf	x	x	x
Parfümerie Douglas Deutschland GmbH	Düsseldorf	x	x	x
Parfümerie Douglas GmbH	Düsseldorf	x	x	x
DOUGLAS INFORMATIK & SERVICE GmbH	Hagen	x	x	x
inter-moda GmbH	Hagen	x		x
Douglas Eigenverwaltungsgesellschaft mbH (formerly Douglas Logistik GmbH)	Zossen	x		x
Buch & Medien GmbH	Hagen	x		x
Parfümerie Douglas International GmbH	Hagen	x		x
Douglas GmbH & Co. Objekt Zeil KG	Pullach im Isartal			x
Douglas Cosmetics GmbH	Düsseldorf	x	x	x
Douglas Einkaufs- und Servicegesellschaft mbH & Co. KG	Zossen			x
Douglas Grundstücks- und Verwaltungsgesellschaft Zossen mbH	Zossen	x	x	x
Douglas Marken- und Lizenzen GmbH & Co. KG	Zossen			x
Parfümerie AKZENTE GmbH	Pfedelbach	x	x	x
Beauty Media Solutions GmbH	Düsseldorf			
Parfümerie Douglas Megastore GmbH	Düsseldorf	x		x

Expenses for auditor´s fees

	10/01/2019-09/30/2020 EUR m	10/01/2018-09/30/2019 EUR m
Audit of financial statements	0.8	0.8
Other assurance and audit-related services	0.0	0.0
Tax consultation services	0.0	0.0
Other services	2.2	0.5
Total	**3.0**	1.3

The fees for the auditor of the Consolidated Financial Statements, KPMG AG Wirtschaftsprüfungsgesellschaft, in accordance with Section 285 (17) German Commercial Code (HGB) came to €3.0 million in total (prior year: €1.3 million) for the financial year 2019/20; thereof €0.8 million for the audit of financial statements (prior year: €0.8 million) and €2.2 million for other services (prior year: €0.5 million).

Management

The Group's business is managed by Tina Müller (Chief Executive Officer, CEO), Matthias Born (Chief Financial Officer, CFO), Vanessa Stützle (Chief Digital Officer, CDO, from May 12, 2020) and Dr. Michael F. Keppel (Chief Restructuring Officer, CRO, from October 28, 2020).

Events after the reporting date

The following events requiring consideration occurred between the Consolidated Financial Statements reporting date and the date on which the Consolidated Financial Statements were approved for publication:

The coronavirus pandemic - impact on financial year 2020/21

Overall, the COVID-19 pandemic has not yet been overcome. In the first quarter of financial year 2020/21, and thus in the important Christmas business, there were lockdowns with store closures across Europe once again. Many of our stores continued to be closed in January. A large part of the decline in store sales was offset by the strong e-commerce business.

Changed customer behavior - optimization of our store network

The longstanding trend of shifting from store to e-commerce purchases was further reinforced by the COVID-19 pandemic. In response to this change in our customers' consumer behavior, around 500 of the currently around 2,400 stores across Europe will be closed. Most of the closings take place in the South-Western Europe region, which is particularly affected by the effects of the coronavirus pandemic and in which there is a very dense, partially overlapping branch network due to previous acquisitions. The necessary downsizing of the branch network goes hand in hand with investments in flagship stores in top locations, product innovations and the consistent expansion of digital retail throughout Europe. As a result of the above-mentioned measures, we currently expect one-time expenses in the high double-digit million range and sustainable positive effects in the low triple-digit million range.

Additional incremental revolving facility of €75 million

At the end of January, Douglas received additional commitments from the banks for an incremental revolving facility in the amount of €75 million.

Day of preparation and authorization for issue

Management prepared and authorized for issue the Consolidated Financial Statements on January 28, 2021.

Düsseldorf, January 28, 2021

Kirk Beauty One GmbH
Management

Tina Müller

Matthias Born

Vanessa Stützle

Dr. Michael F. Keppel

Independent Auditor’s Report

Note: The following “Independent Auditor’s Report” in accordance with par. 322 of German Commercial Code (HGB) relates to the Consolidated Financial Statements as described above, together with the Group Management Report of Kirk Beauty One GmbH for the financial year from October 1, 2019 to September 30, 2020. The Group Management Report is not part of the information, which is issued as part of this online publication with the Auditor’s Report. The enclosed wording is a translation of the German original.

Independent Auditor’s Report

To Kirk Beauty One GmbH, Düsseldorf

Opinions

We have audited the Consolidated Financial Statements of Kirk Beauty One GmbH, Düsseldorf, and its subsidiaries (the Group), which comprise the Consolidated Statement of Financial Position as at September 30, 2020, the Consolidated Statement of Profit or Loss, the Consolidated Reconciliation from Profit or Loss to Total Comprehensive Income, the Statement of Changes in Group Equity, the Consolidated Statement of Cash Flows for the financial year from October 1, 2019 to September 30, 2020, and the Notes to the Consolidated Financial Statements, including a summary of significant accounting policies. In addition, we have audited the Group Management Report of Kirk Beauty One GmbH for the financial year from October 1, 2019 to September 30, 2020.

In our opinion, on the basis of the knowledge obtained in the audit,

– the accompanying Consolidated Financial Statements comply, in all material respects, with the IFRSs as adopted by the EU, and the additional requirements of German commercial law pursuant to Section 315e (1) HGB [Handelsgesetzbuch: German Commercial Code] and, in compliance with these requirements, give a true and fair view of the assets, liabilities, and financial position of the Group as at September 30, 2020, and the profit or loss for the financial year from October 1, 2019 to September 30, 2020, and

– the accompanying Group Management Report as a whole provides an appropriate view of the Group’s position. In all material respects, this Group Management Report is consistent with the Consolidated Financial Statements, complies with German legal requirements and presents the opportunities and risks of future development appropriately.

Pursuant to Section 322 (3) sentence 1 HGB, we declare that our audit has not led to any objections relating to the legal compliance of the Consolidated Financial Statements and the Group Management Report.

Basis for the Opinions

We conducted our audit of the Consolidated Financial Statements and of the Group Management Report in accordance with Section 317 HGB and the German Generally Accepted Standards of Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer [Institute of Public

Auditors in Germany] (IDW). Our responsibilities under those requirements and principles are further described in the section “Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report” of our auditor’s report. We are independent from the group entities in accordance with the requirements of German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinions on the Consolidated Financial Statements and on the Group Management Report.

Material uncertainty in connection with the going concern assumption

We refer to the disclosures "Assumption of going concern as the basis of accounting" in section 2 "Accounting standards" and "Events after the reporting date" in section 33 "Other explanatory notes" of the Notes to the Consolidated Financial Statements as well as the disclosures in section "Financial risks" of the Group Management Report, in which the legal representatives describe the following material uncertainty in connection with the going concern.

The financial risks represent a going concern risk for the Douglas-Group. The following material uncertainties exist:

- the follow-up financing until maturity in 2022 and 2023 must succeed,

- the required and planned increase in earnings power in the Group's transformation process must be achieved and thus solvency maintained, and

- the liquidity of the Group must not be additionally burdened by further delays in opening the stores.

The long-term financing of the Douglas-Group is provided by a senior syndicated loan agreement including a Revolving Credit Facility and Ancillary Facilities as well as corporate bonds issued. The risk of a lack of follow-up financing until maturity in 2022 or 2023 is assessed as high. In total, the senior syndicated loan agreement including the Revolving Credit Facility and the corporate bonds issued provide the Douglas-Group with financial resources in the amount of €2,505.0 million. With the drawing of the Revolving Credit Facility and the Ancillary Facilities in the amount of €165.5 million in March 2020, the credit lines are almost exhausted. According to current planning, the Douglas-Group will not be in a position to repay these liabilities from its own funds when the non-current financial liabilities mature, so that refinancing will have to be successful.

During the term of the financing agreements, the Douglas-Group must, among other obligations, in particular service the cost of capital on time and maintain a certain ratio between adjusted EBITDA and debt (financial covenant). However, the obligation to comply with the ratio of Adjusted EBITDA to debt only arises when at least 40.0 percent or €80 million (threshold) of the Revolving Credit Facility has been drawn down by Revolving Credit Facility Loans.

The ongoing servicing of the cost of capital generally assumes that the Douglas-Group's planning will not be significantly missed in terms of sales, earnings and cash flow development.

The COVID-19 pandemic has had and continues to have a substantial impact on the Douglas-Group's business. The original planning for sales and earnings for the financial year 2019/20 from October 2019 was significantly missed.

It is now clear that COVID-19 will also impact the Group's further development in financial year 2020/21. At present, a reduction in financing reserves is assumed for the Douglas-Group, taking into account the current store closures and restrictions in some countries and the assumed

openings from February. Each additional week of store closures further increases the liquidity risk.

The massive shift in business to digital retail and the compensation for the associated decline in store business, as well as the adjustment of the store network, are thus seen as a necessary step to increase earnings power.

According to the liquidity planning there are only limited liquidity reserves beyond the reporting date of September 30, 2021, in order to maintain solvency at all times even in the event of further plan failures or an extended period of store closures.

These events and circumstances indicate the existence of a material uncertainty that may cast significant doubt about the Kirk Beauty One Group's ability to continue as a going concern and that represents a going concern risk within the meaning of Section 322 (2) sentence 3 HGB. Our audit opinion is not modified with respect to this matter.

Other Information

Management is responsible for the other information.

The other information comprises the information in the Financial Report, which is published in English language, with the exception of the audited Consolidated Financial Statements and Group Management Report and our auditor’s report.

Our opinions on the Consolidated Financial Statements and on the Group Management Report do not cover the other information, and consequently we do not express an opinion or any other form of assurance conclusion thereon.

In connection with our audit, we have a responsibility to read the other information referred to above, when it becomes available, and, in so doing, to consider whether the other information

– is materially inconsistent with the Consolidated Financial Statements, the content of the audited Group Management Report disclosures or our knowledge obtained in the audit, or

– otherwise appears to be materially misstated.

Responsibilities of Management for the Consolidated Financial Statements and the Group Management Report

Management is responsible for the preparation of the Consolidated Financial Statements that comply, in all material respects, with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB and that the Consolidated Financial Statements, in compliance with these requirements, give a true and fair view of the assets, liabilities, financial position, and profit or loss of the Group. In addition, management is responsible for such internal controls as they have determined 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 Group’s ability to continue as a going concern. They also have the responsibility for disclosing, as applicable, matters related to going concern. In addition, they are responsible for financial reporting based on the accounting principle of “going concern” unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, management is responsible for the preparation of the Group Management Report that, as a whole, provides an appropriate view of the Group's position, is, in all material respects, consistent with the Consolidated Financial Statements, complies with German legal requirements, and presents the opportunities and risks of future development appropriately. In addition, management is responsible for such precautions and measures (systems) as they have considered necessary to enable the preparation of a Group Management Report that is in accordance with the applicable German legal requirements, and to be able to provide sufficient appropriate evidence for the assertions in the Group Management Report.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements and of the Group Management Report

Our objectives are to obtain reasonable assurance about whether the Consolidated Financial Statements as a whole are free from material misstatement, whether due to fraud or error, and whether the group Management Report as a whole provides an appropriate view of the Group's position and, in all material respects, is consistent with the Consolidated Financial Statements and the knowledge obtained in the audit, complies with the German legal requirements and presents the opportunities and risks of future development appropriately, as well as to issue an auditor's report that includes our opinions on the Consolidated Financial Statements and on the Group Management Report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Section 317 HGB and in compliance with the German Generally Accepted Standards of Financial Statement Audits promulgated by the Institut der Wirtschaftsprüfer (IDW) will always detect a material misstatement. 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 Consolidated Financial Statements and this Group Management Report.

We exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatements in the Consolidated Financial Statements and in the Group Management Report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinions. 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 controls.
- obtain an understanding of internal control system relevant to the audit of the Consolidated Financial Statements and of precautions and measures relevant to the audit of the Group Management Report 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 these systems.
- evaluate the appropriateness of accounting policies used by management and the reasonableness of estimates made by management and related disclosures.
- conclude on the appropriateness of management's use of the accounting principle of "going concern" and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are

required to draw attention in the auditor's report to the related disclosures in the Consolidated Financial Statements and in the Group Management Report or, if such disclosures are inadequate, to modify our respective opinions. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to be able to continue as a going concern.

- evaluate the overall presentation, structure and content of the Consolidated Financial Statements, including the disclosures, and whether the Consolidated Financial Statements present the underlying transactions and events in a manner that the consolidated financial statements give a true and fair view of the assets, liabilities, financial position and the profit or loss of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Section 315e (1) HGB.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express opinions on the Consolidated Financial Statements and on the Group Management Report. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our opinions.
- evaluate the consistency of the Group Management Report with the Consolidated Financial Statements, its conformity with [German] law, and the view of the Group's position it provides.
- perform audit procedures on the prospective information presented by management in the Group Management Report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by management as a basis for the prospective information, and evaluate the proper derivation of the prospective information from these assumptions. We do not express a separate opinion on the prospective information and underlaying assumptions. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We discuss with those charged with governance, among other matters, the planned scope and the timing of the audit and significant audit findings, including any significant deficiencies in internal control system that we identify during our audit.

Cologne, January 28, 2021

KPMG AG

Wirtschaftsprüfungsgesellschaft

[Original German version signed by:]

Stollenwerk (Wirtschaftsprüferin)	Altmeppen (Wirtschaftsprüferin)