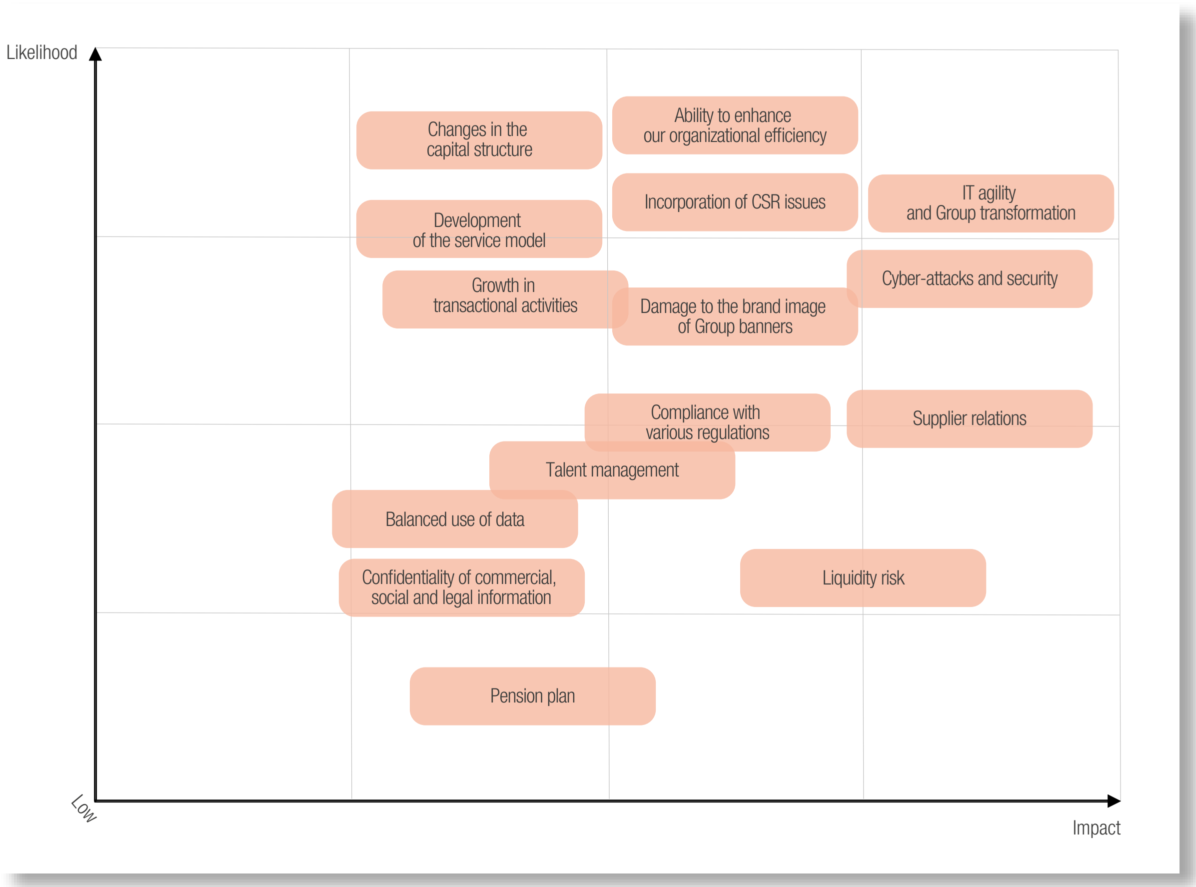
6

Risk factors and management

The Group operates in a constantly changing environment and is therefore exposed to both external and internal risks in developing its activities relating to its strategic plan. Moreover, the Group has conducted a review and assessment of the risks that could potentially have a material adverse impact on its activities, its financial position, its net assets, its income, its ability to achieve its objectives, its image and its reputation. This chapter set outs the main risks identified to which the Group considers itself to be exposed, as well as the internal control and risk management procedures implemented to prevent, manage and mitigate these risks. The risk mapping was presented and approved at the Audit Committee meeting in December.

The most substantial risk factors within each category are presented first. The importance of each risk is calculated as at the date of this document, based on an assessment of the estimated level of impact of the risk and the likelihood of its occurrence.

Main risks identified to which the Group considers itself to be exposed


Likelihood
Changes in the capital structure
Ability to enhance our organizational efficiency
Incorporation of CSR issues
IT agility and Group transformation
Development of the service model
Cyber-attacks and security
Growth in transactional activities
Damage to the brand image of Group banners
Compliance with various regulations
Supplier relations
Talent management
Balanced use of data
Confidentiality of commercial, social and legal information
Liquidity risk
Pension plan
Low
Impact

6.1 / Risks related to changes in the economic model

Against the backdrop of the crisis, Fnac Darty needs to persist with transforming its omnichannel model by continuing to adapt its organization and investing in IT systems and operational resources. Product and service lines must continue to be updated to achieve a better fit with changing consumer behaviors. However, the Group strives to balances its investments so as to maintain the profitability of its economic model, and keeps a close eye on developments and the economic outlook.

Risks related to changes to the economic model – IT agility and Group transformation

Risk identification	Risk management
Fnac Darty's ambition, as expressed through its strategic plan and the multiplication of the Group's growth drivers (its online platforms, Marketplace, development of the franchise, partnerships, etc.), requires the successful transformation of its information systems to enable them to support the Group's transformation and be agile in its various projects. Some applications used by the Group need to be updated to improve the customer experience and strengthen operational continuity during busy periods. There is a lack of standardization across the applications used by the Group's various entities. Moreover, the Group may fail to deliver this transformation successfully, both in terms of its capacity and its speed of execution.	The governance for a three-year master plan was set up in 2018 and updated at the end of 2020. This master plan is sponsored at Executive Committee level in close collaboration with the business lines and its main measures include: ■ the monthly monitoring of key issues and investment strategies at Executive Committee level; ■ the rollout of agile development, particularly in the Digital Factory project, aims to create omnichannel and omni-brand IT functionality in France. The creation of combined IT and business teams to help improve the efficiency of production launches and to mitigate the associated risks; ■ the insourcing of key IT resources, enabling control of core business components over time and facilitating the success of the plan to converge the Fnac and Darty IT systems; ■ strengthening the continuity of service arrangements for the most critical applications in place, including handling the obsolescence of end-of-life applications; ■ the use of public cloud resources to provide faster support for new business strategies (subscription, CRM, data sharing & advertising, ramp-up of online sales).

Risks related to changes in the economic model – Relations with suppliers

Risk identification	Risk management
Fnac Darty offers a wide range of products and is supplied by a large number of suppliers. In France, in particular, purchases from the top twenty suppliers represented around 60% of the total purchases made in 2020. A major portion of the Group's operations depends on its capacity to negotiate under good conditions and maintain contracts and long-term business relations with its suppliers, especially those for whose products there is no substitute as far as customers are concerned (e.g. Samsung, Apple, Microsoft, Sony, etc.). Any deterioration in the banners' relationships with their main suppliers, the imposition of stricter conditions by suppliers, or the non-renewal or early termination of their main supply or service agreements may have a material adverse effect on the Group's image, operations, earnings, financial position and outlook. Furthermore, any significant failure, deterioration, sudden termination or non-renewal of the Group's contractual relationships with its partners and contractors could have a material adverse effect on the Group's image, operations, earnings, financial position and outlook.	The Group's sales policy is designed to develop strategic partnerships with suppliers, partners and contractors in its primary markets: ■ align our interests and suppliers' interests around the value strategy, with its opportunities and constraints, by entering into partnerships that shape the entire relationship (purchasing, communication, merchandising, demonstrations, etc.); ■ ad-hoc structures with a specific governance system have been implemented with the aim of rebalancing our relations with our suppliers: ▪ introduction of a 'hybrid' mode of operation which links buyers to product categories and provides central coordination, ▪ creation of a purchasing & policies department to define purchasing policy, coordinate and manage buyers, and monitor and formalize policies, ▪ integration of the scope of the France and international Purchasing Departments (management of European contracts) is in progress, ▪ separate management of the Services area by a specific Services Department; ■ offer developments to the services delivered to our suppliers through data supply and to the customer's experience online and in store; ■ agreements with suppliers are periodically negotiated in accordance with local laws and regulations and the Business Code of Conduct (appended to supplier contracts).

Risks related to changes in the economic model – Ability to enhance our organizational efficiency

Risk identification	Risk management
The simplest, most impactful, and most readily implementable cost-saving plans have already been accomplished through the synergies announced at the time of the Fnac Darty integration. The Group must nevertheless continually seek out further cost-saving plans to ensure that its operational efficiency and earnings do not deteriorate due to the normal inflation of costs, particularly real estate costs. As such, the Group may not be able to implement sufficient cost-saving plans to offset the impact of inflation. The Group needs to ensure that it maintains an ideal balance between its store network and changes in business activity and consumer behavior.	The performance culture is central to the Group's strategy, to ensure that all departments contribute to the search for potential cost savings while maintaining operational efficiency. A governance structure and action plans to support its staff have been put in place, primarily through a matrix structure that permits decision-making without hampering Group-wide development and pays special attention to any potential human resource impacts in its entities. Performance plan management is monitored monthly by the Executive Committee. In 2020, the Property Department realigned its organizational structure to improve its response to the challenges of developing sales activities and managing real estate costs, by redefining store formats and optimizing retail space.

Risks related to changes in the economic model – Integration of social and environmental responsibility issues

Risk identification	Risk management
The profound environmental crisis that is facing our societies is gradually calling into question the production and consumption methods of the last 50 years. Against this backdrop, public authorities are expanding the legislative mechanisms they can use to compel companies to reduce their environmental impact. The number of consumers seeking to consume better, or consume less, is steadily increasing. Young workers are increasingly conscious of CSR commitments, and many investors are investing in companies that are rated highly by non-financial rating agencies. The Group must incorporate this growing dimension and develop its business model to prevent contradictions or inconsistencies that, in some extreme cases, could lead to smear campaigns on social networks or demonstrations outside head offices, stores or warehouses. Failure to incorporate these environmental issues would expose the Group to multiple risks, such as: ■ damage to the Group's reputation; ■ decline in popularity; ■ loss of business; ■ non-compliance and penalties.	Aside from these risks, Fnac Darty believes that the incorporation of environmental issues into its business model represents an opportunity to enhance the strong and historic assets of the Group's brands (responsible image, after-sales service, technical laboratory, sales expertise, store network, etc.). The Group is capable of making its model more sustainable and positioning itself as the leader in responsible retail. In this regard, the Group has implemented three major initiatives: **1/** definition of a *raison d'être* that embeds environmental concerns within a context of hyperchoice: "Committed to providing an educated choice and more sustainable consumption". This mission statement guides the company in its strategic decisions and its day-to-day activity and management; **2/** strengthening governance: social and environmental responsibility is driven by the Executive Committee and the Board of Directors. From 2021 onwards, a CSR objective will be incorporated into the variable compensation of the Chief Executive Officer, the members of the Executive Committee and all managers. A Climate Committee is driving the objective of reducing the Group's CO_2 emissions in transport and energy; **3/** the development of services and advice that promote a more circular economy: launch of a repairability index, a subscription-based repair service (Darty Max), a repair assistance platform, expansion of the pre-owned Occasion activities, etc. All the actions taken to address this risk are detailed in chapter 2.

Risks related to changes in the economic model – Damage to the brand image of the Group's banners

Risk identification	Risk management
The success of our banners relies in part on the strong reputation and consumers' high opinion of our Fnac and Darty brands. In the context of the growth of its network of franchises and of Marketplace, the development of external partnerships, increasingly fierce competition and the development of social media that encourage the rapid dissemination of opinions, comments and reviews, the Group's ability to maintain the reputation and distinctive character of its brands, and to retain the membership of its customer loyalty programs, are key factors for longevity. Moreover, our banners' brand image could be affected by exceptional events such as liability incurred for marketing faulty products or non-compliance with applicable regulations.	A number of measures have been implemented to reduce the aforementioned risks: ■ an ongoing monitoring mechanism flags any event likely to affect the Group's image and reputation. This system relies on various departments working together, in particular the Marketing Department, Internal Communications and the Risk Prevention Department; ■ a mechanism to monitor the reputation of our leading third parties has been initiated under the Sapin 2 law; ■ Fnac Darty's Business Code of Conduct, which was updated at the end of 2020, is available on the company's internal network and appended to our contracts and agreements with third parties; it sets out the Group's ethical commitments and the behaviors required; ■ furthermore, the IT Charter sets out the rules governing the use of the IT tools available to employees in compliance with the Group's ethical rules.

Risks associated with changes to the economic model – Development of the service model

Risk identification	Risk management
The significant changes in the Fnac Darty service model involve speedy adjustments within the organization. We need to develop appropriate IT systems, align our internal processes, and train and gear up our technical and sales teams. To achieve the expected profitability of this model, it is essential that we provide the quality of service promised to the customer and that the business is managed effectively. The Group must also tighten up controls to guard against the various risks inherent in these activities.	The Group relies on its ecosystem and partnerships to make its service accessible to as many customers as possible. It is organized to acquire the right skills for managing subscriptions and driving its profitability (churn, NPS, payment problems). The Group is recruiting 500 technicians over the plan period to provide the capacity to meet the customer demand for repairs generated by the increase in Darty Max repair subscriptions. It is expanding its IT platform to include new subscription management functionality. The Group is capitalizing on its high levels of flexibility/agility, which helped it to recruit 200,000 subscribers to its new Darty Max service in 2020, despite stores being closed for several weeks.

Risks associated with changes to the economic model – Growth in transactional activities

Risk identification	Risk management
The development of our multichannel model and the growth of our online sales are placing increasing pressure on Fnac Darty's operations. The Group needs to support its growth ambition by maintaining its delivery capacity and ensuring high-class service in dealing with the challenges of controlling the costs of availability, order preparation, shipment and delivery.	The structure of our operating model is changing to bring our capacity more closely into line with increasing demand. The Group plans to make a significant investment in high-quality modern equipment to mechanize and automate order preparation and shipment. The aim of these investments over the term of the plan is to ensure a significant improvement in productivity and service quality. The development of click&collect also helps to mitigate the impact of online sales growth on operations, with stores being used as warehouses and delivery locations.

Risks associated with changes to the economic model – Talent management

Risk identification	Risk management
The Group needs to maintain the commitment of its employees and ensure that it retains the talent required to implement the strategy and develop the various business activities. Failure to control workforce turnover would mean the Group was unable to capitalize on employees' experience, which could therefore impede its operational efficiency. The Group could also find it difficult to hire for existing business lines that will be crucial in the future. The Group's strategy commits us to strengthening our technical business lines and our digital skills.	The Group has implemented: ■ regular face-to-face communication; ■ the Group plans changes to its workforce per business line based on demographic data and assumptions contained in the strategic plan, thereby making it possible to pre-empt changes and establish appropriate action plans; ■ development reviews, carried out in order to identify talent and support these individuals in their career path within the Group; ■ employees are asked to give their opinion on various themes every month by answering three questions. This mechanism is also an opportunity for them to freely express their expectations, which facilitates the creation of concrete action plans. Monitoring committees have been set up for this purpose; ■ the Group has developed its structure and work environment in order to facilitate a collaborative approach and agility within digital business lines; ■ support for Group employees and managers on new collaborative ways of working has been implemented with the roll-out of teleworking and management through accountability; ■ adjustment of the compensation policy for a number of Group business lines; ■ development of the Fnac Darty Academy, with the creation of nine classes, allowing the Group to establish a pool of experts in the technical, kitchen designer or delivery business lines; ■ through the French Ministry of Labor, the Group promotes itself to companies that are considering restructuring and which have employees with the skills that Fnac Darty is seeking to hire; ■ actions to modernize the Group's employer image with technicians (various communication plans); ■ modernization of recruitment models and practices to provide faster and more targeted hiring; ■ discussion is ongoing on how to develop and enhance working methods. In addition, the use of dedicated tools and resources, the development of links with specialized schools, the use of sponsorship and the recruitment of staff (especially in the context of work-study programs) with digital skills are intended to foster employee retention in these areas within the Group.

6.2 / Security risks

Security risks – Cyber-attacks and security

Risk identification	Risk management
Most of the Group's operations rely on information systems developed or administered by internal resources or outside contractors. Any fragility or failure of these systems could disrupt business operations and potentially have major repercussions on the Group's sales and financial results, particularly with regard to websites and ordering and payment systems, and especially during peak business activity, such as at the end of the year. Our Group's commercial websites could be subject to cyber-attacks and our databases might be corrupted. Our Group could also be the subject of internal malicious actions through privilege escalation, particularly due to inadequate security of our digital access controls and network. Our employees and customers could be subject to phishing scams (wrongful use of the Fnac Darty identity) resulting in unlawful data capture.	Fnac Darty's Information Systems Department ensures that all IT applications are consistent throughout the Group through a coordinated strategy that aims to anticipate operational incidents, particularly in the context of sharing tools due to the consolidation of the two banners, and to arrange emergency plans. The Group aims to ensure the security of the information systems and the data they contain. This is achieved through appropriate governance, technical solutions, shared standards, a common policy and the distribution of the IT Charter to employees, the management of digital identities, cyber resilience and the strengthening of the security audits of external service providers. Verifying external IT service providers by obtaining contractual guarantees ensures the confidentiality and security of the data processed (PCI-DSS compliance of service providers processing banking data). Furthermore, the Group works continuously to raise its employees' awareness of cyber security. Increasingly stringent security solutions are in place on our commercial websites, messaging services, and outflows. Every year, specialist external consultants carry out anti-intrusion audits and, where necessary, draw up immediate action plans.

Security risks – Managing the confidentiality of key strategic, commercial, social and legal information

Risk identification	Risk management
In the context of its current operations and strategic development, the Group processes and stores key information that could be used for malicious purposes. The Group must, at all times, ensure the controlled management of any confidential information upon which the market success of the year's major commercial operations depends.	The Group ensures the confidentiality of its key information by means of: ■ an internal authorization and rights policy for the various shared tools and networks; ■ a reminder of the best practices to adopt when using tools and managing information, provided in the Group's IT Charter; ■ the monitoring of key employees' inboxes for suspicious emails; ■ the encryption of sensitive information; ■ the management of key commercial information in a siloed, restricted manner and in accordance with a "just-in-time" data approach.

6.3 / Regulatory risks

Regulatory risks – Compliance with various regulations

Risk identification	Risk management
Because of its in-store and online retail activities, the Group is exposed to changes in the legal and regulatory environment in the countries in which it operates. In particular, the Group's activities are subject to controls, investigations and regulations relating to consumer protection, competition, e-commerce, intermediation in consumer credit and insurance, personal data protection, information technology, digital and physical book prices, contractual warranties for customers, and store safety and accessibility. The Sapin 2 Law and the law establishing a duty of care places a heavier obligation on our Group to put in place an annual declaration on interest representation activities, as well as measures to combat corruption and influence-peddling in every country where the Group is present. The Group's business is also affected by environmental regulations, which may have an impact on the products our banners distribute (such as obligations to dispose of or recycle consumer electronics and domestic appliances), the organization of after-sales services, the methods and cost of transporting products distributed, or the costs our banners incur for the rental of retail space. Moreover, financial penalties and/or the requirement to publish such penalties may be imposed on the Group if its compliance is considered to be insufficiently robust, impacting the Group's earnings and image.	Legal and regulatory requirements are monitored and incorporated at the country level by the local Finance and Legal Department with the support of the Group's advisory network, under the supervision of the Group's Legal, Finance and Tax Departments. The Group's Business Code of Conduct reaffirms our commitments to compliance with legal and regulatory obligations towards Group employees and the third parties with which we enter into contracts. This system is supplemented by letters of representation signed in-house by key employees. Employees are reminded of our obligations through internal training courses carried out in a classroom or via e-learning modules. The Group participates in discussions that may affect its environment, by presenting its actions and innovations to the public authorities, by participating alongside the authorities in discussions prior to the drafting of legislative and regulatory texts, and by defending its positions and proposals during hearings with the government, parliamentarians, local elected representatives, or independent authorities. The Group aims to support political objectives in terms of a commitment to a more circular economy, consumer protection, and equal treatment of economic operators, while preserving the interests of the companies concerned. The Group provides technical expertise useful for political decision-making in a fully transparent manner. As part of a constructive approach with the public authorities, the Group is able to promote innovative proposals thanks to its operational experience, but also to warn about the economic, social and environmental risks to which certain measures might expose the sector's stakeholders. In the latter case, the Group is responsible for working proactively on compromise solutions that are satisfactory and acceptable to all stakeholders. Its approach to interest representation alternates between its own commitments and participation within groups of stakeholders under the aegis of the professional federations – national or local – of which it is a member.

Regulatory risks – Balanced use of data

Risk identification	Risk management
As part of its ongoing activities and strategic development, the Group processes and maintains significant volumes of personal data in a complex and innovative technological environment. As such, the Group could be exposed to malicious external uses or attacks. In an aggressive competitive environment, the Group also ensures, within the context of its activities, a balance between using personal data for commercial purposes and protecting the privacy of its customers.	In 2017, Fnac Darty appointed a Group Data Protection Officer (DPO) with the CNIL (Commission Nationale de l'Informatique et des Libertés – French data protection authority). Two people were employed to strengthen the data protection team. Each country subsidiary also has a Data Protection Officer or person responsible for monitoring this issue. Specific governance of personal data protection has been implemented across the entire scope of the business. As part of a continuous improvement process, an action plan is carried out in particular with regard to (see section 2.5.1 "Protecting the personal data of employees and customers"): ■ dedicated governance led by a management committee and a report at the Executive Committee level; "data protection" champions in each department; ■ keeping a register of personal data processing operations; ■ awareness and training; ■ documentation and procedures; ■ informing data subjects; ■ retention for limited periods; ■ security of information systems; ■ introduction of formal contracts (Data Protection Agreements) with subcontractors and partners.

6.4 / Financial risks

Financial risks – Liquidity risk

Risk identification	Risk management
The Group's activity is seasonal and is marked by a significant spike in its activity at the end of the year with the Black Friday period at the end of November and the Christmas celebrations in December. Group revenues and EBITDA are significantly higher in the fourth quarter than in the other quarters of the year. The Group's working capital requirements fluctuate during the year and are normally highest in the third quarter of each year, leading to significant liquidity needs. As of December 31, 2020, the Group's gross debt was €1,454.8 million (excluding IFRS 16), consisting mainly of: ■ a €200 million bank term loan maturing in April 2023; ■ €650 million in senior bonds maturing in April 2024 and April 2026 with capitalized interest; ■ €100 million in loans from the EIB; ■ a state-guaranteed loan of €500 million maturing in April 2021, with the option to extend it by five years until April 2026. Free cash flow from operations amounted to €192 million in 2020. The bank loan agreement, the state-guaranteed loan and the bond issue contain clauses customary for these types of financing, namely financial commitments, general restrictive covenants and early repayment clauses. As of December 31, 2020, the Company secured a waiver on testing its financial covenants under the Loan Agreement (see section 4.2.2.2 "Financial Debt" of this Universal Registration Document). The Company conducts a specific periodic review of its liquidity risk. The terms and conditions of the Group's financing lines are detailed in section 4.2.2.2 "Financial debt" of this Universal Registration Document.	Liquidity risk for the Group and each of its subsidiaries is closely and regularly evaluated by the Group through periodic financial reporting. In order to manage liquidity requirements, the Group has diversified its sources of financing, set up a €300 million NEU CP program in the first quarter of 2018 (increased to €400 million in June 2020), and has access to an unused €400 million revolving line of credit maturing in April 2023. In addition, the process of diversifying financing and renegotiating the Group's financial instruments, which started at the beginning of 2018 and contributes to risk management and mitigation, continued in 2019 with the refinancing of the 2016 debenture loan for a total of €650 million, in two tranches of €300 million and €350 million maturing in 2024 and 2026, and €100 million in financing from the European Investment Bank (EIB), repayable over nine years. Lastly, due to the Covid-19 crisis, in April 2020 the Group raised €500 million in financing in the form of a state-guaranteed loan from a group of French banks. The French government has guaranteed 70% of this financing. **Centralized cash management** Fnac Darty Participations et Services has entered into centralized cash management agreements for an unlimited term with its main French and its non-French subsidiaries. The purpose of these agreements is to centralize the Group's cash management ("cash pool") in order to encourage coordination and optimization in using cash surpluses or in covering aggregate cash requirements at Group level. Pursuant to the agreements, these subsidiaries deposit any cash surpluses they do not use to finance their operation and their capital expenditure program with Fnac Darty Participations et Services, in exchange for which Fnac Darty Participations et Services finances their working capital requirements and capital expenditure program.

Financial risks – Pension plan

Risk identification	Risk management
The pension plan, known as the "Comet pension plan," which is funded by Darty in the United Kingdom, has been taken over as part of the Fnac Darty consolidation. Fnac Darty's financing obligations depend on the future performance of the assets, the level of interest rates used to measure future commitments, actuarial projections and experience of changes in pension plans and the applicable regulations. Due to the many variables that determine the pension financing obligations, which are hard to predict, as well as any statutory changes, the future financing obligations for this pension plan in terms of cash could be larger than the amounts estimated as of December 31, 2020. In this case, these financing obligations could have a negative impact on the Group's financial position.	The monitoring of commitments under this pension fund is lead jointly by the Financial Control Department and the Investor Relations and Financing Department. Commitments are reassessed jointly every three years by the Group and the Comet Board of Trustees. Following the three-year renegotiation that took place in 2019, it was decided that contributions to the fund would be suspended from 2020 for the next two years. The Group is a member of the Comet pension fund Board, which meets approximately once per quarter.

Strategic risks – Change in the Group's capital structure

Risk identification	Risk management
Upon completion in 2017 of Ceconomy's purchase of the shares held by Kering, Ceconomy International Group held 24.2% of the share capital and voting rights of the Company as of December 31, 2020. Furthermore, in early February 2018, SFAM bought 11.38% of Fnac Darty shares from the Knight Vinke investment fund. As of December 31, 2020, SFAM Group's shareholding in the Company remained the same, at 11.4% of share capital and voting rights. Currently, no shareholder can influence the adoption or rejection of resolutions submitted for approval by Company shareholders at Ordinary and/or at Extraordinary General Meetings, in particular with respect to the appointment or removal of members of the Board of Directors, approval of the annual accounts, dividend distributions, authorizations related to capital increases, mergers, contributions, or any other decision requiring approval from Company shareholders. However, these recent changes demonstrate that the Group is potentially exposed to the risk of a change in shareholding structure that may hinder the execution of its strategic roadmap.	The Company's bylaws stipulate that shareholders must inform the Company when they pass the 3% capital holding threshold, and any multiple of 1% above this threshold. Any shareholder holding more than 5% of the capital must also make a declaration of intent providing the information specified in Paragraph VII of Article L. 233-7 of the French Commercial Code, including a declaration regarding any intention to take control of the Company or to continue purchasing securities. This declaration is renewable every six months. Together with the performance of shareholder identification studies several times per year, these mechanisms ensure that the Company is well informed about the various participants that have a stake in its capital. The Group also adheres to a strict policy ensuring that its governing bodies remain independent in the event of potential conflicts of interest with an existing shareholder. Accordingly, following the acquisition by Ceconomy of its equity stake in the Group, the latter entered into a dialog with Ceconomy in order to determine the best way for it to be represented in the Company's governance without hindering the proper functioning of operations or impeding execution of the Group's strategy. As such, no Director representing Ceconomy is present on the Board of Directors, but the Ceconomy group did participate in the selection of three Independent Directors. None of the 14 Directors on the Board are linked to the company SFAM, a service provider for the Group, and it therefore has no influence on the Group's decisions.

6.5 / Risk management associated with the Covid-19 health crisis

Specific risks associated with the Covid-19 pandemic

In addition to the specific risks that are subject to regular review and have defined action plans, since the beginning of 2020 the Group has had to deal with an unprecedented health crisis. This has required agile decision-making to make rapid adjustments to balance health and economic challenges with business continuity. The main issues are listed below:

Risk identification

- In 2020, the Covid-19 health crisis significantly affected the way the Group's work is organized, its operations and its economic model. The current situation shows that the ongoing crisis could continue to have a lasting impact on the Group's business, income, objectives and outlook. Each time health measures such as curfews or lockdowns are imposed they lead to partial or full closures of the Group's physical stores.
- The Group must ensure the health of its employees, customers and service providers by incorporating everyday prevention measures to suit each business line.
- If the pandemic develops differently in a particular country, it may disrupt industrial supply chains and cause inventory shortages in certain product categories.
- The health measures imposed by the authorities may have an impact on the logistics chain for the transportation of goods, on the supply of certain Group products and on the ability to deliver goods to the end customer.
- Social problems could slow the pace of consumer recovery post Covid-19.
- Greater digitization in consumer behavior could adversely affect store footfall and the Group's revenue;
- The Group needs to remain vigilant regarding the sound financial health of the key partners in its ecosystem.

Risk management

- At the start of the health crisis in Asia, the Group was quickly confronted with the effects of the situation on its sourcing activities. The decision to digitize the working environment enabled the move to remote working to protect employees in Hong Kong.
- During the first lockdown, choices and decisions were made with the goal of protecting the health of individuals and safeguarding the Group's economic interests (see section 2 "Measures taken to protect employees and customers during the health crisis"):
  - a continuity plan that ensures the health and safety of both employees and customers while providing the best possible service;
  - rapid reallocation of the Group's resources to strengthen digital capacity and ensure the continuation of its service activities (after-sales service, deliveries, etc.);
  - establishment of a cost adjustment plan with the implementation of part-time working for 80% of the workforce in France, given the closure of stores, revaluation of rents and downward revision of the investment plan;
  - set-up of a €500 million state-guaranteed loan to significantly strengthen liquidity.
- The Group has adapted its goods purchasing policy to deal with production delays. Working closely with its suppliers, it has drawn up a tactical purchasing plan for key product categories.
- Building on the centralized organization of its logistics platforms and the reliability of its digital platforms, the Group is continuing to adjust its operational model to respond to changes in demand and the situation.
- The Group relies on its ecosystem of partnerships with delivery providers and its internal delivery capabilities to ensure that its delivery times are in line with the highest market standards.
- The Group adapted its stores and developed click&collect to address health constraints during key commercial periods for the Group.

The course of the health crisis linked to the spread of Covid-19 still remains uncertain at this time, and its impact on the global economy is difficult to quantify. The extent of the impact on the Group's business in 2021 will depend on the nature of the measures taken by the authorities, the Group's ability to conduct its business with the end customer (delivery and store), and changes in consumer behavior post Covid-19. Building on the resilience shown in 2020 as a result of the Group's ability to absorb a significant proportion of its activities within its online presence, the Group remains vigilant and is periodically re-assessing with great care any changes in the situation and its impact on business and earnings.

6.6 / Insurance

General overview

The Group took out its insurance policies under conditions that were tailored to the scale and type of the Group's risks.

The Group's insurance approach is coordinated by its Legal Department, which is responsible, with the support of the other departments, for identifying risks, quantifying their consequences and reducing them by:

- recommending preventive measures for risks that can be eliminated or reduced by these means; and
- establishing financing arrangements, including the transfer to insurance companies of risks of an exceptional nature where the potential impact is high and the frequency is low.

This requires each Group subsidiary to provide the Group Legal Department with the information required to identify and quantify risks, and to implement appropriate resources to ensure business continuity in the event of an incident. Based on this information, the Group Legal Department negotiates with the major players in the insurance and reinsurance industry in order to find the cover best suited to the Group's risk coverage requirements.

Risk prevention policy

The risk prevention, precaution and protection policy is managed at Group level by the Risk Committee, which brings together multiple departments involved in risk management. Its role is to identify, assess and reduce exposure to risk and the occurrence and severity of claims, through:

- audits of the main operational sites;
- adherence to the recommendations of security professionals;
- internal control procedures;
- staff training;
- the dissemination of risk management best practices; and
- the implementation of appropriate emergency plans.

The Group's insurance policy

The Group's policy of transferring material risks to insurance companies is primarily determined by:

- the best economic balance between risk cover, premiums and deductibles; and
- the choice and limitations available in the insurance market, and local regulations.

Under its insurance policy, the Group favors the "all risks with exceptions" approach, which is determined by assessing the financial consequences for the Group of potential claims, specifically in terms of:

- property damage resulting from fire, explosion, water damage, theft, natural events causing damage to the Group's own property (buildings, furniture, equipment, merchandise or computer systems), riots, terrorism, war or other causes;
- operating losses following direct damage;
- third-party liability: personal injury or damage to property caused to third parties due to products, installations and equipment;
- cyber-attacks;
- transportation of goods; and
- the vehicle fleet.

For the franchises, the Group has adopted the principle of absorbing claims that are small in terms of cost (especially for All-Risks and Third-party Liability). This contributes to setting up preventive actions to reduce the incidence of claims.

The setting up of insurance coverage is based on determining the level of coverage required to cope with the reasonably estimated occurrence of the risks that the Group wishes to transfer to the insurance market for each facility and company concerned. This appraisal takes into account the assessments made by brokers and insurers, as insurance professionals and underwriters of the Group's risks.

Uninsured risks are those for which no coverage is offered on the insurance market or where insurance is offered at a cost that is disproportionate to the potential benefits of such insurance. The Group's insurance requirements are reviewed regularly by the Risk Committee in order to verify their suitability with regard to developments within the Group and the insurance market.

The main insurance programs taken out by the Group cover all of its subsidiaries. This coverage is underwritten by international insurance brokers that specialize in the coverage of major risks with reputable insurers.

Main insurance programs

The main insurance programs taken out by the Group to cover the risks it faces in its operations are described below. Where necessary, they may be supplemented by local programs specific to the country in question:

Damage and operating losses: The principal purpose of this policy is to insure the Group against damage resulting from fire, explosions, water damage, theft, natural disasters affecting property (buildings, furniture, equipment, merchandise, or computer systems) and those for which the Group is liable, and against resulting operating losses, for an estimated period required for resumption of normal business. The cover limit is €400 million and €20 million per claim for direct damages and operating loss combined for the Group over the insurance term expiring January 1, 2022.

Third-party liability: This policy chiefly covers operating risks and post-delivery or post-service risks of physical injury or material damage caused to third parties due to the activity of any of the Group's subsidiaries or products sold by the Group. The amount of damage covered in this respect is capped for the Group for an insured period expiring April 30, 2021. The cover limit is €75 million per claim per year for the Group.

Cyber risk: This policy covers the risks of loss of confidentiality, integrity and availability of the Group's information systems. Aware of the challenges that a major cyber-attack could pose to its business, the Group increased the Cyber cover limit in 2019, and then again in 2020, to €50 million per claim and per insurance period, and the insurance period expires on April 30, 2021.

Transportation of goods: This policy covers the Group's goods while they are in transit against the risk of damage, theft, loss or major events that may occur during transportation. The cover limit for this policy, which is renewed on April 30, 2021, is €3 million per claim.

Vehicle fleet: This policy covers our fleet of around 2,000 vehicles against the risks of liability and damage that may arise during the circulation of our vehicles. Foreign subsidiaries have local cover.

Insurance expenses borne by the Group: The cost to the Group of all insurance policies for the period ended is approximately €5 million.

6.7 / Risk management

The AMF defines risk as the possibility of an event whose consequences are likely to impact the persons, assets, environment and objectives of the Company, its image or its reputation.

Risk management includes areas that encompass far more than just financial risks: strategic, operational, market, corruption, image, reputation or compliance risks. Risk management is a management tool that contributes to:

- creating and protecting the Company's value, assets, image and reputation;
- preserving the longevity of the company's short-, medium- and long-term activities;
- securing the Company's decision-making process and other processes to achieve its objectives;
- encouraging consistency between the Company's actions and its values; and
- mobilizing the Company's workforce around a shared vision of the main risks.

The Group closely associates risk management with internal control. The Group's risk management and internal control systems rely on a series of resources, procedures and actions aimed at ensuring that proper measures are taken to identify, analyze and control:

- risks that could have a significant impact on the Company's assets or the achievement of its objectives, whether operational, financial or related to compliance with laws and regulations; and
- the activities, efficiency of its operations and efficient use of resources.

6.7.1 / THE RISK MANAGEMENT SYSTEM

The implementation of the risk management system in the Group is based on an organizational framework, a three-step risk management procedure and ongoing oversight.

6.7.1.1 / Risk management structure and coordination with internal control

Organizational framework

The organizational framework includes:

- a structure that defines the roles and responsibilities of those concerned, establishes clear and consistent procedures and standards within the system; and
- a risk management policy that formalizes the system objectives.

Organization of risk management at country level

Managing the exposure to decentralized risks is the responsibility of the country CEO and local managers, who are closest to the risks associated with the activities they exercise or supervise:

- monthly performance reviews help to detect the appearance or occurrence of risks;
- country Security Departments are responsible for the security of the Company's physical and intangible assets and for the security and safety of all persons present at all the Group's sites; they implement all human, organizational and technical means to handle risks of an accidental or intentional nature; and
- the Support Services Departments, in their role of securing and driving progress, may identify risks and propose an action plan to the reporting line for their containment.

Organization of risk management at Group level

The Internal Audit Department organizes, for management, the process of mapping the Group's major internal and external risks based on a formalized approach for identifying and assessing risks.

The Security Department circulates a set of rules and best practices to control the risks within its remit. The network of individual country Security Directors also rely on these rules and best practices. Its objectives at Group level are to harmonize procedures, reduce risks and optimize safety costs by promoting synergies and raising the awareness of all personnel within the Group's banners.

The Legal Department identifies and analyzes the Group's material legal risks and the insurable risks to be included in the Group's financial statements.

Preparation of the strategic plan by the Strategy Department provides the opportunity to assess the major external risks and update the mapping of the Group's major risks. In accordance with the guidelines, this is sent to the Internal Audit Department.

Risk management policy

The Group instituted its risk management policy based on the COSO II Framework.

A three-step risk management process

- Risk identification: the Group treats risk identification as an ongoing business process. Risk identification helps to categorize and centralize major risks either with the Security Department or with the Internal Audit Department, depending on the type of risk.
- Risk assessment: in terms of the Group's activities, this approach is documented at least once a year during a risk self-assessment process headed by the Internal Audit Department. The risk management policy sets out the criteria and procedures for these assessments. The aim is to review potential consequences of the main risks (consequences that may be of a financial, HR, legal, image-related or reputational nature) and assess the likelihood of their occurrence, as well as the level of risk management.
- Handling risk: the last step of the risk management process includes identifying the action plan(s) best suited to the Company.

Managing risk management procedures

The risk management system is subject to regular monitoring and review, which allows it to be continually improved.

The Audit Committee meets at least once a year to review the risk mapping prepared by the Internal Audit Department for the Group's Senior Management and monitors the progress of dedicated action plans.

The Group also conducts regular internal audits in France and abroad to assess and improve the effectiveness of its risk management systems.

Links between risk management and internal control

The risk management and internal control systems are complementary to the management of the Group's activities:

- the risk management system aims to identify and analyze the main risks. Such risks are addressed and are the subject of action plans. These plans may propose a change to the organization, the implementation of projects and the introduction of controls. Any such controls to be implemented come within the internal control system and may be reviewed in light of the risk mapping;
- the internal control system relies on the risk management system to identify the main risks to be contained; and
- the audit plan relies mainly on risk mapping to test the assessment of the level of control of identified risks.

The coordination and balance between the two systems depend on their shared underlying control environment, and, more specifically, the Company's specific risk and control culture, and the ethical values specified in the Group's Business Code of Conduct.

6.7.1.2 / General internal control principles

Internal control definition and objectives

The internal control system within the Group encompasses a number of tailored resources, policies, practices, procedures and initiatives, the purpose of which is to ensure that the required measures are taken to control:

- the Group's activities, efficiency of operations and efficient use of resources; and
- the risks likely to have a material impact on the company's assets or its ability to meet its objectives, whether of an operational, financial or compliance nature.

Internal control is defined as a process conducted by senior management under the control of the Board of Directors, and implemented by the Directors and all employees. Irrespective of the quality and scope of internal control, it cannot entirely guarantee that the objectives in the following areas will be achieved:

- compliance with applicable laws and regulations;
- application of instructions and strategy adopted by senior management;
- proper functioning of internal processes, including those contributing to the protection of the company's assets; and
- reliability of financial information.

Internal control limits

The following limitations inherent in any internal control system affect the probability that the Company will achieve its established objectives, in particular:

- human errors or malfunctions that occur when decisions are made or implemented;
- deliberate collusion between several persons, making it possible to elude the control system in place;
- deliberate fraud by management;
- where the implementation, or even maintenance, of a control would be more burdensome than the risk which it is supposed to alleviate; and
- when, in endeavoring to achieve the above-mentioned objectives, companies are confronted with events and hazards that are outside of their control (unforeseen changes in markets and competition, unforeseen change in the geopolitical situation, errors in forecasting or estimating the impact of such changes on the organization, etc.).

Internal control components

The quality of the internal control system depends on the following components:

- a control environment based on rules of conduct and integrity that are upheld by the management and communicated to all employees;
- the existence of clearly and appropriately defined roles and responsibilities;
- a system for categorizing, analyzing and managing the main risks; and
- ongoing monitoring of the internal control system, and regular review of its performance.

The Group's internal control environment

This environment is structured around the principles and values that are detailed in the Group's internal codes and charters and govern the behavior and ethics of all employees. It relies on the management of human resources to ensure the competence, ethics and involvement of employees.

Principles and values

- The Business Code of Conduct was updated in 2020. It sets forth the ethical principles and the main rules of conduct, in accordance with applicable regulations, and the behavior expected of Fnac Darty employees and partners.
- A "Gifts and Benefits Charter" updated in 2017 sets out in more detail the rules governing the various gifts and enticements from suppliers, third parties, and partners.
- The key unifying values of the Fnac Darty Group banners are Commitment, Passion, Respect, Innovation, Solidarity, Exemplary Performance, Spirit of Service, and Operational Excellence. These shared underlying values are reiterated in the updated Business Code of Conduct.
- An ethics charter for securities trading, updated in 2019, in compliance with AMF instructions, defines the obligations incumbent on persons holding privileged information.
- A Charter relating to the appropriate use of information systems was updated in 2018 to raise awareness and increase user responsibility among Fnac Darty employees in respect of their rights and duties.

These codes and charters have been validated by the Group's Executive Committee. They are available to all employees for reference on the intranet sites of the Group's banners.

"Fnac Darty's Essential Rules," updated in 2020, set forth the 14 main operational and administrative cycles of the Group's activities and the key internal control rules to follow in respect of legal or regulatory compliance, and in respect of efficiently allocating resources in order to achieve these objectives. In addition to these rules, there is a "Store Best Practices" corpus and a "Risk Prevention in management" glossary.

Human resources policy

The human resources policy contributes to internal control, in particular via the delegation of power and responsibilities, descriptions of functions, an employee assessment system and investments in training.

- Given the size of the Group and its workforce, the diversity of its activities, and the geographical dispersion of its different entities, it is necessary to delegate powers and responsibilities for the business to operate effectively. Responsibilities are delegated to appropriate people and entities, along with all the powers and resources they need to carry them out, in compliance with applicable regulations. Official job descriptions exist for key functions. The descriptions refer to the necessary controls for the supervision of the activity and also serve as a framework for the individual assessment system. The identification and description of key skills (managerial and business-specific) for the Group allows for the gradual implementation of a shared system for managing skills.
- Training, a component of annual plans, is focused on business-specific skills, combining specialist know-how, management expertise, and mandatory and regulatory knowledge. It is provided from the time new recruits first join the Group and continues throughout their careers, ensuring their individual development and that they follow essential rules on safety and compliance.
- All Group managers and employees benefit from an annual performance and skills appraisal and a professional interview designed to identify their training and professional development needs. Group Human Resources is responsible for the Group's senior executives (recruitment, international mobility, career management and training). Succession plans are in place for the principal Group management positions.
- Employees are asked to give their opinion on various themes every month by answering three questions. This mechanism is also an opportunity for them to freely express their expectations, which facilitates the creation of concrete action plans. Monitoring committees have been set up for this purpose.
- Compensation policies are managed and controlled by Group Human Resources for the principal management functions and at country level for other functions, in accordance with the main defined goals.

Organization

The structure of the Group's internal control involves persons throughout the chain of command, from the Executive Committee to all employees and supervisory and assessment bodies, including the Board of Directors, the Audit Committee, the Appointments and Compensation Committee, the Corporate, Environmental and Social Responsibility Committee and the Statutory Auditors.

The allocation of responsibilities and application of the rule on the division of functions ensures control and provides the basis on which the respective roles of the various decision-making bodies are built.

The Executive Committee

The Executive Committee determines the Group's main strategic policies and their impact on the major financial and management goals. It reviews the development of the business and decides which directions to take and which action plans to follow.

It is chaired by the Chief Executive Officer of Fnac Darty and, in 2020, also included the CEO of Fnac Vanden Borre in Belgium, the Group General Secretary responsible for Human Resources, CSR and Governance, the Human Resources Director, the Fnac Darty Commercial Director, the Fnac Darty Director of Operations and Information Systems, the Chief Operating Officer, the Group Chief Financial Officer, the Chief Executive Officer of Fnac Spain in charge of coordination for the Iberia Region, the Fnac Darty Director of Marketing and e-Commerce, the Group Director of Communications and Public Affairs, and the Fnac Darty Strategy and M&A Director.

Investment Committees

The Group Investment Committee examines and authorizes all investment decisions on major projects and projects related to:

- the creation of directly owned or franchised stores; and
- the acquisition or disposal of companies or businesses.

The Group Investment Committee is chaired by the Group's Chief Executive Officer. Its permanent members are the Group Chief Financial Officer and the Group Financial Control Director. Country projects are presented by the country CEO, assisted by his or her Chief Financial Officer and the experts involved in the projects (e.g. the Property Department for a real estate project).

The IT Investment Committee examines and authorizes all investment decisions on major IT projects.

The IT Investment Committee is chaired by the Group's Chief Financial Officer, and its permanent members are the Group Director of Operations and Information Systems and the Group Financial Control Director. Country projects are presented by the country CEO, assisted by his or her Chief Financial Officer.

Operational managers and employees

Management is the operational agent for internal control and relies on it for the achievement of its targets; the exercise of appropriate controls is therefore one of the prime responsibilities of every Group manager. This responsibility begins at the first level of supervision. Awareness of these controls among the main participants is formalized by the signing of delegations of powers and responsibilities.

As part of their delegated powers and formalized responsibilities, each Director and manager defines, implements and manages the internal control system. In particular, store, subsidiary and entity Directors are responsible for maintaining a satisfactory level of internal control over the assets and cash flows of the unit or company they manage.

Employees must be aware of the internal control systems for the objectives assigned to them, and must comply with the control principles and rules. They may help to improve and detect malfunctions. They are informed of the existing measures when they sign their employment contracts and by the internal regulations of the legal entities to which they report.

Other internal control participants

- The Group Legal Department advises and assists the operational departments and subsidiaries on major legal questions.
- The Group Tax Department advises and assists the operational departments and subsidiaries on major tax issues.
- The Group Financial Control Department is in charge of implementing and ensuring compliance with the procedures for reporting and preparing the consolidated financial statements.
- The Group Human Resources Department advises on and ensures compliance of internal practices with labor laws and regulations.
- The Group Security Department and the Group Architecture, Design and Maintenance Department conduct specific risk analyses and propose action plans for security and safety.
- The CSR Department advises operational departments and subsidiaries and helps them with the actions to be implemented in order to comply with societal and environmental responsibilities.

Supervisory and internal control assessment bodies

- The Board of Directors contributes to the general control environment through the skills of its members. It is regularly informed of major internal control and risk management methodologies and describes them in its Activity Report.
- Part of the Audit Committee's responsibility is "to ensure the implementation and relevance of internal control procedures and to identify and hedge Company risks, in particular risks relating to its financial or commercial assets (whether physical or intangible) as well as any type of contingent risk relating to employees, customers or third parties arising from the activities of the Company and/or its subsidiaries".
- Part of the Appointments and Compensation Committee's responsibility is "to evaluate the independence of the members of the Board of Directors, propose the appointment of its members, senior management and the specialized committees, and to examine and propose to the Board all elements and conditions for the compensation of members of senior management and the Group's main directors".
- Under its rules, part of the Corporate, Environmental and Social Responsibility Committee's responsibility is "to examine the principal risks and opportunities for the Group in corporate, social and environmental matters". It also oversees the risks associated with the duty of care.
- Having been set up in 2019, the Climate Committee meets once per quarter and comprises two sponsors from the Executive Committee (Group General Secretary and Director of Operations and Information Systems), as well as the Directors of Indirect Purchasing, CSR, Logistics, National Transportation, the Services Policy and After-Sales Service. It is responsible for deploying and verifying compliance with the Group's climate roadmap, ensuring that climate awareness is incorporated into the company's global strategy and driving the reduction objectives for greenhouse gas emissions.
- In January 2018, the Group's Ethics Committee was set up. It is chaired by the Group General Secretary responsible for Human Resources, CSR and Governance. Its permanent members are the Human Resources Director, the Legal Director, the Security Director, the Internal Audit Director, the CSR Director and the Data Protection Officer. This Committee's primary responsibilities are to ensure that the Group's codes, charters and policies are kept up to date, to monitor the effectiveness of risk reduction plans when mapping specific risks involving corruption and duty of care, and to prepare an annual report of its work for the Executive Committee.

- The Group's small Ethics Committee was established in July 2002 and is chaired by the General Secretary. Its permanent members are the Group Director of Human Resources, Group Legal Director, Group Risk Prevention Manager and Group Internal Audit Manager. The Committee's main duty is to oversee the follow-up and management of information reported via the ethics and compliance alert line.
- A Personal Data Management Committee was set up in 2017 to oversee compliance and adherence with the European General Data Protection Regulation (GDPR) of May 25, 2018. This Committee is chaired by the Data Protection Officer (DPO) appointed by the Group for France, who coordinates the DPOs appointed for other countries. The main objectives of this Committee, which meets every six weeks, are explained in chapter 2 of this Universal Registration Document, in particular in section 2.5.1 "Protecting the personal data of employees and customers".
- The Group's Insurable Risks Committee was created in 2019. It has the authority to validate, assess and improve the effectiveness of the risk management system in place, particularly in order to reduce net risk. This committee meets at least once every quarter and is chaired by the Group General Secretary responsible for Human Resources, CSR and Governance. Its permanent members are the Legal Director, the Financial Control Director, the Security Director, the Internal Audit Director, the Director of Internal Control France and the Head of Insurance.
- The Group Internal Audit Department, which contributes to the assessment of the internal control system through its missions, draws up recommendations for the improvement of its operations. The Internal Audit Department is in charge of managing and coordinating risk management, in particular through annual risk mapping and monitoring of action plans. It is also in charge of the central administration and analysis of internal control pursuant to the Financial Security Law and the AMF's reference framework set out in the section below, "Oversight of the system". The Group Internal Audit Department, which reports to the Group's General Secretary, reports the main results of its assessments to executive management and the Audit Committee.
- The Statutory Auditor takes note of the elements of internal control that are pertinent for the audit in order to take into consideration those factors that may generate risks of material anomalies in the financial statements, and not for the purpose of formulating an opinion on the efficacy of the internal control.

  At the time it deems appropriate, the Statutory Auditor communicates to management, at the appropriate level of responsibility, those weaknesses in the internal control system identified during the audit that it believes to be of sufficient importance to merit attention, unless the auditor believes that this approach would be inappropriate under the circumstances. The Statutory Auditor submits this communication in writing when it details weaknesses believed to be significant. The Statutory Auditor communicates the significant internal control weaknesses in writing to the bodies cited in Article L. 823-16 of the French Commercial Code, at the time it deems appropriate.

Oversight of the system

The ongoing oversight of the internal control system and the regular review of its functioning entail three types of tasks: annual self-assessment exercises, internal audits and observations made by the Statutory Auditors, as indicated in the previous paragraph.

Self-assessment

Those in charge are asked to apply the internal control system in order to assess the level of internal control achieved through the use of controls that are essential to the proper functioning of their activities.

This approach helps to:

- raise awareness among operational and functional managers of the internal control procedures for which they are responsible;
- provide a structured and objective framework for analyzing risks and sharing internal control best practices; and
- launch action plans and, if necessary, improvement plans.

The internal control analysis strategy is based on the following principles:

- an annual self-assessment of Fnac Darty's essential rules, through questionnaires filled in by key operational staff in each Group country organization. In 2020, 14 cycles were self-evaluated. The questionnaire for the "Finance, Accounting and Management" cycle sent to country Chief Financial Officers takes into account the AMF's reference framework and, in particular, its application guide.

  These questionnaires help operational staff to assess the quality of the internal control procedures for which they are responsible. They standardize the level of internal control across all activities and allow operational staff to benefit from best practices. They enable the launch of improvement action plans based on the results obtained.

Internal audit

In 2020, the Internal Audit Department continued to strengthen its system for assessing the organizations' internal control and risk management. The main actions undertaken concern:

- Internal Control Committees for all French and international subsidiaries. The purpose of these committees includes:
  - formalizing feedback from operational managers concerning identified and/or proven risks, and
  - ensuring that control activities are implemented and that they cover the subsidiary's risks.

  These Internal Control Committees met between January and December with the country and subsidiary CEOs and CFOs, and the Legal Department, Tax Department, Financial Control Department and Internal Audit Department; and
- the performance of specific audits in connection with the risk mapping.

Statutory Auditors

Within the framework of their assignment to certify the financial statements, the Statutory Auditors make observations. At the time it deems appropriate, the Statutory Auditor communicates to management, at the appropriate level of responsibility, those weaknesses in the internal control system identified during the audit that it believes to be of sufficient importance to merit attention, unless the auditor believes that this approach would be inappropriate under the circumstances. The Statutory Auditor submits this communication in writing when it details weaknesses believed to be significant. The Statutory Auditor communicates the significant internal control weaknesses in writing to the bodies cited in Article L. 823-16 of the French Commercial Code, at the time it deems appropriate.

6.7.1.3 / Internal control procedures relating to the preparation of financial information

General principles relating to the organization of accounting and financial internal control

Definition and objectives

Accounting and financial internal control includes the processes that provide accounting data: the financial information production process, account-closing process and the communications process.

The accounting and financial internal control system aims to ensure:

- compliance with accounting regulations and proper implementation of the principles on the basis of which the financial statements are prepared;
- implementation of senior management's instructions on financial reporting;
- the preservation of assets;
- the quality of information reported for the preparation of published financial statements and the reliability of their centralized processing for Group consolidation, with a view to the distribution and use of that information for management purposes; and
- the control of production of financial, accounting and management items.

Scope

The scope of application of internal control procedures relating to the preparation and handling of financial and accounting information comprises the parent company and all subsidiaries included in the consolidated financial statements.

Organization and management process of the accounting and finance function

Organization

Group financial and accounting information is prepared by the Group Finance Department.

In 2020, the Group Finance Department supervised the Financial Control Department, the Tax Department, the Investor Relations Department, the Security Department, the Treasury and Finance Department, the Property Department, and the France Finance Department, to which the Management Control Department reports.

Standards

Accounting standards

The Group has a body of accounting rules and policies which must be applied to all consolidated subsidiaries.

These accounting rules, which are regularly updated, take into account changes in accounting regulations and standards.

The accounting standards establish the principles required for the consistent processing of transactions. They specify, in particular, the recording methods pursuant to International Financial Reporting Standards (IFRS).

The budgetary and closure procedures ensure consistency in the processing of data.

Management standards

Management standards not only specify the rules applying to the valuation of certain major account balance sheets and income statements, but also the controls and validations applying to key processes.

The Financial Control Department is responsible for updating these rules and improving the quality of their formalization.

Management process

The production and analysis of financial and accounting information is based on a set of management procedures, such as:

- the medium-term plan, which measures the consequences of the strategic directions on the Group's major financial and management goals. The plan is also used annually by the Group to assess the value-in-use of assets relating to the various Cash Generating Units;
- the annual budget, compiled after discussions with Country and Group operational departments and general management: this budget, which identifies the major financial goals and operational action plans, is prepared in the fourth quarter of the year and is definitively adopted in the following first quarter after any intervening events are taken into account;
- the annual budget is updated at least twice a year to ascertain whether the budgetary targets have been met and, if necessary, to revise said targets in light of the results to date and any changes in the internal and external environment. In addition, a rolling monthly forecast is provided as part of the monthly budget update, with the entities sending in their revised monthly earnings and cash flow forecasts based on their business activity estimates;
- the reporting that is carried out each month on the basis of monthly result closures performed by all entities dependent on the Group allows rapid reporting of financial information and regular monitoring of operational performance. The Financial Control Department, on the basis of the controls delegated to country or subsidiary Chief Financial Officers, makes sure that this reporting is consistent and complies with the applied accounting treatments.

  The Group's CEO, its Chief Financial Officer, and the regional, country or subsidiary CEOs meet regularly with the managers of the various activities to assess the development of the business, based on financial and operational aspects; and
- the Financial Control Department regularly monitors, for annual and semi-annual closures, the off-balance sheet commitments of consolidated legal entities, including as part of the statutory consolidation processes, which require them to list all their commercial or financial commitments and monitor them over the years.

Information systems

The purpose of the financial and accounting information systems implemented in the Group is to meet the requirements in terms of compliance, security, reliability, availability and traceability of information.

- Financial management and accounting data are managed with a single SAP information system in all Fnac banner activities to ensure consistent processing, comparison and control of accounting and financial information. Financial management and accounting data are managed using a different SAP information system for Darty France, using software developed in-house for Vanden Borre (Darty Belgium).
- Financial reporting data and budget construction and tracking data are managed using a single information system across all Group activities. This SAP BPC tool interfaces with the various accounting information systems.
- Consolidation data are collected in a single consolidation tool known as BPC Consolidation, which interfaces with Fnac Darty's BPC V2 consolidated reporting system.

To reinforce internal control of systems, the Organization and Information Systems Department has strengthened the system used for the division of functions and has improved right of access controls through a formalized annual review across the entire Group.

Preparation of accounting and financial information

Operational bookkeeping processes

All bookkeeping processes, including sales, purchases and inventory management, fixed assets, payroll and cash are the subject of specific monitoring procedures and accounting validation and authorization rules.

Consolidation of accounts

The statutory consolidation of accounts is performed monthly using a single consolidation tool that allows the consolidated subsidiaries' financial information to be transmitted in real time after a comprehensive validation process of the consolidation files by their Statutory Auditors, CEOs and CFOs, who sign a representation letter every six months, thus ensuring the quality of the financial information transmitted.

The Financial Control Department conducts the consolidation process.

Financial communication

The Investor Relations and Financial Communication Department, which reports to the Group Chief Financial Officer, is responsible for preparing a precise timetable for releasing the latest financial information on the Group's activities to the financial markets.

This timetable complies with the requirements of the market authorities. Managers verify, with help from the Legal Department, that the information is released within the required time and in compliance with the laws and regulations that it monitors on an ongoing basis.

All material information communicated to the financial community accurately and transparently reflects the situation of the Group's activity, and is released in accordance with the principle of equality of information between shareholders.

Statutory Auditors

As part of their ongoing assignment, the Statutory Auditors audit the annual and interim accounts and financial statements of consolidated entities. The Group's annual consolidated financial statements are prepared under the supervision of the Financial Control Department under the responsibility of the Group Chief Financial Officer after validation by the entities' Finance Departments. The Chief Executive Officer and the Group Chief Financial Officer certify that the consolidated financial statements are true and present a fair view by signing a representation letter addressed to the Statutory Auditors.

6.7.2 / RISK MAPPING

Under its risk management and internal control procedures, the Group maps the principal risks to which it is exposed. The Group assesses the potential impact of each risk that is identified. The risk maps are updated regularly and allow the Group to define and monitor the various action plans that are implemented to reduce or manage these risks. The risks identified in the most recent Group risk mapping are described in the previous sections of chapter 6 "Risk factors and management". Additionally, in order to meet new regulatory requirements, risk mapping specifically for anti-corruption risks and risk mapping relating to the French law establishing a duty of care that must be exercised by parent companies and ordering companies have been carried out.

6.7.2.1 / Mapping of Group business risks

The key business risks identified are mapped at Group level with contributions from the Group's countries and main operational departments. This mapping is initially approved by the Executive Committee and then reviewed and approved by the members of the Audit Committee in December of every year.

Audit Committee members are updated on a regular basis on the progress of any risk mitigation plans.

6.7.2.2 / Specific mapping of Group corruption risks

In accordance with the Sapin 2 Law promulgated in December 2016, which came into effect in June 2017, the Group has established a corruption risk mapping process. Developed from interviews with the Group's various departments, it takes into account the geographical location of our activities, our interactions with third parties, the various business lines within the Group, our human resources policy, and existing procedures. The action plans defined in this regard have helped to strengthen our business ethics system (see chapter 2, section 2 of risk No. 4 "Fight corruption").

6.7.2.3 / Specific mapping of Group risks relating to duty of care

In consideration of the French law establishing a duty of care that must be exercised by parent companies and ordering companies, the Group, in conjunction with the Company's stakeholders, has mapped the specific risks relating to fundamental human rights and freedoms, personal health and safety, ethics and the environment that directly or indirectly result from its business activities. This work has helped us to define a robust Vigilance Plan that includes appropriate mitigation measures (see chapter 2, section 3 of risk No. 4 "Vigilance Plan").

6.7.2.4 / Specific mapping of Group GDPR risks

Under the General Data Protection Regulation that was adopted in 2016 and took effect in 2018, the Group has mapped its GDPR risks. Developed from interviews with the Group's various departments, it takes into account the geographical location of our activities, our interactions with third parties, and the various business lines within the Group. This mapping helps to direct actions for the GDPR compliance program in each business line (see section 2, part 2.5.1).