LifeFit Group MidCo GmbH
Munich

Short-form audit report
Consolidated financial statements and group management report
31 October 2020

Translation from the German language

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Building a better working world

Translation from the German language

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Note:

We have issued the audit opinion presented below in compliance with legal and professional requirements subject to the conditions described in the enclosed "Engagement Terms, Liability and Conditions of Use".

Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and group management report prepared in German

Independent auditor’s report

To LifeFit Group MidCo GmbH

Report on the audit of the consolidated financial statements and of the group management report

Opinions

We have audited the consolidated financial statements of LifeFit Group MidCo GmbH, Munich, (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 October 2020, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the fiscal year from 1 January to 31 October 2020, and notes to the consolidated financial statements, including a summary of significant accounting policies. In addition, we have audited the group management report of LifeFit Group MidCo GmbH for the fiscal year from 1 January to 31 October 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 Sec. 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 31 October 2020 and of its financial performance for the fiscal year from 1 January to 31 October 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 appropriately presents the opportunities and risks of future development.

Pursuant to Sec. 322 (3) Sentence 1 HGB, we declare that our audit has not led to any reservations relating to the legal compliance of the consolidated financial statements and of 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 Sec. 317 HGB and the EU Audit Regulation (No 537/2014, referred to subsequently as "EU Audit Regulation") and in compliance with German Generally Accepted Standards for 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 "Auditor's responsibilities for the audit of the consolidated financial statements and of the group management report" section of our auditor's report. We are independent of the group entities in accordance with the requirements of European law and German commercial and professional law, and we have fulfilled our other German professional responsibilities in accordance with these requirements. In addition, in accordance with Art. 10 (2) f) of the EU Audit Regulation, we declare that we have not provided non-audit services prohibited under Art. 5 (1) of the EU Audit Regulation. We believe that the audit 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 about the Group's ability to continue as a going concern

Please refer to the "Going concern" section in the notes and the disclosures in the "Outlook, opportunities and risks" section in the management report, in which the executive directors explain that the clubs have been completely closed for business since the lockdown imposed from 1 November 2020 in Germany and that currently no precise information regarding the timing of reopening is available. Future cash flows were forecast until October 2023 on the basis of the experience from early summer 2020 and are expected to remain positive for the existing businesses, assuming, however, that all clubs will be able to reopen in early summer 2021. However, postponement of the reopening may lead to payment bottlenecks in the short term, in which case appropriate countermeasures would have to be taken. Based on these planning assumptions, the financial covenants will be complied with and the parent company and thus the Group will have sufficient funds at their disposal during the forecast period. Liquidity and the ability to continue as a going concern depend on the planning assumptions materializing, in particular those regarding the timing of reopening and the development in member numbers. This draws attention to the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern and that represents a going concern risk pursuant to Sec. 322 (2) Sentence 3 HGB.

In accordance with Art. 10 (2) c) ii) of the EU Audit Regulation, we summarized our response as auditors to this risk as follows:

As part of our audit procedures, we assessed in particular the assumptions made and parameters set by the executive directors during liquidity planning and discussed these with the executive directors. Our audit procedures included comparisons with the current actual results for fiscal year 2020 and an analysis of the expected results for the following years considering various scenarios, in particular regarding the timing of reopening and the different developments in the number of members. In addition, we considered the impact of the liquidity scenarios on compliance with the covenants agreed under the financing arrangement. We also assessed the options and actions the Company plans to take to counteract short-term liquidity needs which could arise under some scenarios during the forecast period.

Additionally, we evaluated the disclosures in the notes and in the management report on the material uncertainties about the Group's ability to continue as a going concern.

Our opinions are not modified in respect of this matter.

Key audit matters in the audit of the consolidated financial statements

In addition to the matter described in the "Material uncertainties about the Company's ability to continue as a going concern" section, we determined the following as key audit matters which are to be communicated in our auditor's report:

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements for the fiscal year from 1 January to 31 October 2020. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon; we do not provide a separate opinion on these matters.

Below, we describe what we consider to be the key audit matters:

Goodwill impairment test

Reasons why the matter was determined to be a key audit matter:

Goodwill is tested for impairment at least once every fiscal year (impairment test). These tests are generally based on the present value of future cash flows of the cash-generating unit to which goodwill is allocated. They are based on projections derived from financial budgets and forecasts approved by the Company's executive directors. For discounting, the weighted average cost of capital (WACC) of the respective cash-generating unit is used. The outcome of these tests is highly dependent on the executive directors' estimate of future cash inflows and the discount rate used and, therefore, subject to considerable uncertainty. In this light and due to the materiality of goodwill, impairment testing of goodwill was a key audit matter.

Auditor's response:

During our audit, we assessed the valuation model underlying the impairment test, in particular its methodical and mathematical accuracy, with the help of our valuation specialists.

We obtained an understanding of the future cash inflows and the discount rates underlying the valuations. We discussed the significant planning assumptions with the executive directors and compared these with the results and net cash inflows realized in the past to assess the reliability of the budgets and forecasts. In addition, our assessment was based on a comparison with general and industry-specific market expectations regarding the significant value drivers in the budgets and forecasts. As even relatively small changes in the discount rate used can have significant effects on the calculated amounts, we also assessed the inputs used to determine the discount rate and obtained an understanding of the calculation method. In addition, we performed our own sensitivity analyses for the cash-generating units in order to estimate any potential impairment risk associated with a reasonably possible change in a significant assumption used in the valuation. Moreover, we assessed the information on the goodwill impairment test included in the notes to the consolidated financial statements.

Our procedures did not lead to any reservations concerning the impairment testing of goodwill.

Reference to related disclosures:

With regard to the recognition and measurement policies applied for goodwill and the related disclosures on judgments and sources of estimation uncertainty, refer to the information in the notes to the consolidated financial statements in note 2.3 (a) "Summary of significant accounting policies – Business combinations and goodwill." Additional disclosures on goodwill made by the Company are included in the notes to the consolidated financial statements under the heading "4.2. Intangible assets" and "4.3 Impairment losses."

Responsibilities of the executive directors for the consolidated financial statements and the group management report

The executive directors are 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 Sec. 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 financial performance of the Group. In addition, the executive directors are responsible for such internal control 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, the executive directors are 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 going concern basis of accounting unless there is an intention to liquidate the Group or to cease operations, or there is no realistic alternative but to do so.

Furthermore, the executive directors are responsible for the preparation of the group management report that, as a whole, provides an appropriate view of the Group's position and is, in all material respects, consistent with the consolidated financial statements, complies with German legal requirements, and appropriately presents the opportunities and risks of future development. In addition, the executive directors are responsible for such arrangements 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 appropriately presents the opportunities and risks of future development, 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 Sec. 317 HGB and the EU Audit Regulation and in compliance with German Generally Accepted Standards for 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 judgment and maintain professional skepticism throughout the audit. We also

- Identify and assess the risks of material misstatement of the consolidated financial statements and of 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 control.

- Obtain an understanding of internal control relevant to the audit of the consolidated financial statements and of arrangements and measures (systems) 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 the executive directors and the reasonableness of estimates made by the executive directors and related disclosures.

- Conclude on the appropriateness of the executive directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the 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 financial performance of the Group in compliance with IFRSs as adopted by the EU and the additional requirements of German commercial law pursuant to Sec. 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 audit 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 the executive directors in the group management report. On the basis of sufficient appropriate audit evidence we evaluate, in particular, the significant assumptions used by the executive directors 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 on the assumptions used as a basis. There is a substantial unavoidable risk that future events will differ materially from the prospective information.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with the relevant independence requirements, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence and where applicable, the related safeguards.

Translation of the German independent auditor's report concerning the audit of the consolidated financial statements and group management report prepared in German

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter.

Other legal and regulatory requirements

Further information pursuant to Art. 10 of the EU Audit Regulation

We were elected as group auditor by the shareholder meeting held on 15 August 2020 and were engaged by the executive directors. We have been the group auditor of LifeFit Group MidCo GmbH without interruption since fiscal year 2019/2020.

We declare that the opinions expressed in this auditor's report are consistent with the additional report to the audit committee pursuant to Art. 11 of the EU Audit Regulation (long-form audit report).

German Public Auditor responsible for the engagement

The German Public Auditor responsible for the engagement is Gregor Enzenhofer.

Eschborn/Frankfurt am Main, 26 February 2021

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

(signed)	*(signed)*
Enzenhofer Wirtschaftsprüfer [German Public Auditor]	Jaber Wirtschaftsprüfer [German Public Auditor]

Translation from the German language

LIFEFIT GROUP MIDCO GMBH, MUNICH

ANNUAL REPORT AND CONSOLIDATED FINANCIAL STATEMENTS FOR THE SHORT FISCAL YEAR AS OF 31 OCTOBER 2020

Translation from the German language

GENERAL INFORMATION

For the short fiscal year from 1 January to 31 October 2020

SHAREHOLDER

LifeFit Group TopCo GmbH, Munich

REGISTERED OFFICE

Munich

INDEPENDENT AUDITOR

Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft

Mergenthalerallee 3-5
65760 Eschborn/Frankfurt am Main

Translation from the German language

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the short fiscal year from 1 January to 31 October 2020

	Notes	1 Jan 2020 to 31 Oct 2020 EUR k	13 Mar 2019(*) to 31 Dec 2019 EUR k
Revenue	3.1	**101.055**	**66.025**
Other operating income	3.2	922	694
Cost of materials	3.3	4.661	3.551
Personnel expenses	3.4	28.388	20.889
Other operating expenses	3.7	36.227	24.067
Depreciation, amortization and impairment	3.6	32.088	16.156
Operating profit or loss		**613**	**2.056**
Profit/loss from investments accounted for using the *equity method*	5.5	-34	0
Finance income		0	290
Finance costs		13.034	7.087
Finance costs, net	5.6	**13.034**	**6.797**
Profit or loss for the period before taxes		**-12.455**	**-4.741**
Income taxes	3.8	799	413
Profit or loss for the period		**-11.656**	**-4.328**
Thereof attributable to:			
- equity holders of the parent		-11.656	-4.328
Profit or loss for the period		**-11.656**	**-4.328**
Reconciliation to the consolidated statement of comprehensive income			
Profit or loss for the period		**-11.656**	**-4.328**
Total comprehensive income/ loss		**-11.656**	**-4.328**

(*) LifeFit Group MidCo GmbH was incorporated on 13 March 2019 and entered in the commercial register at Munich Local Court on 9 April 2019. Its operating business started from the date of acquisition of the three subsidiaries Fitness First Germany GmbH, Elbgym GmbH and Barry’s Bootcamp GmbH on 1 July 2019.

Translation from the German language

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 October 2020 (prior year: as of 31 December 2019)

	Notes	31 Oct 2020 EUR k	31 Dec 2019 (adjusted)* EUR k
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	4.2	35,728	38,411
Property, plant and equipment	4.1	45,366	41,801
Right-of-use assets	7.1	131,619	118,874
Investments in joint ventures		1	45
		212,714	199,131
CURRENT ASSETS			
Inventories	6.1	742	766
Trade receivables	6.2	2,224	1,974
Receivables from related parties	7.4	1,322	1,430
Income tax assets	6.3	67	74
Other non-financial assets	6.4	6,584	1,292
Cash and cash equivalents	6.5	22,551	22,395
		33,490	27,931
TOTAL EQUITY AND LIABILITIES		**246,204**	**227,062**
EQUITY AND LIABILITIES			
EQUITY			
Capital stock	5.1	26	25
Capital reserves	5.1	99,521	99,522
Other reserves	5.1	-122,153	-110,498
		-22,606	-10,951
NON-CURRENT LIABILITIES			
Financial liabilities	5.2	38,584	37,956
Shareholder loans	5.3	34,735	32,172
Other non-financial liabilities	6.7	728	28
Other financial liabilities	6.8	2,180	2,596
Other current provisions	7.2	2,674	3,215
Lease liabilities	7.1	133,111	117,235
Deferred tax liabilities	3.8	515	1,577
		212,527	194,779
CURRENT LIABILITES			
Financial liabilities	5.2	10,000	0
Trade payables	6.6	15,871	11,988
Other non-financial liabilities	6.7	3,925	5,689
Other financial liabilities	6.8	3,121	3,279
Related party debt	7.4	296	0
Other current provisions	7.2	1,544	1,899
Lease liabilities	7.1	21,112	19,913
Income tax liabilities	7.3	414	467
		56,283	43,235
TOTAL EQUITY AND LIABILITIES		**246,204**	**227,062**

*see Note 2.5 Changes in accounting policies

Translation from the German language

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 October 2020

		Equity attributable to equity holders of the parent			
	Notes	Subscribed capital EUR k	Capital reserves EUR k	Other reserves EUR k	Consolidated equity EUR k
As of 13 March 2019 (formation)		**25**	**0**	**0**	**25**
Contribution in kind			94.192		94.192
Loss for the year				-4.328	-4.328
Total comprehensive income/ loss		**25**	**94.192**	**-4.328**	**89.889**
Capital increase in connection with Smile X	4.4		5.330		5.330
Grant of shareholder loans bearing interest at a below-market rate	5.3			5.024	5.024
First-time consolidation of FFG, Elbgym and Barry´s Bootcamp (transaction under common control)	4.4			-111.194	-111.194
As of 31 December 2019	5.1	**25**	**99.522**	**-110.498**	**-10.951**
Contribution in kind		1	-1		0
Loss for the year				-11.655	-11.655
Total comprehensive income/ loss		**1**	**-1**	**-11.655**	**-11.655**
As of 31 October 2020	5.1	**26**	**99.521**	**-122.153**	**-22.606**

Translation from the German language

CONSOLIDATED STATEMENT OF CASH FLOWS

For the short fiscal year from 1 January 2020 to 31 October 2020

	31 Oct 2020 EUR k	31 Dec 2019 (adjusted)* EUR k
Cash flows from operating activities		
Profit or loss for the period from continuing operations	-11,655	-4,328
Amortization and depreciation (+)/write-ups (-) of non-current assets	32,088	16,156
Other non-cash expenses (+)/income (-)		
Finance costs, net	13,034	6,797
Deferred tax expense(+)/income(-)	-1,062	-894
Other	-289	-1,541
Gain (-)/loss (+) on disposals of non-current assets	357	220
Increase (-)/decrease (+) in inventories, trade receivables and other assets	-5,405	-1,341
Increase (+)/decrease (-) in trade payables and other liabilities	-769	-3,403
Increase (+)/decrease (-) in provisions	-896	97
Interest paid	-2,890	-1,133
Net cash flows from operating activities	**22,513**	**10,630**
Cash flows from investing activities		
Cash paid for investments in property, plant and equipment	-13,918	-6,118
Cash paid for investments in intangible assets	-154	-13
Cash paid for business acquisitions net of cash acquired	0	-24,986
Cash paid for investments in associates	44	-906
Net cash proceeds from business combinations under common control	0	8,602
Net cash flows used in investing activities	**-14,028**	**-23,421**
Cash flows from financing activities		
Cash received from borrowings (including embedded derivatives)	10,000	38,056
Cash received from shareholder loans	0	9,519
Cash received from capital injections	0	1,419
Cash outflows from repayment of borrowings/cash received from borrowings	-574	99
Repayment of lease liabilities	-17,755	-13,932
Net cash flows from financing activities	**-8,329**	**35,161**
Net increase in cash and cash equivalents	**156**	**22,370**
Cash and cash equivalents as of 1 January 2020 and 13 March 2019	**22,395**	**25**
Cash and cash equivalents	**22,551**	**22,395**

*see Note 2.5 Changes in accounting policies

Translation from the German language

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 October 2020

1. Corporate and group information

LifeFit Group MidCo GmbH (hereafter the “Company” or “MidCo”) was incorporated on 13 March 2019 and organized under the laws of Germany as a “Gesellschaft mit beschränkter Haftung” (limited liability company) for an indefinite period. It was acquired by LifeFit Group TopCo GmbH (“TopCo”) on 31 May 2019 and was renamed LifeFit Group MidCo GmbH (previously INOS 10-016 GmbH). The parent of MidCo (100% share) is hence LifeFit Group TopCo GmbH, Munich, and the ultimate parent of the Group is Fitness First Luxembourg S.C.A., which has its registered office in Luxembourg.

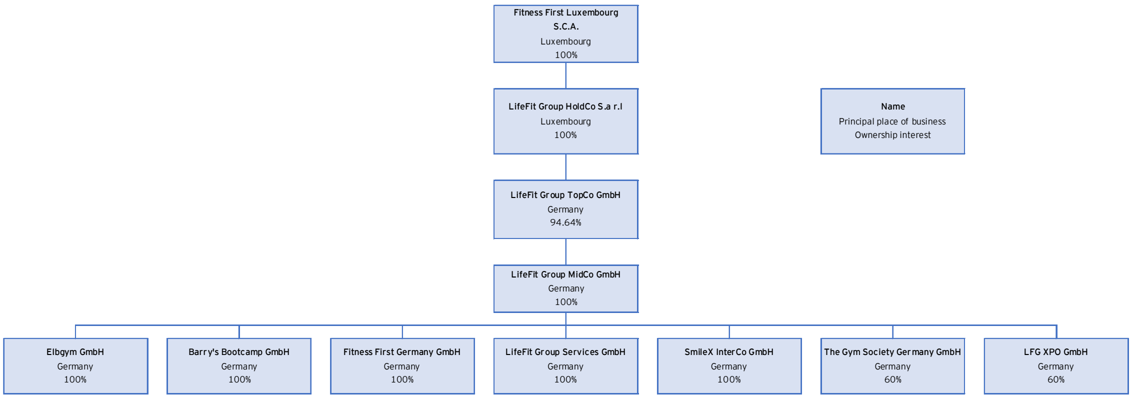
The registered office of the Company is established in Munich, the business address is Hanauer Landstrasse 148a, 60314 Frankfurt am Main, and the commercial register number is HRB no. 248092 at Munich Local Court. The first fiscal year started on 13 March 2019 and ended on 31 December 2019. Both fiscal years of the Company are short fiscal years. The current fiscal year of the Company starts on 1 January and ends on 31 October. However, the prior-year results refer primarily to the period from 1 July to 31 December 2019, since the material operating business began from the date of purchase of three subsidiaries on 1 July 2019 (Fitness First Germany GmbH, Elbgym GmbH and Barry’s Bootcamp GmbH).

Reorganization of Fitness First Luxembourg S.C.A., Luxembourg (hereafter FFL)

During restructuring that occurred before the fiscal year-end on 31 December 2019, Fitness First Luxembourg S.C.A., Luxembourg, acquired several new entities and established new intermediary holding companies (TopCo and MidCo) to run newly acquired businesses. At the same time, it sold two companies.

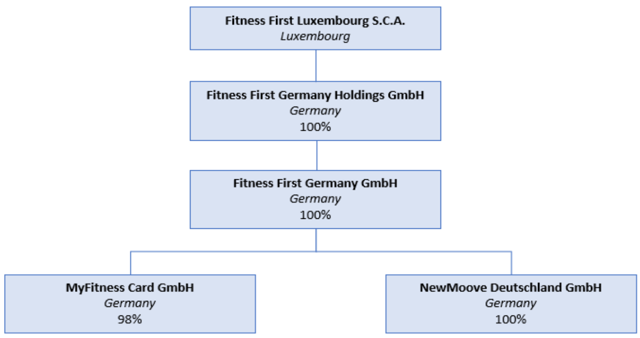
Translation from the German language

Organization chart after restructuring (as of 31 October 2020 – taking into account the change in shareholders of TopCo):



- FFL Fitness First Luxemborug S.C.A.
- FFG Fitness First Germany GmbH
- Elbgym Elbgym GmbH
- Bootcamp Barry's Bootcamp GmbH
- LF Services LifeFit Group Services GmbH
- SmileX SmileX InterCo GmbH
- Gym Society The Gym Society Germany GmbH
- XPO LifeFit Group XPO GmbH

Organization chart before restructuring (as of 31 December 2018 – essentially also valid until 30 June 2019):



- FFGH Fitness First Germany Holdings GmbH
- MFC MyFitness Card GmbH
- NM NewMoove Deutschland GmbH

Translation from the German language

Timeline of restructuring

28 Dec 2018	FFGH acquired 100% of shares of Elbgym GmbH, Hamburg, Germany, from Wilhelm Schröter for EUR 3,551k.
4 Mar 2019	FFGH founded Barry's Bootcamp GmbH with shareholder's equity of EUR 25k.
13 Mar 2019 **31 Mar 2019**	FFG acquired 0.5% of shares in MFC from Ralph Siebold for EUR 50k and 1.5% of shares from Andreas Schröder for EUR 300k. Consequently, FFG held 100% of the shares in MFC as of 31 March 2019.
5 Apr 2019	FFG sold 100% of the shares in MFC and NM to FFL for EUR 7,923k.
11 Apr 2019	The acquired shares in MFC and NM were sold to Profession Fit BGF GmbH, in which a 54% stake is held by FFL.
24 May 2019	FFL acquired 100% of the shares in a shell company named INOS 19-015 GmbH from INOS24 Holding GmbH for a purchase price of EUR 27.8k. INOS 19-015 GmbH was renamed LifeFit Group TopCo GmbH.
31 May 2019	TopCo acquired 100% of the shares in a shell company named INOS 19-016 GmbH from INOS24 Holding GmbH for a purchase price of EUR 27.8k. INOS 19-016 GmbH was renamed LifeFit Group MidCo GmbH.
30 Jun 2019	MidCo acquired 100% of the shares in FFG, Barry's Bootcamp GmbH and Elbgym GmbH for a purchase price of EUR 118,968k. FFL assigned 80% of the purchase price receivable to TopCo, which in turn contributed this to MidCo in the form of a contribution in kind. The remaining 20% of the purchase price receivable was converted into a shareholder loan granted to MidCo by FFL.
29 Jul 2019	MidCo acquired 100% of the shares in a shell company named INOS 19-036 GmbH from INOS24 Holding GmbH for a purchase price EUR 27.8k. INOS 19-036 GmbH was renamed LifeFit Group Services GmbH.
8 Aug 2019	MidCo acquired 100% shares in smileX InterCo GmbH and its subsidiaries for a purchase price of EUR 33,312k.
15 Oct 2019	MidCo set up a joint venture with The Gym Society International B.V., Arnhem, Netherlands, by acquiring 60% of the shares in a shell company named INOS 19-034 GmbH from INOS24 Holding GmbH for a purchase price of EUR 16.7k. INOS 19-034 GmbH was renamed The Gym Society Germany GmbH.
14 Nov 2019	MidCo set up a joint venture with XPO Fitness Brands International LLC, Delaware, USA, by acquiring 60% of the shares in a shell company named INOS 19-057 GmbH from INOS24 Holding GmbH for a purchase price of EUR 16.7k. INOS 19-057 GmbH was renamed LFG XPO GmbH.

All acquired subsidiaries mentioned above were consolidated for the first time in accordance with IFRS 3 as LifeFit Group MidCo gained control over them in the prior year.

Translation from the German language

With 64 clubs (prior year: 66 clubs) and more than 189,000 members (prior year: 215,000 members) at the end of October 2020, Fitness First Germany GmbH is one of the leading fitness and health service providers in Germany. Fitness First focuses on the needs of professionals in major German cities and aims to offer a very high standard of training and services in the wellness area.

Elbgym operates four fitness clubs in central Hamburg and is well known in the region for offering its own cross-fit training, wellness and intensive personal advice.

The “Barry’s Bootcamp” group segment stands for high-intensity interval training. The workout switches between treadmill and weight training and burns up to 1,000 calories per hour, making it one of the most strenuous and effective workouts in the world. A highly motivating atmosphere, darkened red light and dedicated coaches push the participants of a class to peak performance. The first studios in Germany in Berlin and Frankfurt are expected to open in early summer 2021.

The subsidiary smileX Interco GmbH is a parent of 14 fitness clubs (prior year: 14) primarily located in the South East of Germany and operating under the brand name SMILEFITNESSCLUB. Franchise licenses have also been granted to three clubs. The smileX clubs provide a basic offering of fitness training and motivating courses.

The Gym Society Germany GmbH (“Gym Society”) is a joint venture between MidCo and The Gym Society International B.V. The concept behind GymSociety is personalized consultancy for a healthy lifestyle with a luxurious boutique environment and experienced trainers. The first Gym Society club was opened in Cologne in July 2020.

LFG XPO GmbH (XPO) is a joint venture of MidCo and XPO Fitness Brands International LLC, Delaware, USA. The purpose of the joint venture is to establish selected boutique fitness concepts, such as Club Pilates and Pure Barre, in Germany.

The consolidated financial statements of LifeFit Group MidCo GmbH for the short fiscal year from 1 January to 31 October 2020 are expected to be authorized for issue in accordance with a resolution by the shareholder on 26 February 2021. Under German law the financial statements are approved by the shareholders at the annual general meeting.

Translation from the German language

2. Significant accounting policies

This section provides additional information about the overall basis of preparation that the directors consider to be useful and relevant to understanding these financial statements.

2.1 Basis of preparation

The consolidated financial statements of MidCo and its subsidiaries (hereafter the “Group”) have been prepared on a going concern basis in accordance with International Financial Reporting Standards (“IFRS”) as adopted by the European Union for the period beginning on or after 1 January 2020.

GOING CONCERN

The consolidated financial statements were prepared on a going concern basis in spite of uncertainties due to the COVID-19 pandemic concerning reopening of the fitness clubs operated by the Group and maintaining operations. The clubs have been closed entirely since 1 November 2020 in accordance with lockdown regulations in Germany. Although different scenarios for reopening are being discussed at the time of approving these financial statements for issue, no statements can be made as to when reopening will be possible.

This assumption also takes into account the effects on business performance of the COVID-19 pandemic which arose in the spring of 2020 and which management mitigated with extensive measures.

All of the Group’s clubs already had to be temporarily closed during the first national lockdown from 22 March 2020 owing to the COVID-19 health crisis. The average duration of the closure was around 10 weeks. As of 8 June 2020, all clubs were opened again.

The material operational impacts and measures in connection with the first lockdown were putting employees on temporary short-time work (up to 70%) and negotiating with landlords on the deferral of rent payments. However, the closure was also used to perform modernization work in the clubs. New pricing models were also devised to maintain a high level of customer retention. Overall, we successfully collected 85% of all membership fees during the lockdown, 10% of all members froze their membership and only 5% of members retrieved their fees by means of returned direct debits.

After reopening, operations returned to normal pre-crisis levels within a short period.

Future cash flows were forecasted until October 2023 on the basis of the experience from early summer 2020 and are expected to remain positive for the existing businesses, assuming, however, that all clubs will be able to reopen in early summer 2021. Loss of members so far has been taken into account accordingly, although the Company anticipates a significant number of new members after reopening. However, postponing the reopening may lead to payment bottlenecks in the short term, in which case appropriate countermeasures would have to be taken.

In the fiscal year, consolidated equity amounted to -EUR 22.6m (prior year: -EUR 11.0m). Including the subordinated shareholder loans (presented under “Shareholder loans” in the consolidated statement of financial position) of EUR 34.7m (prior year: EUR 32.1m), the equity ratio came to 4.9% (prior year: 9.4%). The terms of the subordinated shareholder loans are: interest rate of 7.0% p.a., repayment of principal and interest accrued upon maturity on 31 January 2024.

Translation from the German language

Besides the net loss for the year in the last two reporting periods, the negative equity mainly results from the specific accounting and consolidation requirements of IFRSs (“transactions under common control”). When first consolidating FFG, EG and Barry’s Bootcamp as of 1 July 2019, the difference between acquisition costs of FFG (EUR 119m) and the carrying amount of net assets acquired (EUR 8m) had to be accounted for in group reserves, impacting them negatively by EUR 111m. Had the transaction taken place as a business combination at fair values in accordance with IFRS 3, this difference would have been allocated to tangible and intangible assets, leading to a significant step-up of net assets and equity.

Overindebtedness is tested at the level of the entity LifeFit Group MidCo GmbH. As of the reporting date, in its statutory financial statements according to German GAAP (HGB) LifeFit Group MidCo GmbH reported positive equity of EUR 75.2m (prior year: EUR 96.0m).

After making inquiries, and in consideration of the foregoing, the executive directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. With regard to risks to the Company’s ability to continue as a going concern, please also refer to our comments in the management report in the section “Outlook, opportunities and risks.”

The consolidated financial statements have been prepared on the historical cost basis, except for derivative financial instruments, which have been measured at fair value. The consolidated financial statements are presented in euros and all values are rounded to the nearest thousand (EUR k) except where otherwise indicated.

The consolidated financial statements cover a short fiscal year and include the period from 1 January 2020 to 31 October 2020. The consolidated financial statements of the prior year, which was also the founding year, cover a short fiscal year as well and include the period from 13 March until 31 December 2019.

2.2 Basis of consolidation and consolidated companies

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as of 31 October 2020. Subsidiaries are all entities over which the Group has control. Subsidiaries are consolidated from the date of acquisition, being the date on which the Group obtains control, and continue to be consolidated until the date when such control ceases. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

The financial statements of the subsidiaries are prepared using the same accounting policies as the parent company. The fiscal years of the subsidiaries start on 1 November and end on 31 October. All intragroup balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full. In 2020, the fiscal year of the parent company ends on 31 October for the first time.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated statement of comprehensive income from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring the accounting policies used into line with those used by the Group.

Translation from the German language

Besides MidCo, the continuing business operations relate to the following subsidiaries included in the consolidated financial statements as of the reporting date:

Name	Registered office	Share in capital (%)
Fitness First Germany GmbH	Frankfurt am Main	100%
Barry's Bootcamp GmbH	Frankfurt am Main	100%
Elbgym GmbH	Hamburg	100%
LifeFit Group Services GmbH	Frankfurt am Main	100%
smileX Nürnberg 1 GmbH*	Frankfurt am Main	100%
smileX Stuttgart 1 GmbH*	Frankfurt am Main	100%
smileX Stuttgart 2 GmbH*	Frankfurt am Main	100%
smileX Pforzheim 1 GmbH*	Frankfurt am Main	100%
smileX Trier 3 GmbH*	Frankfurt am Main	100%
smileX Esslingen 1 GmbH*	Frankfurt am Main	100%
smileX Freiburg 1 GmbH*	Frankfurt am Main	100%
smile X InterCo GmbH	Saarbrücken	100%
Smilefit BaKr GmbH**	Bad Kreuznach	100%
Smilefit BK GmbH**	Saarbrücken	100%
Smilefit Homburg GmbH**	Saarbrücken	100%
Smile I-O GmbH & Co. KG**	Idar-Oberstein	100%
Smilefit I-O GmbH**	Idar-Oberstein	100%
SmileX KN GmbH**	Kirn	100%
MKS Sport GmbH**	Saarbrücken	100%
MKS Sport 2 GmbH**	Pirmasens	100%
Smilefit SLS GmbH**	Saarlouis	100%
MKS Sport 3 GmbH**	Trier	100%
MKS Sport 7 GmbH & Co. KG**	Trier	100%
MKS Sport 5 GmbH**	Zweibrücken	100%
Smile Konzept GmbH**	Homburg	100%
Vivasport GmbH**	Idar-Oberstein	100%
Smilefit Verwaltungs GmbH**	Homburg	100%
Smile Verwaltungs GmbH 2**	Homburg	100%
Smile Verwaltungs GmbH 4**	Homburg	100%
The Gym Society Germany GmbH	Munich	60%
LFG XPO GmbH	Munich	60%

* Indirect investment via Fitness First Germany GmbH

** Indirect investment via Smile X Interco GmbH

The Gym Society Germany GmbH (Gym Society) and LFG XPO GmbH are joint ventures which will be included in the consolidated financial statements using the equity method after commencing operations in 2020/2021. As of 31 December 2019, these joint ventures were still accounted for at cost.

2.3 Summary of significant accounting policies

a) Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts by the acquiree.

Any contingent consideration to be transferred by the acquirer is recognized at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of IFRS 9 *Financial Instruments* is measured at fair value with the changes in fair value recognized in profit or loss in accordance with IFRS 9. Other contingent consideration that is not within the scope of IFRS 9 is measured at fair value at each reporting date with changes in fair value recognized in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group reassesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Translation from the German language

b) Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on the current/non-current classification.

An asset is current when it is:

- Expected to be realized or intended to be sold or consumed in the normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realized within 12 months after the reporting period or
- Cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle
- It is held primarily for the purpose of trading
- It is due to be settled within 12 months after the reporting period or
- There is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

c) Investments in joint ventures

A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control.

The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investments in joint ventures are accounted for using the equity method.

Under the equity method, the investment in a joint venture is initially recognized at cost. The carrying amount of the investment is adjusted to recognize changes in the Group's share of net assets of the joint venture since the acquisition date. Goodwill relating to the joint venture is included in the carrying amount of the investment and is not tested for impairment separately. The statement of comprehensive income reflects the Group's share of the results of operations of the joint venture. Any change in OCI of those investees is presented as part of the Group's OCI. In addition, when there has been a change recognized directly in the equity of the joint venture, the Group recognizes its share of any changes, when applicable, in the statement of changes in equity. Unrealized gains and losses resulting from transactions between the Group and joint venture are eliminated to the extent of the interest in the joint venture.

Translation from the German language

The aggregate of the Group’s share of profit or loss of a joint venture is shown on the face of the statement of comprehensive income outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the joint venture.

The financial statements of the joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognize an impairment loss on its investment in its joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in its joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the joint venture and its carrying value, and then recognizes the loss within “Share of profit of a joint venture” in profit or loss.

Upon loss of joint control over the joint venture, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the joint venture upon loss of joint control and the fair value of the retained investment and proceeds from disposal is recognized in profit or loss.

d) Revenue from contracts with customers

The Group derives its income principally from the sale of fitness club memberships and associated joining and administration fees, with secondary income from the sale of related food, beverages, energy products and personal training.

Revenue from contracts with customers is recognized when control of the goods or services is transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods or services before transferring them to the customer.

Translation from the German language

Revenue stream	Accounting treatment
Membership fee	The transaction price paid monthly by the customer fully represents the performance obligation (deployment of fitness facilities for that specific month). Membership revenues have been recognized on a monthly basis over the contract term and continue to be recognized. During lockdown, the Group offered its members compensation options such as reducing membership fees for the lockdown period in some cases. This free-of-charge period can start immediately, at the end of the current term or at the end of the membership. In accordance with IFRS 15, these free-of-charge periods are spread over the entire remaining term of the contract so that even monthly revenue is recognized in the consolidated statement of comprehensive income. To this end, the free-of-charge period is recognized as a deferred income and released over the expected contractual terms.
Joining fee	At the beginning of the membership, the customer is given a health check, equipment briefing, training plan and a membership card, for which a one-time joining fee is charged. Under IFRS 15, this one-time fee is a separate performance obligation as the group companies provide services in return. This means that the revenue is recognized in the month in which the contract is concluded. The customer regularly undergoes a new fitness check (quarterly or semi-annually), on the basis of which their individual training plan is updated. Under IFRS 15, these fees are also a separate performance obligation as the group companies provide services in return and the fees are recognized in profit or loss in the month in which the service is provided.
Personal trainer revenue	The group companies offer independent personal trainers the opportunity to provide personal training support to customers. In return, the trainers conclude a license agreement with the relevant company for a monthly license fee payment. The corresponding revenue is recognized monthly in profit or loss. The hourly charge for the training is billed directly between the customer and the trainer and is not recognized by the Company.
Revenues from sales of goods	The transaction price is paid directly in exchange for the performance obligation. In general, these revenues are recognized daily, at once.

e) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and accumulated impairment losses.

The useful lives of intangible assets are assessed as finite.

Intangible assets with finite life are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statement of comprehensive income in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

Other software assets

Costs to acquire computer software licenses and put them into use by the Group are capitalized and amortized over their estimated useful lives (three years).

Brands and customer bases

Brands and customer bases acquired in a business combination are recognized at fair value at the acquisition date. Brands and trademarks have a useful life of four years and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method.

Customer bases have an economic life of four years and are carried at cost less any accumulated amortization. Amortization is calculated using the straight-line method.

Translation from the German language

f) Property, plant and equipment

Property, plant and equipment are stated at cost, net of depreciation and any provision for impairment. Depreciation is charged on all assets, except for freehold land, based on cost less estimated residual value in equal annual installments over the estimated useful lives of the assets. Depreciation is calculated on a straight-line basis over the estimated useful lives of the assets, as follows:

	Useful lives
Leasehold improvements (as well as rights of use under rental and lease agreements)	Over the term of the lease
Furniture, fittings and equipment	2 to 15 years
Fitness equipment	5 to 6 years
Computer equipment	3 years

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized.

The appropriateness of depreciation rates is reviewed on an annual basis. Any change in the estimated useful life, or residual value, is adjusted through the depreciation rates on a prospective basis.

g) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on the most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of three years. A growth rate is calculated and applied to project future cash flows after the third year.

Impairment losses of continuing operations are recognized in the statement of comprehensive income in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognized impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment once a year, most recently on 31 October 2020. All clubs were closed again between that date and the reporting date by official order (see 7.8 Events after the reporting date). However, this development did not have any further negative impact on the valuation of goodwill. Goodwill is also tested for impairment when circumstances indicate that the carrying amount may be impaired (triggering event). The effects of closing the clubs in 2020 can be classified as a triggering event and were taken into account in the scheduled goodwill impairment test.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognized immediately in the profit or loss for the year.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or CGU) in prior years. A reversal of an impairment loss is recognized immediately in the profit or loss for the year.

h) Inventories

Inventories are valued at the lower of cost and net realizable value.

Cost is defined as being that expenditure that has been incurred in the normal course of business in bringing the product or service to its present location and condition. This expenditure should include the cost of purchase and such costs of conversion as are appropriate.

Net realizable value is the actual or estimated proceeds from the sale of inventory (net of trade discounts, but before settlement discounts) less all further costs to completion and less all costs to be incurred in marketing, selling and distributing directly related to the inventory in question.

Where the net realizable value is less than cost, inventory should be written down immediately through profit or loss.

i) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position comprise cash at banks and on hand and short-term highly liquid deposits with a maturity of three months or less, that are readily convertible to a known amount of cash and subject to an insignificant risk of changes in value.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

j) Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group has lease contracts for various buildings (studios, offices and warehouses), vehicles and fitness equipment. Leases of buildings generally have a non-cancelable lease term of 15 to 20 years, while vehicle and machinery leases have a lease term of 3 to 5 years.

Lessee accounting

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets (details further discussed below). The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

i) Right-of-use assets

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset. The right-of-use assets are also subject to impairment.

ii) Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases that are considered to be low value. The recognition exemption for leases of low-value assets is adopted on a lease-by-lease basis.

Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

As the prior year presented is also the first year of transition to IFRS 16 for the group companies acquired as part of the common control transaction, it has to be noted that contracts that had a remaining term of less than one year as of 1 January 2019 were also treated as short-term leases as allowed under the transition rules of IFRS 16.

iv) Non-lease components

Contracts often combine different kinds of obligations of the supplier, which might be a combination of lease components or a combination of lease and non-lease components. For a contract that contains a lease component and additional lease and non-lease components, such as the lease of an asset and the provision of a maintenance service, the Group has decided that the components do not need to be separated, except for property lease contracts. No service-related components have to be included in the calculation of the lease liability for the asset class of buildings.

v) Significant judgment in determining the lease term of contracts with renewal options

The Group determines the lease term as the non-cancelable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its building leases, to lease the assets for additional terms of five years (sometimes, several five-year extension options exist). The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (e.g., a change in business strategy).

The Group assessed the renewal period for leases of buildings within the next five years according to the profitability and significance stated in its business plan. The renewal options for leases of fitness equipment and vehicles were not included as part of the lease term because the Group has a policy of leasing such assets for not more than five years and hence not exercising any renewal options.

k) Provisions

A provision is recognized if, as a result of a past event, the Group has a present legal or constructive obligation that can be measured reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Where the effect is material, the obligation is discounted to present value using a pre-tax rate that reflects current market assessments of the time value of money. A risk-free rate is used as cash flows are already adjusted for risk. When discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

Translation from the German language

Restoration provisions

Provision is made for costs of restoration to reinstate lease sites to their original condition at the end of the lease term where there is a contractual or constructive obligation and it is probable that the costs will be incurred. Costs incurred in fitting out the site at the inception of the lease are recognized as additions to property, plant and equipment and provision is made for the restoration liability that is expected to arise. The additions are depreciated over the period of the lease term.

Restructuring provisions

Restructuring provisions are recognized only when the recognition criteria for provisions are fulfilled. The Group has a constructive obligation when a detailed formal plan identifies the business or part of the business concerned, the location and number of employees affected, a detailed estimate of the associated costs and an appropriate timeline. Furthermore, the employees affected must have been notified of the plan's main features.

l) Financial instruments

Financial assets

Initial recognition and measurement

Financial assets are generally classified, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI) and fair value through profit or loss.

The classification of financial assets in form of a debt instrument at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. The business model of the Group is only based on generating contractual cash flows (interest over term and repayment). With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs. Trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price as disclosed in section (d) Revenue from contracts with customers.

Subsequent measurement

For purposes of subsequent measurement, the Group currently classifies financial assets in two categories:

- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through profit or loss

Translation from the German language

Financial assets at amortized cost (debt instruments)

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include trade receivables, loans to associates and loans to directors included under other non-current financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the statement of comprehensive income.

This category currently includes only derivative instruments.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

<u>Derecognition</u>

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is primarily derecognized (i.e., removed from the Group's consolidated statement of financial position) when the rights to receive cash flows from the asset have expired.

Financial liabilities

<u>Initial recognition and measurement</u>

Financial liabilities are generally classified, at initial recognition, as financial liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value and, in the case of loans and borrowings and payables, net of directly attributable transaction costs.

The Group's financial liabilities include trade and other payables, loans and borrowings including bank overdrafts, and derivative financial instruments (currently only contingent consideration and bifurcated embedded derivatives).

<u>Subsequent measurement</u>

For purposes of subsequent measurement, the Group currently classifies financial liabilities in two categories:

- Financial liabilities at fair value through profit or loss
- Financial liabilities at amortized cost (loans and borrowings)

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss include financial liabilities held for trading.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group as well as separated embedded derivatives, which are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on financial liabilities held for trading are recognized in profit or loss.

Financial liabilities at amortized cost (loans and borrowings)

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the EIR method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process.

Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as finance costs in the statement of comprehensive income.

This category generally applies to interest-bearing loans and borrowings.

<u>Derecognition</u>

A financial liability is derecognized when the obligation under the liability is discharged or canceled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

m) Share-based payments

The Group has established a management participation plan which is governed by IFRS 2 *Share-based Payment*. Under the plan, two former direct shareholders of smileX receive remuneration in the form of share-based payments for services provided to the Fitness First Group. The plan is classified as equity-settled.

The costs of equity-settled transactions have to be recognized, together with a corresponding increase in other capital reserves in equity, over the period in which the performance and/or service conditions are fulfilled. The Group measures the cost of that equity-settled share-based payment transaction by reference to the fair value of the equity instruments at the date at which they are granted.

n) Tax

The tax expense represents the sum of the business taxes currently payable (corporate income tax ("Körperschaftssteuer"), trade tax ("Gewerbesteuer"), solidarity surcharge ("Solidaritätszuschlag")) and deferred tax.

Current business taxes

Current business taxes are based on taxable profit for the year using current tax rates that have been enacted or substantively enacted. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to, the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations where applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the balance sheet method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date. Deferred tax liabilities are recognized for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit (tax loss)
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled by the parent, investor or venturer and it is probable that the temporary differences will not reverse in the foreseeable future

Translation from the German language

Deferred tax assets are recognized for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilized, except:

- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available, against which the temporary differences can be utilized

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax relating to items recognized in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if, and only if, it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognized subsequently if new information about facts and circumstances arises. The adjustment is either treated as a reduction to goodwill (as long as it does not exceed goodwill) if it occurred during the measurement period or if outside the measurement period, it is recognized in the statement of profit or loss and other comprehensive income.

Translation from the German language

2.4 Critical accounting estimates and judgments

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the amounts reported for assets and liabilities as at the reporting date and the amounts reported for revenues and expenses during the year. However, uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability in question in future periods.

Accounting judgments

In the process of applying the Group’s accounting policies, management made the following judgments which have a significant effect on the amounts recognized in the consolidated financial statements:

Consolidation of subsidiaries acquired during reorganization

On 1 July 2019, the Company acquired 100% of the shares in the three subsidiaries (Elbgym GmbH, Fitness First Germany GmbH and Barry’s Bootcamp GmbH) from Fitness First Germany Holdings GmbH (FFGH), a wholly owned subsidiary of Fitness First Luxembourg S.C.A. This transaction is defined as a business combination under common control, as FFL is the ultimate parent company of FFG and FFGH. The Company applies the pooling of interests method for the business combination under common control. The Company, as the entity obtaining control of the business of the three entities, recognized the assets and liabilities of the acquired subsidiaries when control was obtained at the carrying amounts recognized by FFGH and made no adjustments to reflect fair values nor recognized any new assets or liabilities at the date of the combination as would be done under the acquisition method.

Measurement and step-ups of non-current assets recognized from the acquisition of Elbgym GmbH and smileX InterCo GmbH

Effective 12 November 2018, Fitness First Germany Holdings GmbH acquired 100% of the equity interests in Elbgym GmbH and 100% of the shares in smileX InterCo GmbH on the effective date of 8 August 2019. Due to these acquisitions, the purchase price had to be allocated to the acquired assets at their relative fair values at the date of purchase as required by IFRS 3. For the measurement methods used in this connection see the comments in Note 2.3. This measurement required extensive assumptions to be made in order to determine the acquisition-date fair values. In addition, estimates had to be made in order to determine the useful economic life of the non-current assets (see section 4).

Joint ventures

In the prior year, the Group established The Gym Society Germany GmbH and LFG XPO GmbH together with a partner. The Group holds 60% of the capital in both companies, but under the terms of the corporate agreement, it does not exercise exclusive control ("control" within the meaning of IFRS 10), since all significant decisions can only be made together with the respective contracting party ("joint control" within the meaning of IFRS 11). An analysis of the contractual terms shows that the contracting parties merely have a claim to the net assets of the relevant joint arrangements. Consequently, these have to be accounted for using the equity method in accordance with IAS 28.

Determining the lease term of contracts with renewal and termination options – Group as lessee

The Group determines the lease term as the non-cancelable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group applies judgment in evaluating whether it is reasonably certain to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

In the reporting year, seven lessors agreed to a contractual release from lease payments. The Group did not enter into significant offsetting concessions (e.g., early lease adjustments). However, for five contracts the scheduled negotiations on exercising options (extension of the lease for an additional five years) have been concluded. The options would have been exercised, however, even without the COVID-19 health crisis as the clubs generate very positive contribution margins.

Therefore, the leases had no significant effect on the Group's assets, liabilities, financial position and financial performance for the reporting year.

Translation from the German language

Accounting estimates

The following estimates are dependent upon assumptions which could change in the next fiscal year and have a material effect on the carrying amounts of assets and liabilities recognized at the reporting date:

Useful economic lives

The useful economic lives, as mentioned in the summary of significant accounting policies in Note 2.3 g), are assessed on annual basis based on latest available information. Management believes that the useful economic lives being used currently are still appropriate. The current year's depreciation and amortization charge is shown in Note 3.6.

Impairment of intangible assets, property, plant and equipment and right-of-use assets

The carrying amounts of the Group's assets are reviewed at each reporting date to determine whether there is any indication of impairment, based on a value in use or fair value less costs to sell calculation.

The recoverable amounts of property, plant and equipment and goodwill are determined based on value in use calculations. The recoverable amounts are then compared to the carrying values of the assets. An impairment loss is recognized whenever the carrying amount exceeds the recoverable amount.

The value in use calculation is based on a discounted cash flow model. The cash flows are derived from the budget for the next three years and do not include restructuring activities that the Group is not yet committed to or significant future investments that will enhance the asset's performance of the cash-generating unit being tested. The recoverable amount is most sensitive to the discount rate used for the discounted cash flow model as well as the expected future cash inflows and the growth rate used for extrapolation purposes. In order to consider the uncertainties resulting from the COVID-19 health crisis, the discount rate was increased by 1% compared to the prior year when calculating the present values of cash flows. The key assumptions used to determine the recoverable amount for the different cash-generating units are further explained in Note 4.3.

When considering whether impairment charges can be reversed, management assesses whether an improvement has occurred that is both significant and sustained which involves estimation.

Fair value measurement of financial instruments

Contingent consideration, resulting from business combinations, is valued at fair value at the acquisition date as part of the business combination. When the contingent consideration meets the definition of a financial liability, it is subsequently remeasured to fair value at each reporting date. The determination of the fair value is based on discounted cash flows. The key assumptions take into consideration the probability of meeting each performance target and the discount factor (see Note 4.4 for details).

Translation from the German language

Leases – Estimating the incremental borrowing rate

Generally, the Group cannot readily determine the interest rate implicit in each individual lease; therefore, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects “what the Group would have to pay,” which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease (for example, amortizing structure of liability versus bullet repayment). The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the subsidiary’s stand-alone credit rating).

2.5 Changes in accounting policies in accordance with IFRSs

Standards applicable for the first time in the fiscal year

The following standards, amendments to standards, and interpretations have become effective since 1 January 2020:

Title	Description	Effective date[1]
Endorsed by the EU by the date of release for publication		
Framework	Amendments to the framework for the preparation and presentation of financial statements	1 Jan 2020
IAS 1 and IAS 8	Amendments to IAS 1 and IAS 8 – Definition of Material	1 Jan 2020
IFRS 9, IAS 39 and IFRS 7	Amendments to IFRS 9, IAS 39 and IFRS 7 – IBOR Reform and the Effects on Financial Reporting	1 Jan 2020
IFRS 3	Amendments to IFRS 3 – Definition of a Business	1 Jan 2020
IFRS 16	Amendments to IFRS 16 – COVID-19-Related Rent Concessions	1 Jun 2020

[1] Effective for fiscal years beginning on or after this date. First-time adoption according to EU law.

Application did not give rise to any significant changes to the accompanying consolidated financial statements.

Translation from the German language

Standards and interpretations issued but not yet effective

The following accounting standards have been issued but are not yet effective, which is why they have not been adopted so far. If the accounting standards have been endorsed by the European Union, voluntary earlier application is usually permitted. At this time, the Group intends to apply these standards from the effective date.

Title	Description	Effective date[1]
Endorsed by the EU by the date of release for publication		
IFRS 4	Amendments to IFRS 4 *Insurance Contracts* – Deferral of Effective Date of IFRS 19	1 Jan 2021
IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16	Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 – IBOR Reform and the Effects on Financial Reporting Phase 2	1 Jan 2021
Pending EU endorsement		
	Amendments to IFRS 3 *Business Combinations* IAS 16 *Property, Plant and Equipment* IAS 37 *Provisions, Contingent Liabilities and Contingent Assets* Annual Improvements 2018-2020	1 Jan 2022
IFRS 17	*Insurance Contracts*	1 Jan 2023
IAS 1	Amendments to IAS 1 – Classification of Liabilities as Current or Non-Current	1 Jan 2023

[1] Effective for fiscal years beginning on or after this date. First-time adoption according to EU law if already endorsed by the EU.

The Group reasonably expects no or only an immaterial impact on its disclosures and/or assets, liabilities, financial position and financial performance when applied at a future date.

Changes in accounting policy

The Group has made a change in the presentation of obligations to pay lease installments and compensation payments in connection with permanently closed clubs.

These were recognized under other provisions at the present value of EUR 3,029k in the prior-year financial statements. From now on, they are reported under financial liabilities (according to maturity). Compared to the prior year, long-term financial liabilities rose accordingly from EUR 258k to EUR 2,596k and short-term financial liabilities from EUR 2,588k to EUR 3,279k.

The outflow from repayments in the financial cash flow also decreased by EUR 99k after being corrected, while cash flows from operating activities decreased by EUR 99k.

3. Results for the year

This section presents the disclosure of operating segments and the notes related to items in the consolidated statement of comprehensive income (except for finance income and costs).

- Information about key items comprising operating profit/loss (Notes 3.1 to 3.7)
- The calculation of income tax (Note 3.8)

As already mentioned in section 1, results for this fiscal year primarily refer to the prior short fiscal year from **1 July to 31 December 2019**, as the material operating business began from the acquisition of the three subsidiaries Fitness First Germany GmbH, Elbgym GmbH and Barry's Bootcamp GmbH.

3.1 Revenue

3.1.1 Disaggregated revenue information

In the following table, revenue is disaggregated by brand name:

	1 Jan 2020 to 31 Oct 2020	**13 Mar 2019 to 31 Dec 2019**
Brand name	**EUR k**	**EUR k**
Fitness First	89.007	59.656
smileX	9.673	5.181
Elbgym	2.376	1.188
Total	**101.056**	**66.025**

Over 90% (prior year: 90%) of revenue is attributable to membership fees, joining fees and fees for personal trainers. The remaining revenue is attributable to food and beverages as well as fitness-related products.

3.2 Other operating income

	1 Jan 2020 to 31 Oct 2020	**13 Mar 2019 to 31 Dec 2019**
	EUR k	**EUR k**
Recharges	274	171
Vehicle use	260	130
Dunning charges	83	79
Net gain on disposal of assets	29	99
Insurance reimbursements	2	35
Other	274	180
Total	**922**	**694**

Translation from the German language

3.3 Cost of materials

Type of goods or service	1 Jan 2020 to 31 Oct 2020 EUR k	13 Mar 2019 to 31 Dec 2019 EUR k
Outsourced services	3.387	2.211
Food and beverages	1.056	1.216
Merchandising	46	40
Other	172	84
Total	**4.661**	**3.551**

3.4 Personnel expenses

	1 Jan 2020 to 31 Oct 2020 EUR k	13 Mar 2019 to 31 Dec 2019 EUR k
Wages and salaries	23.358	17.342
Social security contributions	5.030	3.547
Total	**28.388**	**20.889**

In Germany, company pensions in the Group are defined contribution plans under which the Company pays contributions to the relevant public pension insurance scheme on the basis of statutory requirements. The Company does not have any other benefit obligations beyond the payment of contributions. Current contributions are recognized as an expense in the relevant year. They came to EUR 2.4m (prior year: EUR 1.7m). As of 31 October 2020, 1,654 people were employed by the Group (prior year: 1,871 people). Of these, 1,499 people worked in the clubs (prior year: 1,708 people) and 155 employees in the service center (prior year: 163 employees).

During the lockdown between April and June 2020, the Group made extensive use of the short-time work option under employment market law. Of the wage and salary earners, between 30% and 50% of staff (between 400 and 650 wage and salary earners) were on short-time work in the above months. In doing so, the Group continues to bear the wage and salary expenses, but receives compensation payments from unemployment insurance from the Federal Employment Agency. This amounted to a total of approximately EUR 4.0m for the reporting year, thus achieving a saving from an economic point of view. The amounts received were included in personnel expenses reducing expenses.

3.5 Share-based payments

Management incentive plan

The management incentive plan (MIP) scheme is designed to incentivize Mr. Christian Müller and Mr. Boris Köninger. Mr. Müller as a managing director of smileX InterCo GmbH and Mr. Köninger as a consultant for smileX InterCo GmbH entered into a management incentive agreement with LifeFit TopCo in the form of a bonus that is payable in cash upon completion of an exit and in certain situations in which employment is terminated. The grant date on which the Company, Mr. Müller and Mr. Köninger agreed to a share-based payment arrangement was 28 May 2019. The management incentive plan constitutes an equity-settled share-based payment transaction in the consolidated and separate financial statements of MidCo.

Translation from the German language

The fair value of the payment is determined based on the principles of IFRS 2 and in line with the formula for determining the payment amount. Under all probable scenarios the fair value as of the grant date is zero or very close to zero. As a result, in the consolidated financial statements both of the reporting and the prior year, the fair value of the awarded benefits amounts to EUR 0 and no expenses were recognized.

3.6 Depreciation, amortization and impairment charges

	1 Jan 2020 to 31 Oct 2020	13 Mar 2019 to 31 Dec 2019
	EUR k	EUR k
Depreciation of property, plant and equipment	10.204	5.777
Amortization of other intangible assets	2.837	1.039
Depreciation of right-of-use assets	19.047	9.340
Total	**32.088**	**16.156**

In the short fiscal year 2020, the Group recognized impairments of EUR 3.9m, of which EUR 1.8m relates to property, plant and equipment, EUR 0.9m to goodwill and EUR 1.2m to right-of-use assets. The impairment of goodwill relates to the Elbgym CGU. The impairment of property, plant and equipment and right-of-use assets relates to a total of 12 gyms of Fitness First Germany GmbH.

Before the transfer of Fitness First Germany GmbH, Elbgym GmbH and Barry’s Bootcamp GmbH, impairment losses of EUR 5.3m were recognized, which affected the acquisition balance sheet (and thus the acquired net assets as of 1 July 2019).

3.7 Other operating expenses

	1 Jan 2020 to 31 Oct 2020	13 Mar 2019 to 31 Dec 2019
	EUR k	EUR k
Premises and land costs	17.816	9.185
Advertising, marketing and travel expenses	3.774	2.378
Maintenance costs	3.374	2.268
Administrative expenses	3.108	1.388
Legal, audit and advisory fees	2.647	2.857
Licenses & royalty fees	1.254	715
Depreciation of receivables	1.159	507
Costs for the provision of parking spaces	684	532
Costs for seminars and fairs	470	326
Vehicle costs	466	218
Losses from the disposal of non-current assets	357	220
Telephone costs	223	156
Club closure costs	0	1.317
Potential losses	0	612
Other	895	1.388
Total	**36.227**	**24.067**

Translation from the German language

3.8 Income taxes and deferred income taxes

Taxes on income paid or due as well as deferred taxes are stated as income taxes. The tax expense and income attributable to income taxes breaks down by origin as follows:

	1 Jan 2020 to 31 Oct 2020	13 Mar 2019 to 31 Dec 2019
	EUR k	EUR k
Consolidated statement of comprehensive income		
Income taxes		
Current income tax:		
Current income tax charge	263	484
Deferred income tax		
Relating to origination and reversal of temporary differences	-1.062	-897
Tax expense/income through profit or loss	**-799**	**-413**

The reconciliation between the income taxes recognized and the expected income taxes for fiscal year 2020 is as follows:

	1 Jan 2020 to 31 Oct 2020	13 Mar 2019 to 31 Dec 2019
	EUR k	EUR k
Loss before taxes	-12.454	-4.742
Theoretical tax income (-) on the basis of the current tax rate of 31.93%	-3.977	-1.514
Effect from unrecognized deferred tax assets arising from the current loss in the fiscal year	2.619	662
Additional taxes due to non-deductible add-backs	517	292
Other	42	147
Income taxes (effective tax rate 31 Oct 2020: 6.4%; prior year: 8.7%)	**-799**	**-413**

As of 31 October 2020, the Group had the following tax loss carryforwards to reduce future taxable income:

	2020	2019
	EUR k	EUR k
LifeFit Group MidCo GmbH (corporate income tax)	13,944	4,052
LifeFit Group MidCo GmbH (trade tax)	10,107	3,473
Barry's Bootcamp (corporate income and trade tax)	0	92
Tax loss carryforwards as of 31 Oct 2020/31 Dec 2019	**24,051**	**7,617**

Since the beginning of the fiscal year, a corporate income tax and trade tax group has been in place with MidCo as the tax group parent. The tax group comprises all companies included in the consolidated financial statements by way of full consolidation. The tax loss carryforwards of the fiscal year can be used indefinitely.

Translation from the German language

Deferred tax assets are recognized for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profits will be available in the future against which the unused tax losses/credits can be utilized. In view of the relevant companies' loss situation, deferred tax assets on loss carryforwards were not recognized.

Deferred taxes classified by their type of temporary differences are presented below:

	31 Oct 2020	
	EUR k	
	Deferred tax assets	**Deferred tax liabilities**
Intangible assets	0	2,695
Property, plant and equipment	0	5,001
Right-of-use assets	0	39,448
Trade receivables	0	453
Deferred income	15	0
Other financial liabilities	727	0
Lease liabilities	46,329	0
Other	11	0
	47,082	47,597
Offsetting	-47,082	-47,082
Consolidated statement of financial position	0	515

	31 Dec 2019	
	EUR k	
	Deferred tax assets	**Deferred tax liabilities**
Intangible assets	0	3,211
Property, plant and equipment	0	5,623
Right-of-use assets	0	37,847
Trade receivables	452	0
Deferred income	0	223
Other financial liabilities	1,117	0
Lease liabilities	43,788	0
Other	0	30
	45,357	46,934
Offsetting	-45,357	-45,357
Consolidated statement of financial position	0	1,577

Deferred tax assets and deferred tax liabilities are offset against each other when the Group has an enforceable right to offset the current tax assets against the current tax liabilities and these assets and liabilities relate to income taxes levied by the same tax authority for the same taxable entity.

Under German tax law, income taxes are composed of corporate income tax (15%), trade tax and solidarity surcharge (0.825%). The effective trade tax rate differs depending on where the Company is registered. In the fiscal year it amounted to 16.1%.

Translation from the German language

4. Non-current assets

This section discloses the Group's non-current assets. This section contains:

- Reconciliations of movements of significant capital balances (Notes 4.1 and 4.2)
- Information regarding impairment testing of non-current non-financial assets (Note 4.3)
- Business combinations (Note 4.4)

4.1 Property, plant and equipment

Property, plant and equipment developed as follows:

	Leasehold improvements EUR k	*Other equipment, furniture and fixtures EUR k*	*Prepayments and assets under construction EUR k*	***Total EUR k***
Cost				
as of 1 January 2020	**27,304**	**16,678**	**3,571**	**47,553**
Additions	3,760	5,578	4,580	13,918
Reclassifications	1,901	301	-2,202	0
Disposals	-1,690	-1,423	0	-3,113
Cost at 31 October 2020	**31,276**	**21,134**	**5,949**	**58,358**
Depreciation and impairment losses				
as of 1 January 2020	**3,440**	**2,312**	**0**	**5,752**
Additions	6,275	3,929	0	10,204
Disposals	-1,570	-1,394	0	-2,964
Depreciation and impairment losses as of 31 October 2020	**8,146**	**4,847**	**0**	**12,992**
Net book value as of 31 October 2020	**23,130**	**16,287**	**5,949**	**45,366**

	Leasehold improvements EUR k	*Other equipment, furniture and fixtures EUR k*	*Prepayments and assets under construction EUR k*	***Total EUR k***
Cost				
As of 13 March 2019	**0**	**0**	**0**	**0**
Additions from business combinations under common control	23,022	15,228	1,894	40,144
Additions from business combination with smileX	34	1,505	0	1,539
Additions	747	5	5,366	6,118
Reclassifications	3,689	0	-3,689	0
Disposals	-188	-60	0	-248
Cost at 31 December 2019	**27,304**	**16,678**	**3,571**	**47,553**
Depreciation and impairment losses				
As of 13 March 2019	**0**	**0**	**0**	**0**
Additions	3,462	2,315	0	5,777
Disposals	-22	-3	0	-25
Depreciation and impairment losses as of 31 December 2019	**3,440**	**2,312**	**0**	**5,752**
Net book value as of 31 December 2019	**23,864**	**14,366**	**3,571**	**41,801**

In the reporting year, impairment charges of a total of EUR 1.8m were recognized in leasehold improvements.

No impairment charges were recognized in the previous reporting period.

The Group tests at least annually whether there are any indications of impairment of property, plant and equipment by considering whether any clubs are underperforming relative to their carrying value or are in decline. For clubs with an indicator of impairment, a full impairment review is performed to compare the carrying value of assets against predicted future performance resulting in impairments of assets held in continuing operations. See Note 4.3 for further disclosures.

4.2 Intangible assets

The movement in intangible assets was as follow:

	Goodwill EUR k	Customer bases and contracts/brand names EUR k	Licenses, software and other EUR k	**Total EUR k**
Cost				
as of 1 January 2020	**26.456**	**11.636**	**1.358**	**39.450**
Additions	0	0	154	154
Disposals	0	0	0	0
Cost at 31 October 2020	**26.456**	**11.636**	**1.512**	**39.604**
Amortization and impairment losses				
as of 1 January 2020	**0**	**840**	**199**	**1.039**
Additions	900	1.676	261	2.837
Amortization and impairment losses as of 31 October 2020	**900**	**2.516**	**460**	**3.876**
Net book value as of 31 October 2020	**25.556**	**9.120**	**1.052**	**35.728**

	Goodwill EUR k	Customer bases and contracts/brand names EUR k	Licenses, software and other EUR k	**Total EUR k**
Cost				
As of 13 March 2019	**0**	**0**	**0**	**0**
Additions from business combinations under common control	3.096	277	1.254	4.627
Additions from business combination with smileX	23.360	11.359	91	34.810
Additions	0	0	13	13
Cost at 31 December 2019	**26.456**	**11.636**	**1.358**	**39.450**
Amortization and impairment losses				
As of 13 March 2019	**0**	**0**	**0**	**0**
Additions during the reporting period	0	840	199	1.039
Amortization and impairment losses as of 31 December 2019	**0**	**840**	**199**	**1.039**
Net book value as of 31 December 2019	**26.456**	**10.796**	**1.159**	**38.411**

Translation from the German language

Goodwill

Goodwill acquired in a business combination is allocated, at acquisition, to the cash-generating units (CGUs) that are expected to benefit from the business combination. An amount of EUR 3,096k was allocated to the Elbgym CGU and EUR 23,360k to the smileX CGU.

In current year, the recoverable amounts of the CGUs were determined from value in use calculations and/or expected fair value less costs to sell. The recoverable amount of LifeFit Group was determined from value in use calculations. The value in use calculations were subject to a number of key assumptions, these being the discount rates, growth rates and expected changes to selling prices and direct costs. The determination of these assumptions required significant judgment and reflected, among other things, the Group's cost of capital and management's perspectives relating to the economic environment, the time value of money and risks specific to the CGUs. The Group's cash flow projections were based on industry forecasts and assumptions regarding the Group's future performance, particularly regarding the Group's ability to attract new members and to retain existing members, and the assumption that there would be no significant change to the economic, political, legal or social environment in which the Group operates. The uncertainty in connection with the COVID-19 pandemic was taken into account by adjusting the risk premium by 1%. Changes in selling prices and direct costs were based on past experience and expectations of future changes in the market.

The Group prepared cash flow forecasts using the most recent financial budgets approved by group management for the next three years and extrapolated on a perpetuity basis using an estimated long-term growth rate. In fiscal year 2020, this growth rate was 0.5% (prior year: 1.0%). Discount rates were based on the Group's weighted average cost of capital adjusted to reflect group management's assessment of specific risks related to the cash-generating unit. The pre-tax discount rate applied to cash-flow projections is 10.4% (prior year: 10.3%). A return on government bonds of 0.0% (prior year: 0.0%) was used to determine the appropriate discount rate. The after-tax discount rate used in fiscal year 2020 was 8.2% (prior year: 7.0%).

Upon review of the performance of SmileX and Elbgym, an impairment loss of EUR 0.9m (prior year: no impairment loss) was recognized for Elbgym in fiscal year 2020. As in the prior year, no impairment was charged for SmileX.

The key inputs used in the impairment tests are the long-term growth rate as a primary driver for EBITDA and the discount rate. As the Group is very young, there is not much experience in terms of plan fulfillment. Nevertheless, it is clear to management that a change in the aforementioned inputs (i.e., increase in the discount rate or reduction in the growth rate or a combination of both) could have a negative impact and would reduce the recoverable amount below the carrying amount.

The sensitivity analysis of the SmileX CGU showed that there is sufficient headroom between the recoverable amount of the CGU and the carrying amount. Only by increasing the discount rate by 0.63% or reducing EBITDA by 6.5%, will the recoverable amount be the carrying amount, and only an additional adjustment would result in an impairment.

The sensitivity analysis of the Elbgym CGU showed the following result:

- An increase of the discount rate to 9.2% would lead to an additional impairment of goodwill of EUR 0.6m.
- Reducing the forecast EBITDA by 10% would result in an additional impairment loss of EUR 1.4m.

4.3 Impairment losses

An impairment loss is the amount by which the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount. Impairment testing is required to be performed on the level of individual assets or on the level of identified CGUs/groups of CGUs if a trigger event occurs. Since each club generates separable cash inflows for the Group, the individual club is defined as the smallest identifiable CGU and the clubs form the level on which impairment test is performed.

However, prior to calculation of the recoverable amount, the Company assesses whether there is any indication that an asset may be impaired and only if any such indication were to exist would the recoverable amount of the asset be estimated. According to the internal policy, the impairment review is to be performed for clubs whose cash EBITDA is less than EUR 150k for the next two fiscal years. Newly founded clubs (not older than two years) will only be included in this review after the start-up phase.

The recoverable amount of each individual CGU that needs to be reviewed was calculated using the value in use because of the lack of a market price on the reporting date and was subsequently compared with the carrying amount of the CGU. The calculation of value in use is based on the residual lease contract period (lease term) as the planning period prior to the perpetual annuity and is limited to a maximum of five years, unless a longer period can be justified.

The clubs of CGU Barry’s Bootcamp, which are in the process of being launched, have not yet been tested for impairment in the narrower sense in 2020. The development was in line with the range in the planning for the brand.

In fiscal year 2020, in addition to the impairment loss on the goodwill of Elbgym CGU, property, plant and equipment in the Fitness First segment of EUR 1.8m relating to seven locations also had to be written down. Impairment losses of EUR 1.2m were recognized for right-of-use assets arising from lease contracts relating to 12 locations of the Fitness First segment.

For the Group, the total impairment loss of the prior year amounting to EUR 6.9m is recognized in the opening balance of retained earnings as they related to clubs acquired during the common control transactions. Since the CGUs are individual clubs, goodwill was not included, but only tested on a higher level. Therefore, the impairment loss was to be allocated proportionally to non-current assets (EUR 920k as of 30 June 2019) and to the right-of-use assets (EUR 5,876k as of 30 June 2019).

Translation from the German language

4.4 Business combinations

Acquisition of shares in Elbgym GmbH

On 12 November 2018, Fitness First Germany Holdings GmbH signed an agreement on the acquisition of all the shares in Elbgym GmbH, which is based in Strassenbahnring 8, Hamburg, Germany. Elbgym operates three fitness clubs in central Hamburg and is well known in the region for offering its own cross-fit training, wellness and intensive personal advice.

Elbgym was purchased below the ultimate parent (FFL) by FFGH on 12 November 2018. The acquisition was accounted for using the acquisition method. As a result of the restructuring and the acquisition by MidCo on 1 July 2019, Elbgym GmbH is accounted for at the MidCo level at its amortized carrying amount. We refer to “Acquisition of shares in Fitness First Germany GmbH, Elbgym GmbH and Barry’s Bootcamp GmbH.”

The acquired companies were recognized in the opening statement of financial position of the Group at their carrying amount from the perspective of the ultimate parent (FFL). More information about the individual transactions is provided below.

The consideration transferred broke down as follows:

	EUR k
Fixed cash purchase price	1,350
Effective date cash	1
Effective date financial debt (plus EUR 1 m)	28
Total cash paid	1,379
Bank loans settled by Fitness Fitness First Holdings GmbH	972
Consideration transferred	**2,351**
Contingent consideration liability	1,200
Total consideration transferred	**3,551**

The purchase price for all shares and assets was comprised of the fixed cash purchase price amounting to EUR 1,350k plus effective date cash and minus effective date financial debt. EUR 1,379k was paid to the seller on 27 December 2018 according to our internal estimation of the purchase price.

In addition to the transfer of cash and cash equivalents, Fitness First Germany Holdings GmbH also assumed financial liabilities of EUR 972k, which were repaid in the reporting period.

As part of the purchase agreement with the previous owner of Elbgym GmbH, a contingent consideration was agreed upon, which relates to obligations from a purchase price adjustment clause that was linked to the subsidiary achieving certain financial performance indicators, after beneficial ownership has been transferred. The amount of the purchase price adjustment was capped at EUR 1,200k. In reporting year 2020, EUR 500k was paid to the former shareholder. The final installment of EUR 700k still outstanding as of 31 October 2020, was due in January 2021 and was paid on time after the close of the fiscal year.

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of Elbgym GmbH as of 12 November 2018 were:

	Carrying amount	Step-up	EUR k Fair value
Assets			
Intangible assets	2	274	276
Property, plant and equipment	921	296	1,217
Inventories	2	0	2
Trade receivables	2	0	2
Other current assets	4	0	4
Cash	1	0	1
Total assets acquired	**932**	**570**	**1,502**
Liabilities			
Other provisions	60	0	60
Trade payables	2	0	2
Prepayments received	656	0	656
Other current liabilities	147	0	147
Deferred tax	0	182	182
Total liabilities assumed	**865**	**182**	**1,047**
Net assets	67	388	455
Goodwill arising on acquisition	0	0	3,096
Consideration transferred			**3,551**

The allocation of the purchase price to the significant tangible and intangible assets and liabilities was analyzed in accordance with International Financial Reporting Standards (IFRSs).

The fair value of the trade receivables was EUR 2k as of the acquisition date, which is equal to the gross amount of receivables. None of the other trade receivables were impaired and it was expected that the full contractual amounts could be collected.

The purchase price allocation primarily identified the following fair value step-ups:

- In accordance with IFRS 3 in conjunction with IAS 38, the customer relationships of Elbgym were identified as intangible assets with a definite useful life and valued using the relief from royalty method. This valuation resulted in a fair value of EUR 274k, compared to a carrying amount of zero prior to the purchase price allocation.
- Overall, the longer useful life in accordance with IFRSs than in accordance with the German GAAP lead to a fair value step-up of EUR 296k on property, plant and equipment.
- In addition, the effects mentioned above resulted in deferred tax liabilities of EUR 182k.

For all other statement of financial position items, there was no significant difference between the fair value and the carrying amount.

The goodwill allocated to the legal entity of EUR 3,096k (see also Notes 4.3 and 4.4) reflected the value of expected synergies arising from the acquisition and advantages from the installed equipment and know-how of all staff members, which is not separately recognized. This acquisition allowed the Group to offer a greater variety of fitness services than those provided to date by the fitness clubs of Fitness First not only in central Hamburg, but also nationwide.

Translation from the German language

For the period from 1 July to 31 December 2019, the revenue of the acquired Elbgym amounted to EUR 1.2m and EBITDA to EUR 0.0m, with a loss of EUR 0.6m. For the period from 1 January to 31 October 2020, Elbgym's revenues and EBITDA amounted to EUR 2.4m and EUR 0.7m, respectively, resulting in a loss of EUR 1.2m, of which EUR 0.9m is attributable to the impairment of goodwill.

Acquisition of shares in Fitness First Germany GmbH, Elbgym GmbH and Barry's Bootcamp GmbH

On 30 June 2019, the Company acquired 100% of the shares in the following three subsidiaries from Fitness First Germany Holdings GmbH, a wholly owned subsidiary of Fitness First Luxembourg S.C.A.:

- Fitness First Germany GmbH in Frankfurt am Main
- Elbgym GmbH in Hamburg
- Barry's Bootcamp GmbH in Frankfurt am Main

Since Fitness First Luxembourg S.C.A. was the ultimate parent company of FFG and FFGH at that time, this transaction was defined as a business combination under common control and has been accounted for using the pooling of interests method.

This restructuring is purely internal below the ultimate parent, with no external parties being involved, and the transaction was not conducted at fair value. Consequently, the Company did not apply the acquisition method in the consolidated financial statements. The Company, as the entity obtaining control of the businesses of the three entities:

- recognized the assets and liabilities of the three acquired entities when control was obtained at the carrying amounts recognized by Fitness First Germany Holdings GmbH;
- made no adjustments to reflect fair values, nor recognized any new assets or liabilities at the date of the combination as would be done under the acquisition method;
- recognized no additional goodwill as a result of the business combination under common control. The only goodwill that is recognized is any existing goodwill relating to either one of the combining parties. Any difference between the consideration transferred and the acquired net assets was recognized as a capital reserve;
- reflects the results of the three entities after obtaining control;
- did not restate financial information for periods prior to the business combination under common control;
- eliminated the effects of all transactions within the Group that occurred before the Company obtained control.

Translation from the German language

As a result of the abovementioned acquisition of three entities on 30 June 2019, the following assets and liabilities were included in the consolidated financial statements of LifeFit Group MidCo GmbH as of 30 June 2019:

		EUR k As of 30 June 2019
Assets		
Intangible assets		4,616
Property, plant and equipment		40,192
Right-of-use assets		120,576
Deferred tax assets		1,099
Inventories		654
Trade receivables		829
Other current assets		1,145
Cash and cash equivalents		8,602
Total assets acquired		**177,713**
Liabilities		
Other current liabilities		9,756
Other provisions		5,055
Trade payables		13,342
Other non-current liabilities		2,284
Lease liabilities		139,573
Total liabilities assumed		**170,010**
Net assets stated at carrying values in the predecessor's accounts		7,703
Effect on capital reserves of first-time consolidation based on the business combination under common control	-	111,265
Purchase price paid		**118,968**

Translation from the German language

Acquisition of LifeFit Group Services GmbH

On 29 July 2019, the Company acquired all the shares in a shell company named INOS 19-036 GmbH from INOS24 Holding GmbH for EUR 27.8k. The entire purchase price was paid in cash. INOS 19-036 GmbH was renamed LifeFit Group Services GmbH. The shell company was acquired to provide management services, commercial, accounting and other services to affiliated companies and corporations.

Acquisition of smileX InterCo GmbH

On 8 August 2019, the Company acquired all the shares in smileX InterCo GmbH and its subsidiaries for EUR 33,312k. The shares were sold by Mr. Christian Müller, Mr. Boris Köninger, Mrs. Sonja Sattler and Mr. Ralf Sattler (smileX shareholders). smileX is a parent of 14 fitness clubs primarily located in the South East of Germany and operating under the brand name SMILEFITNESSCLUB. Thanks to the acquisition, LifeFit Group can provide a greater variety of fitness training options based on different concepts to the various customer groups in Germany than it can just through “Fitness First.”

The consideration transferred broke down as follows:

	EUR k
Enterprise value	33,888
Effective date cash	62
Effective date financial debt	-258
Net working capital	-380
Consideration transferred	**33,312**

Previously, MidCo had paid a purchase price liability to the SmileX shareholders for SmileX, resulting from the purchase of shares in the subsidiaries. The Company had settled the share purchase by assuming the purchase price liability of EUR 33,312k. EUR 26,649k of the consideration was paid in cash and EUR 5,330k by issuing new MidCo shares. The remaining liability of EUR 1,332k was granted as a loan from the former smileX shareholders.

Under the agreement, the former shareholders received 1,416 shares in MidCo at a nominal amount of EUR 1 each as part of the purchase price, which was thus valued at EUR 3,764. The newly issued shares comprised 5.36% of MidCo’s capital stock. At the same time, the former shareholders transferred their shares in MidCo to TopCo and received a 5.36% share in TopCo’s capital stock as consideration.

The new shares were issued in the current reporting year. This transaction resulted in an increase of the capital stock of EUR 1,416 and a contribution to the capital reserves of EUR 5,330k. However, since the former shareholders of the SmileX companies had already paid the purchase price for the new shares in MidCo through the acquisition and completed contribution in the prior year, there is a derivative on own equity instruments in this regard. This instrument met the criteria of an equity instrument, since it had the relevant fixed-for-fixed and gross physical settlement features based on a fixed price for a fixed number of equity instruments. Since the shares have not yet been issued, the amount (EUR 5,330k) was already recognized under capital reserves in the prior year.

Translation from the German language

Assets acquired and liabilities assumed

The fair value of the identifiable assets and liabilities of smileX InterCo GmbH as of 31 July 2019 were:

	Carrying amount	Step-up	EUR k Fair value
Assets			
Intangible assets	91	11,359	11,450
Property, plant and equipment	1,539	0	1,539
Right-of-use assets	6,132	0	6,132
Inventories	116	0	116
Trade receivables	443	0	443
Other current assets	147	0	147
Cash	1,667	0	1,667
Total assets acquired	**10,135**	**11,359**	**21,494**
Liabilities			
Other provisions	61	0	61
Trade payables	767	0	767
Other current liabilities	1,103	0	1,103
Lease liabilities	6,132	0	6,132
Deferred tax	0	3,388	3,388
Total liabilities assumed	**8,063**	**3,388**	**11,451**
Net assets acquired	2,072	7,971	10,043
less intangible assets already recognized	0	0	-91
Goodwill arising on acquisition	0	0	23,360
Consideration transferred			**33,312**

The purchase price allocation primarily identified the following fair value step-ups:

- The fair value of the customer relationships amounted to EUR 6,688k (EUR 6,133k for All-X customers with 24-month and EUR 555k for Basic customers with 12-month contract duration) at the acquisition date. The value of the customer base was determined using the multi-period excess earnings method based on future income and expenses allocable to the customer base. The projection is based on planning figures for the corresponding years.
- Using the relief from royalty method, the SMILEFITNESSCLUB brand was measured at a value of EUR 4,671k as of the acquisition date (8 August 2019). A royalty rate of 4% was located at the lower end of comparable royalty rates for fitness clubs and used based on the revenue of the Company expected as of the acquisition date in accordance with the budgets and forecasts. The brand is an asset with a useful life of 15 years.
- In addition, the effects mentioned above resulted in deferred tax liabilities of EUR 3,388k.

Goodwill of EUR 23,360k primarily related to synergy effects and advantages from an enhanced product portfolio offering various fitness training models for different customer groups.

Since SmileX was acquired on 8 August 2019 (2020 and prior year 2019), it has contributed around EUR 9.7m (prior year: EUR 5.2m) to total revenue, EBITDA of EUR 4.3m (prior year: EUR 2.4m) and a profit contribution before taxes of EUR 1.3m (prior year: EUR 0.7m).

Translation from the German language

Joint ventures

The Gym Society Germany GmbH

On 15 October 2019, MidCo entered into a joint venture with The Gym Society International B.V. The companies acquired a shell company named INOS 19-034 GmbH from INOS24 Holding GmbH and renamed it The Gym Society Germany GmbH. MidCo acquired 60% of the nominal amount of EUR 15k for EUR 17k. The shell company was acquired to operate fitness centers and leisure facilities of all kinds and provide digital fitness and health services as well as consumer goods, in particular e-commerce, and all related activities.

Even though MidCo holds 60% of the shares in GymSociety, joint control is shared with The Gym Society International B.V., since decisions about the relevant activities require the unanimous consent of the parties sharing control.

LFG XPO GmbH

On 14 November 2019, the Company acquired 60% of the shares in a shell company named INOS 19-057 GmbH from INOS24 Holding GmbH for EUR 17k. The entire purchase price was paid in cash. INOS 19-036 GmbH was renamed LFG XPO GmbH. The shell company was acquired for the purpose of entering into a master franchise agreement with Xponential Fitness, Irvine, California, USA. The purpose of the joint venture is to establish selected boutique fitness concepts, especially the Club Pilates and Pure Barre brands, in Germany.

Even though MidCo holds 60% of the shares in XPO, joint control is shared with Xponential Fitness, Irvine, California, USA, since decisions about the relevant activities require the unanimous consent of the parties sharing control.

Translation from the German language

5. Equity and debt structure

This section includes notes related to financing items such as equity, borrowings, financial risk management and financial instruments. Related items such as finance costs, are included in this section.

5.1 Equity

See the presentation in the consolidated statement of changes in equity for information on the development of total equity.

Subscribed capital

The fully paid in capital stock is held in full by LifeFit Group TopCo GmbH, Munich, in the form of 26,416 (prior year: 25,000) individual shares. In the reporting year, the increase in share capital of EUR 1,416 in connection with the acquisition of SmileX (creation of new shares, see Note 4.4) was entered in the commercial register.

Capital reserves

On 31 October 2020, the capital reserves amounted to EUR 99,521k (prior year: EUR 99,522k). Most of the reserves – EUR 94,192k – were created by the purchase price receivable contributed as a contribution in kind during the restructuring of the Group. Please refer to the information provided in section 1.

The remainder of EUR 5,330k (prior year: EUR 5,330k) – as presented in Note 4.4 – resulted from the acquisition of the smileX Group. The change resulted from the above-mentioned issue and registration of the new GmbH shares.

Other reserves

The other reserves attributable to the owners of the parent amount to -EUR 122,153k (prior year: -EUR 110,498k). They are primarily a result of accounting for the common control acquisition in 2019 as a pooling of interests. This led to a negative entry in equity of EUR 111,194k. This was partly compensated by the equity portion of the shareholder loans provided amounting to EUR 5,024k (see Note 5.3 for further information). Furthermore, losses for the reporting period (-EUR 11,655k) and the prior-year period (-EUR 4,328k) led to a corresponding decrease in other reserves.

Translation from the German language

5.2 Financial liabilities

	Interest rate	Maturity	2020 EUR k	2019 EUR k
Current interest-bearing loans and borrowings				
Lease liabilities	4.35%	2021 (prior year: 2020)	21,112	19,913
Revolving credit facility	3.00%	2021	10,000	0
Total current interest-bearing loans and borrowings			**31,112**	**19,913**
Non-current interest-bearing loans and borrowings				
Lease liabilities	4.45%-7.20%	2020-2032	133,111	117,235
Bond	7.5% + 3M EURIBOR	26 July 2023	37,960	37,438
Embedded derivatives	Floor at 0% and prepayment option included in bond		624	518
Total non-current interest-bearing loans and borrowings			**171,695**	**155,191**

Lease liabilities

An average rate is presented for the interest rates for the lease liabilities (current portion). For the non-current-portion a range of interest rates (depending on the lease terms) is given.

Bond

The bond (senior secured callable floating rate bond) is fully repayable as of 26 July 2023. The Group is obliged to pay the interest on a quarterly basis. The quarterly paid interest consists of a fixed margin of 7.50% p.a. and the 3M EURIBOR applicable at the beginning of the interest periods. If the latter is below 0%, an interest rate floor takes effect, so that the floating part is set at 0%.

The bonds are recognized as a financial liability in the statement of financial position and subsequently measured at amortized cost. The carrying amount of the financial liability on 31 October 2020 was EUR 37,960k (prior year: EUR 37,438k).

In the host debt contract are embedded prepayment options as well as an interest rate floor at a strike of 0%.

The exercise price of the prepayment option changes over time. The Company has separated the identified embedded derivatives as the conditions of the prepayment option were not considered to be closely related. For the valuation of the prepayment options, the floating interest rate was not taken into account, as the forward rates as of inception and as of the reporting date were constantly below 0% and therefore not applicable due to the interest rate floor included in the bond. As the interest rate floor included is also based on the same risk the floor was also bifurcated and both derivatives will be accounted as one single instrument going forward.

Consequently, the interest rate used for the valuation consists only of the margin of 7.5%. As the sum is negative, the embedded derivatives are recognized as a financial liability in the statement of financial position and subsequently measured at fair value. Initial valuation was EUR 805k.

In the reporting period, the fair value of the embedded derivative changed by EUR 107k (prior year: EUR 288k) and it was valued at EUR 624k (prior year: EUR 518k) as of the reporting date.

The Company has the possibility to increase the nominal amount of the bond on one or more occasions after the initial issue up to a total nominal of EUR 120,000k. Such subsequent bond issue would take place under the same terms and conditions but is dependent on certain preconditions and only available for certain investments. There is no commitment fee charged for the amount of the bond that is not issued.

Revolving credit facility

On 7 February 2020, LifeFit Group MidCo GmbH and Oldenburgische Landesbank Aktiengesellschaft concluded a super senior revolving facility agreement for general business and working capital purposes including investments. The facility provides a total commitment of EUR 10.0m and ends on 26 July 2023 (in line with the repayment date of the bond). The Company owes interest of 3% plus EURIBOR on all outstanding amounts. If EURIBOR is negative, the contractual rate is set at 0.00%. At the date the consolidated financial statements were prepared, the credit facility has been utilized in full. The loan terms were adjusted in February 2021. Please refer to our comments in Note 7.7. Events after the reporting date.

5.3 Shareholder loans

	2020	**2020**
	EUR k	**EUR k**
Principal shareholder loan (FFL to MidCo), nominal	23.548	23.548
Recognition in equity of the portion bearing interest at a below-market rate	-3.415	-3.415
Accrued interest (effective interest method)	2.716	985
	22.849	**21.118**
Principal shareholder loan (TopCo to MidCo)	10.000	10.000
Recognition in equity of the portion bearing interest at a below-market rate	-1.419	-1.419
Accrued interest (effective interest method)	1.081	347
	9.662	**8.928**
Principal shareholder loan (TopCo to MidCo)	1.332	1.332
Recognition in equity of the portion bearing interest at a below-market rate	-188	-188
Accrued interest	144	46
	1.288	**1.190**
Loan from FFGH to Barry's Bootcamp	**936**	**936**
Total	**34.735**	**32.172**

Translation from the German language

Effective 30 June 2019, Fitness First Luxembourg S.C.A., Luxembourg, granted MidCo a subordinated loan in the amount of EUR 23,548k. The loan has a term until the expiry of 31 January 2024 and is repayable at the end of its term. Principal repayments and/or interest payments before the end of the term are not permitted. The loan bears interest at a rate of 7% p.a. Interest is payable in arrears at the end of the term along with the repayment of the loan. The interest itself does not create additional interest.

In addition, effective 27 July 2019 TopCo granted MidCo a subordinated loan of EUR 10,000k. The loan has a term until the expiry of 31 January 2024 and is repayable at the end of its term. Principal repayments and/or interest payments before the end of the term are not permitted. The loan bears interest at a rate of 7% p.a. Interest is payable in arrears in full at the end of the term along with the repayment of the loan. The interest itself does not create additional interest.

Effective 6 August 2019, TopCo granted MidCo a further subordinated loan in the amount of EUR 1,332k. This loan was settled through an assignment of the vendor loan by the Smile X shareholders. The loan has a term until the expiry of 31 January 2024 and is repayable at the end of its term. Principal repayments and/or interest payments before the end of the term are not permitted. The loan bears interest at a rate of 7% p.a. Interest is payable in arrears in full at the end of the term along with the repayment of the loan. The interest itself does not create additional interest.

The abovementioned loans constitute loans with a below-market interest rate that were issued in that form due to the corporate relationship. This has the following effects on the statement of financial position and the statement of comprehensive income:

For accounting purposes, the loans are split into a loan granted on regular terms and a shareholder contribution. The present value of the interest benefit is transferred to the capital reserves. These differences are charged to the financial result using the effective interest method over the term of the loans (until 31 January 2024). As of the inception date, the market interest rate was determined at 9.83%, which was used for discounting purposes and now reflects the EIR. The difference between nominal amount and present value calculated in an amount of EUR 5,024k was recorded in equity as contribution.

The lender subordinates all its claims against the borrower under and in connection with the shareholder loan, in particular its claims for principal repayment and interest payments and its other accessory claims (the “subordinated claims”), to all claims under the senior secured callable bond.

Translation from the German language

5.4 Financial instruments and financial risk management

Capital management

The capital structure of the Group consists of external debt, related party debt, cash and cash equivalents and equity reserves.

The Group monitors capital on the basis of financial liabilities and other financial instruments divided by total assets:

	2020 EUR k	2019 EUR k
Total financial liabilities	237,542	207,276
Less: Cash and cash equivalents	-22,551	-22,395
Net debt	**214,991**	**184,881**
Total equity	-22,606	-10,951
Total assets	246,204	227,062
Ratio total equity to total assets	**-9.2%**	**-4.8%**

Treasury policy and financial risk management

The Group's financial instruments, other than derivative financial instruments, comprise external loans, related party loans, cash and cash equivalents and liquid resources and various other items, such as trade receivables and payables and prepayments by customers.

Separate derivative financial instruments are not used for any purposes at present.

The main risks arising from the Group's financial instruments are liquidity and funding risk, cash flow interest rate risk and credit risk. The Company's management decides on strategies and procedures for managing specific risk types.

Liquidity and funding risk

Liquidity and funding risk is the risk that the Group could be unable to settle or meet its obligations as they fall due. The Group finances its operations through a combination of cash generated from operations, external and related party borrowings, leasing and equity resources. The Group monitors the maturity of financial liabilities to avoid the risk of a shortage of funds.

There are no financial covenants to the related party debt.

The following table shows the contract periods of the financial liabilities for the reporting and prior year:

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
2020						
Bond	0	750	2,250	45,500	0	**48,500**
Revolving credit facility	0	10,050	0	0	0	**10,050**
Lease liabilities	0	6,965	21,729	94,956	50,582	**174,232**
Related party debt	0	0	0	45,786	0	**45,786**
Trade payables	15,108	42	126	594	0	**15,870**
Other financial liabilities	160	2,487	270	1,741	643	**5,301**
Total	**15,268**	**20,294**	**24,375**	**188,577**	**51,225**	**299,739**

	On demand	Less than 3 months	3 to 12 months	1 to 5 years	More than 5 years	Total
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
2019						
Bond	0	750	2,250	47,750	0	**50,750**
Lease liabilities	0	6,504	18,986	98,653	40,391	**164,534**
Related party debt	0	0	0	45,786	0	**45,786**
Trade payables	11,988	0	0	0	0	**11,988**
Other financial liabilities	366	2,483	1,302	941	784	**5,875**
Total	**12,354**	**9,737**	**22,538**	**193,130**	**41,175**	**278,933**

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The related party debt is at a fixed rate and therefore has no exposure to fluctuations in interest.

At present, only the bond used by the Group and the embedded derivatives resulting from the bond and recognized separately are subject to an interest rate risk. However, considering the interest rate level and the effect of the interest rate floor, the bond effectively has a fixed interest rate. Changes in the interest rate level that would actually have an effect on interest expenses are not expected at present, so sensitivities are not presented.

However, changes in the interest rate level theoretically affect the valuation of the separately recognized embedded derivatives. Should the interest rate decrease there would be no material effect on the profit and loss as well as equity as the changes in values of the cancellation option and the floor would balance each other out. In the case of an interest rate increase the value of the floor would decrease (become less negative), whereas the value of the cancellation option would decrease. This scenario also would not result in any material effect on profit and loss and equity. The valuation components are only no longer balanced at an interest rate of >0% and the company’s credit risk would significantly increase the value of the cancellation option.

Translation from the German language

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations, resulting in financial loss to the Group. This concerns both trade and other receivables and financial assets.

The Group is exposed to credit risk attributed to trade and other receivables. The directors do not consider the risk to be significant to the Group as the risk is spread across a large number of parties.

Credit risk also arises from other financial assets of the Group, primarily cash and cash equivalents, through the default of a counterparty. The maximum exposure is equal to the carrying amount of these instruments.

The Group manages these risks by maintaining its cash and cash equivalents and derivative financial instruments across a range of counterparties and monitoring the credit ratings of these institutions. The directors believe credit risk on these financial instruments is limited as the Group predominantly deals with banks with high credit ratings.

The Group is also exposed to the risk of withdrawal of the undrawn committed facilities in the event that any of the Group's banks suffer financial difficulties. The risk is mitigated by the Group having a range of counterparties in the provision of these facilities.

There are currently no significant overdue receivables.

In the ordinary course of the business, impairment of trade receivables are very unlikely because customer payments are collected by credit cards or through direct debit. In cases of reverse debits, such receivables are generally reserved at 100% and the contract with the customer is terminated immediately.

Other trade receivables, e.g., through sale of clubs or assets, are reserved for on an individual basis if indications exist that these receivables will become doubtful.

Fair value of financial assets and financial liabilities

	At amortized cost	Fair value through profit and loss	Total carrying amount	Fair value
	EUR k	EUR k	EUR k	EUR k
2020				
Financial assets				
Cash and cash equivalents	22,551	0	22,551	22,551
Trade receivables	2,224	0	2,224	2,224
Financial liabilities				
Lease liabilities	-154,223	0	-154,223	-154,223
Trade payables	-15,871	0	-15,871	-15,871
Shareholder loans	-34,735	0	-34,735	-38,531
Bond	-37,960	-624	-38,584	-39,800
Revolving credit facility	-10,000	0	-10,000	-10,000
Earn-out liability Elbgym	0	-700	-700	-700
	-228,014	**-1,324**	**-229,338**	**-234,350**

	At amortized cost	Fair value through profit and loss	Total carrying amount	Fair value
	EUR k	EUR k	EUR k	EUR k
2019				
Financial assets				
Cash and cash equivalents	22,395	0	22,395	22,395
Trade receivables	1,974	0	1,974	1,974
Financial liabilities				
Lease liabilities	-137,148	0	-137,148	-137,148
Trade payables	-11,988	0	-11,988	-11,988
Shareholder loans	-32,172	0	-32,172	-32,172
Bond	-37,438	-518	-37,956	-40,800
Earn-out liability Elbgym	0	-1,200	-1,200	-1,200
	-194,377	**-1,718**	**-196,095**	**-198,939**

Translation from the German language

The fair value of cash and cash equivalents, trade payables, trade receivables and the current portion of the lease liabilities are equal to the carrying amount as they are short term in nature.

Apart from the contingent consideration of EUR 700k (prior year: EUR 1,200k) in connection with the acquisition of Elbgym and derivatives embedded in the bond, the Group does not have any financial instruments held at fair value through the profit and loss.

5.5 Profit/loss from investments accounted for using the equity method

The following table shows a breakdown of profit/loss from investments accounted for using the equity method:

	2020	2019
	EUR k	EUR k
LFG-XPO	-17	0
The Gym Society	-17	0
Total	**-34**	**0**

5.6 Finance costs, net

The table below shows the breakdown of finance costs, net:

	2020	2019
	EUR k	EUR k
Interest expenses from leases (IFRS 16)	6.872	4.138
Effective interest expenses for shareholder loans	2.563	1.372
Effective interest on bond	2.450	1.570
Income/loss from fair value adjustment of embedded derivatives	720	-288
Other	429	5
Total	**13.034**	**6.797**

Translation from the German language

6. Net working capital

This section provides additional information that the directors consider is most relevant in understanding the composition and management of the Group's working capital:

- Inventories (Note 6.1)
- Trade receivables (Note 6.2)
- Income tax assets (Note 6.3)
- Other non-financial assets (Note 6.4)
- Cash and cash equivalents (Note 6.5)
- Trade payables (Note 6.6)
- Other non-financial liabilities (Note 6.7)
- Other financial liabilities (Note 6.8)

6.1 Inventories

The composition of the inventories is as follows:

	2020	2019
	EUR k	EUR k
Food and beverages	547	582
Merchandising	81	103
Other	158	140
Write-downs	-44	-59
Total	**742**	**766**

6.2 Trade receivables

	2020	2019
	EUR k	EUR k
Trade receivables	2.865	2.584
Bad debt allowances	-641	-610
Total	**2.224**	**1.974**

The fair value of the receivables approximates their carrying amount. The carrying amounts of the Group's trade and other receivables are all denominated in euros.

Translation from the German language

The allowance account developed as follows:

	2020	2019
	EUR k	EUR k
As of 1 January 2020 / 13 March 2019	610	0
Additions from business combinations under common control	0	616
Additions from business combination with SmileX	0	100
Additions	31	131
Utilization/reversal	0	-237
As of 31 October 2020 / 31 December 2019	**641**	**610**

Joining fees and membership fees are collected via direct debit, so in general there are no material overdues in the normal course of the business.

Bad debt allowances are mainly set up for other receivables, e.g., from the sale of assets (clubs) if these receivables are likely not to be collectible.

6.3 Income tax assets

Income tax assets mainly include tax on investment income.

6.4 Other non-financial assets

	2020	2019
	EUR k	EUR k
VAT refund claims	3,466	2
Contributions	1,124	0
Prepaid expenses	784	724
Receivables from short-time work refunds	562	0
Ancillary costs	256	448
Security deposits	221	26
Advances to employees	61	64
Other	110	28
Total	**6,584**	**1,292**

Translation from the German language

6.5 Cash and cash equivalents

The composition of cash and cash equivalents is as follows:

	2020	2019
	EUR k	EUR k
Bank balances	22,551	22,390
Cash in transit	0	5
Total	**22,551**	**22,395**

6.6 Trade payables

	2020	2019
	EUR k	EUR k
Trade payables	15.871	11.988
Total	**15.871**	**11.988**

Trade payables are non-interest bearing and are generally on a maximum of 60 days' terms. As of 31 October 2020, EUR 594k is due in more than one year.

6.7 Other non-financial liabilities

	2020	2019
	EUR k	EUR k
Contract liabilities	2,442	2,548
Other personnel-related liabilities	989	1,389
Vacation obligation	639	194
Wage and church tax	289	818
VAT payable	115	534
Social security contributions	3	41
Other	176	193
Total	**4,653**	**5,717**

Contract liabilities of EUR 1,156k (prior year: EUR 2,548k) relate to contractual arrangements whereby members can pay their membership fees up to two years in advance. This means that the amounts shown here are recognized as revenue over the next two years. This also includes deferred revenue of EUR 1,286k in connection with the lockdown of the clubs in spring 2020 that will be mostly recognized as revenue within the next two fiscal years.

Translation from the German language

In connection with closing the clubs during the national lock-down from 16 March to 8 June 2020 at the latest, the Group has recorded prepaid expenses relating to future free-of-charge periods that members have already paid for.

During the lockdown, the Group offered its members compensation options such as reducing membership fees for the lockdown period in some cases. This free-of-charge period can start immediately, at the end of the current term or at the end of the membership.

In accordance with IFRS 15, these free-of-charge periods are presented in a true and fair manner over the entire remaining term of the contract so that an even monthly revenue is recognized in the consolidated statement of comprehensive income. To this end, the free-of-charge period is recognized as a prepaid expense and released over the entire period.

These prepaid expenses amount to EUR 1.3m, of which around 70% will be released to income during the next 24 months.

Furthermore, the contract liabilities of EUR 0.5m include prepaid memberships, of which approximately 50% will end in the following year and approximately 50% in the year after that.

This item also includes EUR 0.6m of deferred membership fees for members who pay their fees in the middle of the month, these end in November 2020.

EUR 28k (prior year: EUR 28k) of liabilities are due in more than one year and are classified under non-current liabilities. Approximately EUR 700k of the contract liabilities recognized due to the lockdown have a remaining term of more than one year. All other current liabilities fall due in less than one year. The fair value of the current liabilities approximates their carrying value due to their short-term character.

6.8 Other financial liabilities

	2020	**2019**
	EUR k	**EUR k**
Obligations relating to closed locations	2,597	3029
Payments received on accounts of orders	1,357	939
Earn-out liability Elbgym	700	1,200
Deposits	274	258
Other	373	449
Total	**5,301**	**5,875**

For information on obligations from closed locations, see Note 2.5 Changes in accounting policies in accordance with IFRSs. Obligations relating to the closed locations of EUR 1,906k (prior year: EUR 2,338k) are due in more than one year.

The earn-out liabilities (Elbgym) resulted from the acquisition of Elbgym in 2018 and relate to purchase price liabilities to the former shareholder of Elbgym. In reporting year 2020, EUR 500k was paid to the former shareholder. The remaining EUR 700k was paid in January 2021.

EUR 274k (prior year: EUR 258k) of deposits have a maturity of more than one year and are classified under non-current liabilities.

Translation from the German language

7. Other

This section provides additional information about various other disclosures including some disclosures that the directors of the Group consider to be less significant to the users of the financial statements. These include:

- Leasing (Note 7.1)
- Other provisions (Note 7.2)
- Income tax liabilities (Note 7.3)
- Related party transactions (Note 7.4)
- Change in liabilities arising from financing activities (Note 7.5)
- Auditor's fees (Note 7.6)
- Segment reporting (Note 7.7)
- Events after the reporting date (Note 7.8)

7.1 Leasing

Set our below are the carrying amounts of right-of-use assets recognized and the movements during the period:

	Buildings EUR k	Other equipment, furniture and fixtures EUR k	Total EUR k
As of 1 July 2019	**115,450**	**5,127**	**120,577**
Additions	6,882	755	**7,637**
Depreciation expense	-8,492	-848	-9,340
As of 31 December 2019	**113,840**	**5,034**	**118,874**
Additions	30,892	900	**31,792**
Depreciation expense	-17,249	-1,798	-19,047
As of 31 October 2020	**127,483**	**4,136**	**131,619**

In the reporting and the prior year, there were no changes in the gross value of the right-of-use assets, which are based on changes in estimates of the exercising of options. The additions relate to new contracts as well as extended or adjusted contracts which were not provided for in the original contract.

Lease liability of leased assets per asset class, as follows:

	31 Oct 2020 EUR k	31 Dec 2019 EUR k	1 Jul 2019 EUR k
Buildings	149,837	132,248	134,446
Other equipment, furniture and fixtures	4,386	4,900	5,127
	154,223	**137,148**	**139,573**

Maturity analysis of lease liabilities	**31 Oct 2020**	**31 Dec 2019**
Current (within one year)	21,112	19,913
Non-current (more than one year)	133,111	117,235

Translation from the German language

The lease liability at the date of initial recognition was calculated using an average IBR of 5.90%. New contracts and contract adjustments are recognized at a capital rate of between 4.50% and 7.20%, depending on the term.

The following are the amounts recognized in profit or loss:

	2020	2019
	EUR k	EUR k
Depreciation expenses of right-of-use assets	19,047	9,340
Interest expense on lease liabilities	6,872	4,138
Total amount recognized in profit or loss	**25,919**	**13,478**

The Group had total cash outflows for leases of EUR 17,755k (prior year: EUR 13,932k) for the period from 1 January 2020 to 31 October 2020.

As in the prior year, the Group did not enter into any contractual leases with a lease term of less than one year (short-term) and which fall below the materiality level (EUR 5,000) specified in IFRS 16 (small-ticket) in the reporting year.

Leases not yet commenced

The Group signed two new lease contracts before 31 October 2020 which will only start after the reporting date. These will lead to a future cash outflow of EUR 8,945k.

Extension options

The Group has several lease contracts that include extension options. These options are negotiated by management to provide flexibility in managing the leased asset portfolio and align with the Group's business needs. Management exercises significant judgment in determining whether these extension options are reasonably certain to be exercised (see Note 2.3k).

Set out below are the undiscounted potential future rental payments relating to periods following the exercise date of extension options that are not included in the lease term:

	Within five years	More than five years
Extension options expected not to be exercised	29,484	137,111

Translation from the German language

7.2 Other provisions

Other provisions break down as follows:

	2020	2019
	EUR k	EUR k
Club restoration provision	3,370	3,630
Litigation	791	902
Restructuring	0	519
Other provisions	57	63
	4,218	**5,114**
Of which:		
Current portion of provisions (< 1 year)	1,544	1,899
Non-current portion of provisions (> 1 year)	2,674	3,215
	4,218	**5,114**

Other provisions developed as follows:

	Club restoration provisions	*Litigation provisions*	*Restructuring*	*Other provisions*	**Total**
	EUR k	EUR k	EUR k	EUR k	EUR k
As of 13 March 2019	0	0	0	0	**0**
Addition from first-time consolidation	3,644	818	519	135	**5,116**
Utilization	77	0	0	72	**149**
Reversal	0	0	0	0	**0**
Allocation	63	84	0	0	**147**
As of 31 December 2019	**3,630**	**902**	**519**	**63**	**5,114**
Utilization	260	0	519	63	**842**
Reversal	0	54	0	0	**54**
Reclassification	0	0	0	0	**0**
Allocation	0	0	0	0	**0**
As of 31 October 2020	**3,370**	**848**	**0**	**0**	**4,218**
Thereof current:	696	848	0	0	**1,544**
Thereof non-current:	2,674	0	0	0	**2,674**
Prior year: thereof current:	415	902	519	63	**1,899**
Prior year: thereof non-current:	3,215	0	0	0	**3,215**

Club restoration provisions

The club restoration provisions relate to estimated costs to reinstate lease sites to their original condition at the end of the lease term.

7.3 Income tax liabilities

	2020 EUR k	2019 EUR k
Corporate income tax	314	258
Trade tax	100	198
Other	0	11
Total	**414**	**467**

There are tax groups in place between group entities. Income tax liabilities mainly relate to current taxes of smileX companies that are not yet part of the tax group.

7.4 Related party transactions

Balances and transactions between the Company and its subsidiaries, which are related parties, were eliminated on consolidation and are not disclosed in this note.

Remuneration of key management personnel

Total remuneration of management comprises a fixed remuneration component and a variable performance-linked remuneration component. With reference to Sec. 286 (4) HGB, details concerning the remuneration granted to active members of management are not disclosed.

The following persons were members of the management of the Group's parent in the reporting period and after the reporting date:

- Martin Seibold, Konstanz, Germany, Master of Sport Economy, CEO of LifeFit Group, since 1 June 2019

Profit and loss transfer agreement with Fitness First Germany Holdings GmbH, Frankfurt am Main

A profit and loss transfer agreement was in place between FFG and its former shareholder Fitness First Germany Holdings GmbH, Frankfurt am Main, until 30 June 2019. This agreement was terminated due to the restructuring of the Group. For the period from 1 November 2018 until 30 June 2019 FFG realized a profit of EUR 558k.

Sale of investments in MyFitness Card GmbH, Munich, and New Moove Deutschland GmbH, Munich, to Fitness First Luxembourg S.C.A., Luxembourg

Effective 5 April 2019, FFG sold its former investments in MyFitness Card GmbH, Munich (100% of shares), and New Moove Deutschland GmbH, Munich (100% of shares), to Fitness First Luxembourg S.C.A., Luxembourg. The purchase prices amounted to EUR 7,923k. FFG realized a gain of sale of investments of EUR 637k.

Receivables from related parties

	2020 EUR k	2019 EUR k
Receivables from LFG XPO	890	861
Receivables from THE GYM SOCIETY	264	0
Recharges to LifeFit Group TopCo GmbH	129	251
Recharges to Fitness First Germany Holdings GmbH	21	10
Receivables from former SmileX shareholder	0	308
Other	18	0
Total	**1,322**	**1,430**

Related party debt

	2020 EUR k	2019 EUR k
Liabilities to former SmileX shareholders	296	0
Total	**296**	**0**

Shareholder loans

Effective 30 June 2019, Fitness First Luxembourg S.C.A., Luxembourg, granted MidCo a loan in the amount of EUR 23,548k. The loan has a term until the expiry of 31 January 2024 and is repayable at the end of its term. Principal repayments and/or interest payments before the end of the term are not permitted. The loan bears interest at a rate of 7% p.a. Interest is payable in arrears at the end of the term along with the repayment of the loan.

In addition, effective 27 July 2019 TopCo granted MidCo a loan in the amount of EUR 10,000k. The loan has a term until the expiry of 31 January 2024 and is repayable at the end of its term. Principal repayments and/or interest payments before the end of the term are not permitted. The loan bears interest at a rate of 7% p.a. Interest is payable in arrears at the end of the term along with the repayment of the loan.

Effective 6 August 2019, TopCo granted MidCo a loan in the amount of EUR 1,332k. The loan has a term until the expiry of 31 January 2024 and is repayable at the end of its term. Principal repayments and/or interest payments before the end of the term are not permitted. The loan bears interest at a rate of 7% p.a. Interest is payable in arrears at the end of the term along with the repayment of the loan.

The abovementioned loans constitute loans with a below-market interest rate. This has the following effects on the statement of financial position and the statement of comprehensive income:

The below-market rate portions of the utilized credit facilities are separated from the nominal liability and recognized as an increase in equity. These differences are charged to the financial result using the effective interest method over the term of the loan (until 31 January 2024) and the loans are written up to their nominal amounts successively. In the reporting period, an interest rate of 9.83% was used.

Total interest expenses for the abovementioned loans amounted to EUR 2,419k (prior year: EUR 1,372k).

Translation from the German language

The lender subordinates all its claims against the borrower under and in connection with the shareholder loan, in particular its claims for principal repayment and interest payments and its other accessory claims (the “subordinated claims”), to all claims under the senior secured callable bond.

Vendor loan smileX

Effective 8 August 2019, the former shareholders of smileX Interco GmbH

- Christian Müller, Trier
- Boris Köninger, Homburg
- Ralf Sattler, Homburg
- Sonja Sattler, Homburg

granted MidCo loans through conversion of a part of the consideration from the share contribution agreement dated 7 June 2019 by which the lenders agreed to contribute all their shares in smileX Interco GmbH to MidCo.

Christian Müller and Boris Köninger each granted a loan of EUR 444k. Ralf Sattler and Sonja Sattler each granted a loan of EUR 222k. Each of the abovementioned loans has a term expiring on 31 January 2024 and is repayable at the end of its term. Principal repayments and/or interest payments before the end of the term are not permitted. The loans bear interest at a rate of 7% p.a. Interest is payable in arrears at the end of the term along with the repayment of the loan.

On the same date, all loans were sold by the lenders to the parent company of MidCo, LifeFit Group TopCo GmbH. The interest expense amounted to EUR 144k (prior year: EUR 39k).

Consultant agreement between smileX Interco GmbH and Boris Köninger

Effective 6 August 2019, Boris Köninger concluded a consultant agreement with smileX Interco GmbH. He receives a minimum annual amount for his services.

Managing director service agreement between smileX Interco GmbH and Christian Müller

Effective 6 August 2019, Christian Müller concluded a managing director service agreement with smileX Interco GmbH. Christian Müller serves as the smileX managing director (smileX CEO). For his services, Christian Müller receives a fixed salary and an annual performance-based bonus.

Translation from the German language

7.5 Changes in liabilities arising from financing activities

	As of 1 January 2020	Additions from business combinations	Cash inflows	Cash outflows	Additions/revaluations	(Accrued) interest	As of 31 October 2020
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Shareholder loans	30,753	0	0	0	0	2,563	**33,316**
Capital injection	1,419	0	0	0	0	0	**1,419**
Bond	37,439	0	0	0	521	0	**37,960**
Embedded derivatives	517	0	0	0	107	0	**624**
Revolving credit facility	0	0	10,000	0	0	0	**10,000**
Other financial liabilities	5,875	0	434	-1,008	0	0	**5,301**
Lease liabilities	137,148	0	0	-17,755	27,958	6,872	**154,223**
	213,151	**0**	**10,434**	**-18,763**	**28,586**	**9,435**	**242,843**

	As of 13 March 2019	Additions from business combinations	Cash inflows	Cash outflows	Additions/revaluations	(Accrued) interest	As of 31 December 2019
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Shareholder loans	0	0	9,519	0	19,862	1,372	**30,753**
Capital injection	0	0	1,419	0	0	0	**1,419**
Bond	0	0	37,251	-1,133	0	1,321	**37,439**
Embedded derivatives	0	0	805	0	-288	0	**517**
Other financial liabilities	0	5,776	99	0	0	0	**5,875**
Lease liabilities	0	145,705	0	-13,932	1,237	4,138	**137,148**
	0	**151,481**	**49,093**	**-15,065**	**20,811**	**6,831**	**213,151**

7.6 Auditor's fees

In the fiscal year, the total auditor's fees for the consolidated financial statements broke down as follows:

	2020	2019
	EUR k	EUR k
Audit services	400	469
Tax services	5	9
Other services	0	797
Total	**405**	**1,275**

7.7 Segment reporting

The group management divided the Group's reporting system into the following segments:

- Holding/Administration (MidCo)
- Fitness First (FFG, Barry's Bootcamp, LFG Services, smileX conversion clubs)
- Elbgym
- SmileX Interco GmbH and subsidiaries

Translation from the German language

The key performance indicators of the Group break down by segment as follows:

FY 2020	Holding / admin	Fitness First	Elbgym	smileX	Consolidation	Total
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Revenue	*0*	*89,007*	*2,376*	*9,673*	*0*	**101,055**
EBITDA	*-2,628*	*29,404*	*1,597*	*4,329*	*0*	**32,702**
Financial result	*-6,156*	*-6,416*	*-225*	*-237*	*0*	**-13,034**
Income taxes	*0*	*552*	*3*	*244*	*0*	**799**
Profit or loss for the period	*-8,818*	*-3,133*	*-1,208*	*1,504*	*0*	**-11,655**
Total assets	*190,053*	*198,475*	*3,843*	*10,365*	*-156,532*	**246,204**
Non-current liabilities	*72,383*	*131,288*	*4,096*	*4,060*	*0*	**212,527**

Prior year	Holding / admin	Fitness First	Elbgym	smileX	Consolidation	Total
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Revenue	*0*	*59,656*	*1,188*	*5,181*	*0*	**66,025**
EBITDA	*-1,705*	*17,566*	*-26*	*2,377*	*0*	**18,212**
Financial result	*-2,653*	*-3,864*	*-145*	*-137*	*0*	**-6,798**
Income taxes	*0*	*442*	*15*	*-44*	*0*	**413**
Profit or loss for the period	*-4,358*	*-37*	*-634*	*699*	*0*	**-4,329**
Total assets	*171,431*	*161,747*	*5,316*	*9,646*	*-121,078*	**227,062**
Non-current liabilities	*69,184*	*114,655*	*5,133*	*5,807*	*0*	**194,779**

7.8 Events after the reporting date

COVID-19 health crisis

Due to official orders, our clubs had to close again from the beginning of November until further notice. This development led to further declines in membership and revenue. Group management immediately took countermeasures. These include in particular postponing investment projects, making further use of the short-time work option under employment market law, intensifying negotiations with lessors of the clubs and applying for further government support measures.

Since the renewed lockdown, approximately 65% of the monthly membership fees have been collected to date (around 5% of fees were lost to returned direct debits and around 30% of members were allowed to freeze their membership). Compensation can be claimed in subsequent periods. Overall, the second lockdown led to a reduction in members by around 40,000, which will have a negative impact on revenue mainly in fiscal years 2021 and 2022.

Translation from the German language

Addendum to the loan agreement with Oldenburgische Landesbank

Since management assumed that the existing financial covenants under the loan agreement with Oldenburgische Landesbank relating to a minimum EBITDA on a last-twelve-months basis would likely not be met in fiscal year 2021, it entered into discussions with the lenders early on and requested a waiver letter. As part of an amendment on 26 February 2021, the originally agreed financial covenants in relation to testing were suspended until 31 October 2022 and replaced by a minimum cash covenant. This stipulates that the Company must show evidence of a permanent minimum level of cash. In addition to the existing fixed interest rate of 3.0% p.a., an additional PIK interest of 1.5% was agreed, which is due cumulatively as of 31 October 2022.

Munich, 26 February 2021

Martin Seibold
CEO

Group management report of LifeFit Group MidCo GmbH, Munich, for the short fiscal year from 1 January 2020 to 31 October 2020

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A. BACKGROUND OF THE GROUP

1. GROUP BUSINESS MODEL

The LifeFit MidCo Group

LifeFit Group MidCo GmbH (hereafter the “Company” or “MidCo”) was incorporated on 13 March 2019 and organized under the laws of Germany as a “Gesellschaft mit beschränkter Haftung” (limited liability company) for an indefinite period. It was acquired by LifeFit Group TopCo GmbH (“TopCo”) on 31 May 2019 and was renamed LifeFit Group MidCo GmbH (previously INOS 19-016, Munich). The parent of MidCo (100% share) is hence LifeFit Group TopCo GmbH, Munich, and the ultimate parent of the Group is Fitness First Luxembourg S.C.A., which has its registered office in Luxembourg.

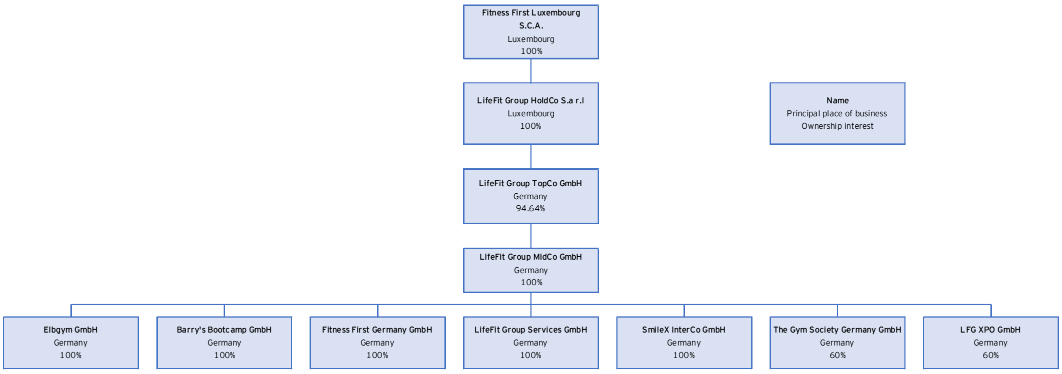
The registered office of the Company is established in Munich, the business address is Hanauer Landstrasse 148a, 60314 Frankfurt am Main, and the commercial register number is HRB no. 248092. The current short fiscal year of the Company starts on 1 January and ends on 31 October 2020. The first fiscal year started with the entry in the commercial register (9 April 2019) and ended on 31 December 2019. However, the results for the first year referred primarily to the period from 1 July to 31 December 2019, since the material operating business began from the date of the purchase of three subsidiaries effective on 1 July 2019 (Fitness First Germany GmbH, Elbgym GmbH and Barry’s Bootcamp GmbH). In addition, the joint ventures The Gym Society Germany GmbH and LFG XPO GmbH were established in the first year.

MidCo is a wholly owned subsidiary of LifeFit Group TopCo GmbH, Munich, the parent company of the Group.

Reorganization of the LifeFit Group

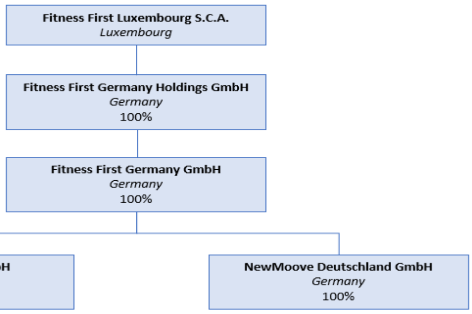
During restructuring that occurred before the fiscal year-end on 31 December 2019, Fitness First Luxembourg S.C.A., Luxembourg, acquired several new entities and established new intermediary holding companies (TopCo and MidCo) to run newly acquired businesses. At the same time, it sold two companies.

Organization chart after restructuring (as of 31 October 2020 – taking into account the change in shareholders of TopCo):



- FFL Fitness First Luxemborug S.C.A.
- FFG Fitness First Germany GmbH
- Elbgym Elbgym GmbH
- Bootcamp Barry's Bootcamp GmbH
- LF Services LifeFit Group Services GmbH
- SmileX SmileX InterCo GmbH
- Gym Society The Gym Society Germany GmbH
- XPO LifeFit Group XPO GmbH

Organization chart before restructuring (as of 31 December 2018 – essentially also valid until 30 June 2019):



- FFGH Fitness First Germany Holdings GmbH
- MFC MyFitness Card GmbH
- NM NewMoove Deutschland GmbH

MidCo is among the largest fitness offering operators in Germany, with a portfolio of brands in various segments. The Group operates a subscription-based business model which results in high customer stickiness and revenue visibility; the average member stays with the Group for approximately four years. The multi-brand portfolio creates operational flexibility and allows for club rebranding to react to, for instance, to changes in customer preference.

Currently, MidCo has positioned itself on the German market with five brands:

i. The Group is built around Fitness First Germany ("FFG") which constitutes the core of operations with its 64 clubs (prior year: 66 clubs).
ii. Hamburg-based premium brand Elbgym with 4 clubs (prior year: 3 clubs) (of which 1 franchise since 2020) was acquired in December 2018 under the old structure as a first step in developing the Group's multi-brand offering.
iii. Operator smileX with 17 clubs (prior year: 17 clubs) (of which 3 franchises) represents MidCo's strategic move into the mid-range segment.
iv. Finally, MidCo has an exclusive master franchise agreement with US-based boutique chain Barry's Bootcamp to run clubs in Germany and Austria; 5 clubs are to be opened during the next 2 years, with a total potential of up to 12 clubs. The first two clubs will open in Frankfurt and Berlin at the end of the second lockdown.
v. The Gym Society saw its first club open in Cologne in July 2020.

The Group is present in many major German cities, including Berlin, Munich, Frankfurt, Hamburg and Cologne; its long-term leases in prime inner-city locations act as a significant barrier to entry for competitors. The Group currently operates 82 clubs (prior year: 84 clubs) (of which 4 under a franchise) with more than 224,000 members (prior year: 248,000 members). This decrease is attributable to the reduction in the number of clubs and to the consequences of the COVID-19 health crisis.

2. GOALS AND STRATEGIES

Goals and strategies primarily involve developing attractive fitness clubs and expanding the product range (multi-brand fitness offering in different market segments), increasing customer satisfaction, boosting market share as well as the overall aim of the Company generating operating profits for the benefit of employees and shareholders.

The financial strategy remains rigorously focused on ensuring the Group's ability to act in both strategic and operational terms at all times. The shareholders of the Group have made necessary financing available. In addition, a bond financing was accomplished, which was primarily used for acquisition financing. Following the completion of restructuring, balanced liquidity, a robust capital structure taking into account direct and indirect external borrowing as well as results of operations with a focus on profitability remain the cornerstones for the Group in the coming years.

3. CONTROL SYSTEM

Management's controls for the Group include monthly reports, a separate liquidity reporting process as well as a corporate planning tool. Monthly reports contain all management-related indicators, comparable to a balanced scorecard, to manage and control the entire Group. This involves regularly comparing actual figures against monthly and annual budget figures and taking any steps where necessary. Depending on the department, certain performance indicators from the monthly reports are tied to the performance-based remuneration for executives.

The financial performance indicators typically used include statistical indicators such as membership (joiners and leavers), joiner and leaver yield, average membership fees and dues, attrition and retention rates as well as financial indicators such as revenue, EBITDA and free cash flow from operating activities.

The Company prepares a monthly cash flow plan for an 18-month period on a rolling basis, which contains all the Company's expected cash inflows and outflows.

The corporate planning model sets out the medium and long-term financial targets as well as any performance indicators.

B. ECONOMIC REPORT

1. MACROECONOMIC AND INDUSTRY-SPECIFIC CONDITIONS

Following a total of 10 years' economic growth for the German economy, the longest growth phase in the history of post-reunification Germany, both global and German economic output fell drastically in 2020, primarily due to the COVID-19 economic crisis.

According to the last industry study of the German fitness market,[1] by the end of last year, average annual growth in revenue stood at 3.2% and average growth in memberships at 5.1% over the last five years.

As of 31 December 2018, 11.1 million members were registered in 9,343 commercial fitness studios in Germany.

The compound annual growth rate (CAGR) since 2014 is 3.2%. driven by chains and studios at the expense of the large base of independent operators. The growth within the studio category is driven by a shift in preference towards varied, specialized fitness experiences (e.g., cycling, boxing, yoga). Fitness chains have experienced strong growth in recent years due to increased consolidation among centers and consumers seeking out established chains with a reputable brand. Independent operators have struggled to match the larger chains' value proposition and have thus seen their base erode. This development initially continued into 2019.

The German fitness market is the largest in Europe and has grown in line with other markets, following a global health and wellness trend. Despite increasing by nearly 50% since 2010, fitness center penetration (number of centers/population) in Germany remained low compared to other developed markets such as the UK and Scandinavia. New concept and center development, persistent interest in health and wellness and social media generally provide a strong basis for further growth.

Once the COVID-19 health crisis reached Germany, a two to three-month lockdown was imposed by the authorities in spring 2020 (dates and durations varied from state to state). This was a bitter setback for the entire fitness, leisure and cultural sector.

[1] Deloitte "*Der deutsche Fitnessmarkt*" (The German fitness market), 16th edition

2. BUSINESS DEVELOPMENT

The result of the fiscal year refers to the period from 1 January to 31 October 2020. In the prior year, the material operating business started from the date of acquisition of the three subsidiaries Fitness First Germany GmbH, Elbgym GmbH and Barry's Bootcamp GmbH on 1 July 2019. Both fiscal years are short fiscal years and comparability of financial performance in the two reporting periods is therefore limited.

Alongside the operative and administrative consolidation efforts following the rapid growth of the Group, fiscal year 2020 was primarily shaped by the COVID-19 health crisis. This relatively unpredictable event had a significant influence on the financial ratios of the Group.

Considering the closure of our studios in the spring following the COVID-19 lockdown, operational and financial KPIs in almost all areas generally exceeded our expectations.

Due to the country-wide lockdown in Germany in response to COVID-19 from mid-March 2020 onwards, all fitness studios had to close for approximately 10 weeks until 8 June 2020. In order to offer our members workouts in these difficult times, a live online workout program was launched immediately. In addition, the digitalization of operating processes was pushed forward (e.g. app for members) and refurbishments were made in the clubs. Moreover, detailed preparations for the reopening of clubs and compliance with official hygiene requirements were made and strictly implemented, to ensure smooth club operations. This was reflected in the operational KPIs (member attendance, new members, cancellations), which were more or less at the prior-year level before the second lockdown.

During the lockdown period, around 85% of the monthly membership fees were collected (around 5% of fees were lost to returned direct debits and around 10% of members were allowed to freeze their membership). Compensation can be claimed in subsequent periods. Sufficient liquidity was ensured through stringent cost management, the use of short-time work benefits (the majority of employees were affected) and partial deferral of lease payments (approximately EUR 3.8m). Overall, the lockdown resulted in a reduction in members by around 60,000, which will have a negative impact on revenue, EBITDA and profit mainly in fiscal years 2020 and 2021. In light of these developments, further cost-saving measures were implemented in all cost areas, which will cushion the negative effects in the short term and more than compensate for them in the long term.

The forecast for revenue made in the prior-year management report (revenue decrease in a low two-digit percentage point range) and for EBITDA (drop in the EBITDA margin in the lower two-digit percentage point range) was exceeded. Revenue was 9% lower than the forecast figure and the EBITDA margin stood at 32% (forecast at 27%).

3. FINANCIAL PERFORMANCE

The key performance indicator is consolidated operating profit or loss before interest, taxes, depreciation and amortization (EBITDA), as calculated below for the Group:

in EUR m	1 Jan 2020 to 31 Oct 2020	13 Mar 2019 to 31 Dec 2019
Revenue	101.1	66.0
Cost of materials	-4.7	-3.6
Personnel expenses	-28.5	-20.9
Other operating expenses less other operating income	-35.3	-23.4
Depreciation and amortization	-32.0	-16.1
Finance costs, net	-13.0	-6.8
Income taxes	0.8	0.4
Consolidated loss	**-11.6**	**-4.4**
Income taxes	-0.8	-0.4
Finance costs, net	13.0	6.8
Depreciation and amortization	32.0	16.1
Group EBITDA	**32.6**	**18.1**

The Group generated revenue of EUR 101.1m (prior year: EUR 66.0m) which breaks down by brand as follows:

in EUR m	1 Jan 2020 to 31 Oct 2020	13 Mar 2019 to 31 Dec 2019
By brand name		
Fitness First	89.0	59.6
smileX	9.7	5.2
Elbgym	2.4	1.2
Total	**101.1**	**66.0**

As in the prior year, over 90% of revenue is attributable to membership fees, joining fees and fees for personal trainers. The remaining revenue is attributable to food and beverages as well as fitness-related products.

The ratio of personnel expenses to revenue also improved from 31.6% to 28.2% year on year. This development is primarily attributable to increases in efficiency and to savings in connection with short-time work during the lockdown from April to June 2020. Compensation from the Federal Employment Agency during the reporting period amounted to approximately EUR 4.0m.

Depreciation and amortization of assets amounted to EUR 32.0m (prior year: EUR 16.1m) and is attributable to the depreciation of recognized right-of-use assets (EUR 19.0m; prior year: EUR 9.3m), the depreciation of property, plant and equipment (EUR 10.2m; prior year: EUR 5.8m) and the amortization of intangible assets (EUR 2.8m; prior year: EUR 1.0m). Amortization, depreciation and impairment includes impairment losses of EUR 3.9m, of which EUR 0.9m relates to goodwill, EUR 1.8m to property, plant and equipment and EUR 1.2m to right-of-use assets.

Other operating expenses less other operating income amounted to approximately EUR 35.3m (prior year: EUR 23.4m). This position mainly includes ancillary costs for land and buildings (EUR 17.8m; prior year: EUR 9.2m), advertising, marketing and travel expenses (EUR 3.8m; prior year: EUR 2.4m), maintenance expenses (EUR 3.4m; prior year: EUR 2.3m), administrative expenses (EUR 3.1m; prior year: EUR 1.4m) and legal, audit and advisory fees (EUR 2.6m; prior year: EUR 2.9m).

Finance costs, net, chiefly comprise expenses for leases (EUR 6.9m; prior year: EUR 4.1m), coupon on bonds (EUR 2.5m; prior year: EUR 1.6m) and interest expenses for shareholder loans (EUR 2.6m; prior year: EUR 1.4m).

The operating profit before interest, taxes, depreciation and amortization (EBITDA) amounted to EUR 32.6m (prior year: EUR 18.1m).

4. ASSETS, LIABILITIES AND FINANCIAL POSITION

As of the reporting date, the Group's total assets amounted to EUR 246.2m (prior year: EUR 227.1m). The assets, liabilities and financial position of the Group are as follows:

in EUR m	31 Oct 2020	31 Dec 2019
ASSETS		
NON-CURRENT ASSETS		
Intangible assets	35.7	38.4
Property, plant and equipment	45.4	41.8
Right-of-use assets	131.6	118.9
	212.7	199.1
CURRENT ASSETS		
Inventories	0.7	0.8
Trade receivables	2.2	2.0
Receivables from related parties	1.3	1.4
Income tax assets	0.1	0.1
Other non-financial assets	6.6	1.3
Cash and cash equivalents	22.6	22.4
	33.5	28.0
TOTAL ASSETS	**246.2**	**227.1**
EQUITY AND LIABILITIES		
EQUITY	-22.6	-11.0
NON-CURRENT LIABILITIES		
Financial liabilities	38.6	38.0
Shareholder loans	34.7	32.2
Other non-financial liabilities	0.7	0.0
Other financial liabilities	2.2	2.6
Other provisions	2.7	3.2
Lease liabilities	133.1	117.2
Deferred tax liabilities	0.5	1.6
	212.5	194.8
CURRENT LIABILITES		
Financial liabilities	10.0	0.0
Trade payables	15.9	12.0
Other non-financial liabilities	3.9	5.7
Other financial liabilities	3.1	3.3
Liabilities to related parties	0.3	0.0
Other provisions	1.5	1.9
Lease liabilities	21.1	19.9
Income tax liabilities	0.4	0.5
	56.3	43.3
TOTAL EQUITY AND LIABILITIES	**246.2**	**227.1**

Intangible assets comprise goodwill from business combinations (EUR 25.6m; prior year: EUR 26.5m), customer lists/contracts and trademarks (EUR 9.1m; prior year: EUR 10.8m) and licenses and software (EUR 1.1m; prior year: EUR 1.1m). In the reporting year, an impairment loss of EUR 0.9m relating to the goodwill of CGU Elbgym GmbH was recognized.

Property, plant and equipment amounted to EUR 45.4m (prior year: EUR 41.8m) and mainly included land and buildings (EUR 23.1m; prior year: EUR 23.8m), other equipment, furniture and fixtures (EUR 16.3m; prior year: EUR 14.4m) and prepayments and assets under construction (EUR 5.8m; prior year: EUR 3.6m).

The right-of-use assets consist of leased buildings (EUR 127.5m, prior year: EUR 113.1m) as well as leased fitness equipment and vehicles (EUR 4.1m; prior year: EUR 4.6m).

Regarding the Group's net equity, we refer to section 5. "Equity and going concern."

Net financial liabilities break down as follows:

in EUR m	**31 Oct 2020**	**31 Dec 2019**
Bond	38.6	38.0
Shareholder loans	34.7	32.2
Revolving credit facility	10.0	0.0
Lease liabilities	154.2	137.1
Less: Cash and cash equivalents	-22.6	-22.4
Net debt	**214.9**	**184.9**

In the reporting period, MidCo raised additional funds of EUR 10.0m by arranging a revolving credit facility. The bond (senior secured callable floating rate bond) is valued at EUR 38.6m as of the reporting date (prior year: EUR 38.0m) and is fully repayable as of 26 July 2023. The Group is obliged to pay the interest on a quarterly basis. The quarterly paid interest consists of a fixed margin of 7.50% p.a. and the 3M EURIBOR applicable at the beginning of the interest periods (but no less than 0%).

Total shareholder loans including accrued interest in the amount of EUR 34.7m (prior year: EUR 32.2m) were granted in 2019, bearing an interest rate of 7.00%. These loans are to be repaid in full including accrued interest in January 2024.

The lease liabilities (long-term: EUR 133.1m (prior year: EUR 117.2m) and short-term: EUR 21.1m (prior year: EUR 19.9m)) relate to leased buildings (EUR 149.8m; prior year: EUR 132.2m) and leased fitness equipment and vehicles (EUR 4.4m; prior year: EUR 4.9m).

The Group's freely available cash amounted to EUR 22.6m (prior year: EUR 22.4m).

Provisions (long-term: EUR 2.7m (prior year: EUR 3.2m); short-term: EUR 1.5m (prior year: EUR 1.9m)) are mainly composed of club restoration provisions (EUR 3.4m; prior year: EUR 3.6m) and provisions for litigation (EUR 0.8m; prior year: EUR 0.9m).

Deferred tax liabilities amounted to EUR 0.5m (prior year: EUR 1.6m) and relate mainly to accounting differences in intangible assets from acquisitions (EUR 2.7m; prior year: EUR 3.2m) and in property, plant and equipment (EUR 5.0m; prior year: EUR 5.6m), which are offset by deferred tax assets, primarily resulting from accounting differences in lease accounting (EUR 6.8m; prior year: EUR 6.0m).

The cash flow from operating activities amounted to EUR 21.9m in the reporting period (prior year: EUR 10.7m).

The Group invested EUR 14.0m (prior year: EUR 32.0m), mainly in the acquisition of property, plant and equipment (EUR 13.9m; prior year: EUR 6.1m). In the prior year, the cash flow from investing activities was also largely shaped by the acquisition of smileX (EUR 25.0m net of cash acquired).

In the reporting period, the Group received cash from the arrangement of a revolving credit facility amounting to EUR 10.0m. The Group made cash payments of around EUR 17.8m (prior year: EUR 13.9m) for interest and principal repayments in connection with lease payments. In the prior year, the Group received cash from the issuance of a bond (EUR 38.0m; nominal value: EUR 40.0m) and from shareholder loans including capital injections (EUR 11.0m).

Overall picture of assets, liabilities, financial position and financial performance

Overall, assets, liabilities, financial position and financial performance in the reporting period were shaped by a loss after tax for the period of EUR 11.6m (prior year: EUR 4.3m), negative equity of EUR 22.6m (prior year: EUR 11.0m) and a positive cash flow from operating activities of EUR 22.5m (prior year: EUR 10.6m). The Group's liquidity is well positioned owing to a high level of cash and cash equivalents as of the reporting date (EUR 22.6m; prior year: EUR 22.4m). Overall, taking into account the information provided under "Section 5. Equity and going concern" and the consequences of the COVID-19 health crisis, the assets, liabilities, financial position and financial performance can be considered satisfactory.

5. EQUITY AND GOING CONCERN

In consideration of the foregoing, the management board has a reasonable expectation that the Group will have sufficient funds over the forecast period and will have adequate resources available to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the annual report and financial statements. For information on the significant uncertainties regarding continuation as a going concern, please refer to the comments in the section “Outlook, opportunities and risks.”

Cash flows have been projected until October 2023 and are expected to remain positive for the existing businesses, as long as the planning assumptions materialize.

In the fiscal year, consolidated equity amounted to -EUR 22.6m (prior year: -EUR 11.0m). Including the subordinated shareholder loans (presented under “Shareholder loans” in the consolidated statement of financial position) of EUR 34.7m (prior year: EUR 32.2m), the equity ratio came to 4.9% (prior year: 9.6%). The terms of the subordinated shareholder loans are: interest rate of 7.0% p.a., repayment of principal and interest accrued upon maturity on 31 January 2024.

Besides the net loss for the fiscal year and for the preceding fiscal year, the negative equity mainly resulted from the specific accounting and consolidation requirements of IFRSs (“transactions under common control”). When consolidating FFG as of 1 July 2019, the difference between the acquisition cost of FFG (EUR 119.0m) and the carrying amount of net assets acquired (EUR 7.7m) had to be accounted for in group reserves, impacting them negatively by EUR 111.3m. Had the transaction taken place at fair values in accordance with IFRS 3, this difference would have been allocated to tangible and intangible assets, leading to a significant step-up of net assets and equity.

Overindebtedness is tested at the level of the entity LifeFit Group MidCo GmbH. As of the reporting date, in its statutory financial statements according to German GAAP (HGB) LifeFit Group MidCo GmbH reported positive equity of EUR 75.2m (prior year: EUR 96.0m).

6. NON-FINANCIAL PERFORMANCE INDICATORS

Employees

As of 31 October 2020, 1,654 people were employed by the Group (prior year: 1,871 people). Of these, 1,499 people worked in the clubs (prior year: 1,708 people) and 155 employees in the service center (prior year: 163 employees). As part of the group-wide Learning & Development program, all company employees from the receptionist to the managing director are continuously given interactive training with a view to improving service behavior. By actively collecting participant feedback, the training programs are continually improved.

As in the prior year, the number of employees includes approximately 20 trainees in the clubs and a further 5 trainees in the service center. In addition to offering traditional training as a fitness economist or management assistant in sports and fitness, the Group is also a partner in a dual course of study for a bachelor's degree in international sports management. Due to the positive experience, a focus will also be placed on the training of newcomers to the profession.

Suppliers

We have long-term relationships with many of our suppliers. As we have outsourced many of parts of our operations a close relationship and cooperation is vital and essential for us. As we regard our suppliers as an integral part of our sustainability strategy, our suppliers comply with our supplier code and code of conduct.

Members

As of 31 October 2020, we had 224,205 members (prior year: 248,305 members). The average monthly membership yield was EUR 42.5 (prior year: EUR 45.8) and the customer retention rate was 70.4% (prior year: 73.4%).

Our members who work on their fitness and health in our clubs are given high priority in terms of their needs, satisfaction and development. We therefore conduct regular surveys in order to improve customer satisfaction as well as to continuously improve our products and services.

Financial community

We communicate proactively and transparently with our financial stakeholders such as investors, banks and other financial parties about our strategies, goals and financial performance, ensuring that these parties receive accurate, timely and relevant information.

The Company established an audit committee in the reporting year with the following members:

- Mr. Jürgen Schaubel
- Mr. Moritz Zimmermann
- Mr. Christophe Collinet

C. OUTLOOK, OPPORTUNITIES AND RISKS

1. OUTLOOK

The assumptions and estimates used in this forecast contain uncertainty and may differ if the economic conditions change.

"In its most recent World Economic Outlook, the IMF updated its forecasts for changes in national and regional economic output. For the coming year, the IMF currently expects an increase in global economic output of 5.2%. This is a slight decrease compared to the forecast in June which stood at 5.4%. In the US, economic output could experience growth of "only" 3.1% in 2021. However, output is not expected to fall as sharply this year (-4.3%). GDP in the European Union could grow by 5.0% in 2021, following an anticipated decline of a full 7.6% in 2020. With growth of 8.2%, China bucked the trend. However, here, the fall was greater: in 2019, the economy continued to grow by 6.1%.

The IMF stresses that these forecasts are fraught with considerable uncertainty. Weaker consumer demand, the slump in tourism and the incalculable further course of the pandemic in individual countries makes forecasting further developments difficult. Given the severe shock waves, strong multilateral efforts are reported to be necessary to quickly and sustainably combat the health and economic crisis." (Source: statista 2020*).*

The entire fitness industry has been adversely impacted by the outbreak of the COVID-19 health crisis. Following the closure once again of all clubs in the Group during the second lockdown, management expects further short-term negative effects on the Group's future assets, liabilities, financial position and financial performance.

The numbers of visitors and new members recovered within a few months following the first closure period and were back at approximately the prior-year level in August of the reporting period. Owing to the second lockdown from 1 November 2020, the normally strong winter business came to a complete standstill. The operating business has been constantly in lockdown since the reporting date. On the basis of current rules, we expect to be able to reopen from 7 March 2021 at the earliest. Precise information regarding the timing of reopening is not yet available, however, since no decision has yet been made at state or federal level. The timing of reopening and the development in the number of members represent risks to the Company's existence as a going concern. Since the renewed lockdown, approximately 65% of the monthly membership fees have been collected to date (around 5% of fees were lost to returned direct debits and around 30% of members were allowed to freeze their membership). Compensation can be claimed in subsequent periods. Overall, the number of members fell by approximately 40,000 as a result of the second lockdown. However, given that training opportunities have been limited for so long, we expect significantly positive recovery effects allowing us to compensate for some of the lost member contracts as a result of the Coronavirus crisis by the end of fiscal year 2021.

For fiscal year 2021, we expect a revenue decrease in a mid two-digit percentage point range, on the basis of an extrapolation of consolidated revenue for the 10-month short fiscal year, due to the lower number of members. Since the strong revenue loss can only be partly compensated in the short term by extensive cost-saving and optimization measures, EBITDA will drop considerably before increasing again to the pre-crisis level in fiscal year 2022. The structural reduction of operating expenses, which has already been initiated, will improve profitability in the long term.

A core element of crisis management is rigorously monitoring the Group's liquidity position. As part of this, detailed monthly liquidity plans are prepared on a rolling basis. The most recent budget was based on the assumption that the nationwide lockdown in Germany will end at the beginning of April 2021. Following reopening, we expect operations to start up rapidly; visitor numbers are expected to return to pre-crisis levels. Both the first and second lockdowns have led to considerable reductions in the number of members. We expect to partly compensate for this by the end of fiscal year 2021 through a catch-up effect in the number of new contracts. Based on these planning assumptions, the financial covenants will be complied with and the parent company and thus the Group will have sufficient funds at their disposal during the forecast period. Liquidity and the ability to continue as a going concern depend on the assumptions used in the forecast materializing, in particular the timing of reopening and the development in member numbers.

In the long term, management is optimistic that society will focus even more keenly on health and fitness and that the LifeFit Group will benefit from this trend thanks to its market position. In addition, it has already become apparent that the COVID-19 health crisis is very likely to lead to a consolidation phase in the fitness industry, with opportunities for growth through acquisitions. With many years of experience in managing different brands in different segments, combined with efficient and scalable central services, the LifeFit Group is a key future player in the German fitness industry.

2. OPPORTUNITIES AND RISKS

The Company's risk management system is part of the overall planning, control and reporting process of the Group. This ensures that the company management recognizes significant risks (especially competition risks) at an early stage and – if necessary – can take timely countermeasures. In addition to the monthly reporting, management maintains regular contact with the Group's shareholder in order to discuss not only the corporate strategy and the current business development, but also questions of risk management.

The fitness market remains under strong competitive pressure and, following recovery from the COVID-19 health crisis, may undergo a market shakeout. However, our measures for a clear positioning as a multi-brand provider and the continuous development and implementation of modernizations counteract this ongoing market environment. The consistent implementation of the uniform club models strengthens the distinctive awareness of the Group's brands. In the future, our focus will continue to be on expanding high-quality brand awareness so as to ensure that the Group's financial performance continues to develop positively in the long term.

A key success factor are highly motivated employees who look after our members. In order to meet the high requirements here, too, we have introduced extensive personnel development activities. All employees (from management to all temporary staff and freelancers) are continuously trained on the same topics as part of the Learning & Development program: service requirements and new training offers. The area of learning and development will also be expanded in the future. At the same time, it is important to recruit suitable staff despite the increasing shortage of applicants.

We will also focus on continuing to optimize business processes and structures. The expansion of central purchasing and the implementation of consistent cost monitoring have already led to considerable cost savings (compared to Fitness First Germany GmbH's original cost base), which have had a positive impact on the results achieved.

Risks arise especially with a view to the increasing intensity of competition in the market. Risk mitigation will be achieved through the continuous sharpening of the brand presence, the expansion of the range of offerings to include online fitness services or fitness trainer training programs within the framework of the Fitness First Academy, participation in new business models, innovative products and continuous improvement of service standards. In addition, the recruitment of qualified and highly motivated personnel is demanding due to the labor market situation, which may result in operational risks. Based on current success indicators and extensive market observations, the Group continues to expect a positive business development.

By ensuring an efficient internal and external collection process, the risk of customer default is minimized. The process also ensures that the Group has sufficient liquidity at its disposal to cover operating costs and debt servicing in due time.

The group-wide liquidity management in place provides protection against liquidity bottlenecks. Liquidity reserves are constantly monitored. As of the reporting date of 31 October, external debt instruments in the form of a non-current bond of EUR 40m (nominal) and a revolving credit facility of EUR 10m have been utilized. The latter includes a financial covenant which had to be adjusted in February 2021 as a result of the lockdown. Given that the liquidity situation is dependent on the further course of the COVID-19 crisis, there are also risks to the Group's ability to continue as a going concern as described in the "Outlook," alongside the risk that the Group may not be able to comply with the covenants. The interest rate level is categorized as very low given the ECB's current monetary policy with respect to these financial instruments.

Overall, the risk positions changed significantly in the reporting year as a result of the Coronavirus crisis. At the time of preparing this report, taking the adjustment of the financing conditions of the credit facility at Oldenburger Landesbank into account (see 7.8 Events after the reporting date in the notes to the consolidated financial statements), the overall risk to the Company's ability to continue as a going concern is currently considered moderate. However, a deterioration in the economic situation cannot be ruled out due to the mounting risks. The future development and measures taken by the federal government going forward, which will be dictated by factors such as the further spread of coronavirus and in particular a potential new wave, are of particular importance for the Company. To account for this uncertainty, cash forecasts are prepared on an ongoing rolling basis to ensure sufficient liquidity reserves.

Considerable financial opportunities rest on a series of state funding programs which the LifeFit Group can utilize as it is doubtless directly impacted by government-imposed closures.

Once the negative impact of Coronavirus has been overcome, there will be significant opportunities owing to an improved relative competitive position following market consolidation. In addition, the more efficient operating cost structure will contribute to increased profitability.

Due to the COVID-19 crisis and the accompanying lockdown, the overall risk assessment has deteriorated compared to the prior year. Management has introduced corresponding measures to ensure liquidity reserves are as high as possible. The use of state aid programs presents significant opportunities. In addition, opportunities for growth through acquisitions of undercapitalized competitors in financial difficulty may arise, which could lead to an increase in the long-term profitability of the Group.

The report on opportunities and risks contains forward-looking statements on expected developments. Such statements are based on current assessments and are naturally associated with risks and uncertainties. Actual outcomes may differ from the estimates formulated here.

3. RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The goal of the risk management system is to recognize, identify, measure, manage and monitor risks at an early stage. All of the companies in the Group are committed to this goal. The Group's risk management system is set up in such a way that key risks can be systematically identified and measured. The Group also consistently enhances indicators for the timely identification of risks (e.g., by obtaining and collecting market data in the relevant core markets).

Another part of the risk management system for the entire Group is the internal control system. It includes all the necessary control and monitoring structures for ensuring the legal compliance of the group financial reporting. The core elements are the principle of functional segregation, careful issuing of user rights and regular verification that these rights are necessary and compliance with the principle of dual control. Ad hoc analyses are performed to support the systematic control mechanisms.

In addition to the internal control system, another pillar of the risk management system is a detailed planning and budgeting process. Included in this process are a detailed sales plan, important steering elements such as controllable cost and direct personnel expenses as well as the planning of investments and asset management with regard to building leases. A detailed liquidity plan is developed on this basis. The management board of the Group monitors business performance in regular meetings.

Management has developed a system of KPIs to calculate the factors relevant for success, some on a monthly and others also on a weekly basis. The KPIs are regularly analyzed in management and advisory board meetings. If necessary, these bodies decide on corrective measures. Key financial indicators are net revenue and (adjusted) EBITDA. These analyses are supplemented by variance analyses. Liquidity indicators are also continuously monitored. Any deviations from budget targets are investigated.

General risks such as fire or other business disruptions are covered by appropriate insurance policies with sufficient coverage amounts.

We refer to the notes to the consolidated financial statements with regard to events after the reporting date.

Munich, 26 February 2021

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Martin Seibold
CEO

Engagement Terms, Liability and Conditions of Use

We, Ernst & Young GmbH Wirtschaftsprüfungsgesellschaft, conducted our audit of this financial reporting on behalf of the Company. Besides satisfying the legal disclosure requirement (Sec. 325 HGB ["Handelsgesetzbuch": German Commercial Code]) for statutory audits, the audit opinion is addressed exclusively to the Company and was issued for internal purposes only. It is not intended for any other purpose or to serve as a decision-making basis for third parties. The result of voluntary audits summarized in the audit opinion is thus not intended to serve as a decision-making basis for third parties and must not be used for purposes other than those intended.

Our work is based on our engagement letter for the audit of these financial statements including the "General Engagement Terms for Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften [German Public Auditors and Public Audit Firms]" as issued by the Institute of Public Auditors in Germany ["Institut der Wirtschafts-prüfer": IDW] on 1 January 2002.

To clarify, we point out that we assume no responsibility, liability or other obligations towards third parties unless we have concluded a written agreement to the contrary with the respective third party or liability cannot effectively be precluded.

We make express reference to the fact that we will not update the audit opinion to reflect events or circumstances arising after it was issued, unless required to do so by law.

It is the sole responsibility of anyone taking note of the summarized result of our work contained in this audit opinion to decide whether and in what way this information is useful or suitable for their purposes and to supplement, verify or update it by means of their own review procedures.

[Translator's notes are in square brackets]

General Engagement Terms
for
Wirtschaftsprüfer and Wirtschaftsprüfungsgesellschaften
[German Public Auditors and Public Audit Firms]
as of January 1, 2017

1. Scope of application

(1) These engagement terms apply to contracts between German Public Auditors (*Wirtschaftsprüfer*) or German Public Audit Firms (*Wirtschaftsprüfungsgesellschaften*) – hereinafter collectively referred to as "German Public Auditors" – and their engaging parties for assurance services, tax advisory services, advice on business matters and other engagements except as otherwise agreed in writing or prescribed by a mandatory rule.

(2) Third parties may derive claims from contracts between German Public Auditors and engaging parties only when this is expressly agreed or results from mandatory rules prescribed by law. In relation to such claims, these engagement terms also apply to these third parties.

2. Scope and execution of the engagement

(1) Object of the engagement is the agreed service – not a particular economic result. The engagement will be performed in accordance with the German Principles of Proper Professional Conduct (*Grundsätze ordnungsmäßiger Berufsausübung*). The German Public Auditor does not assume any management functions in connection with his services. The German Public Auditor is not responsible for the use or implementation of the results of his services. The German Public Auditor is entitled to make use of competent persons to conduct the engagement.

(2) Except for assurance engagements (*betriebswirtschaftliche Prüfungen*), the consideration of foreign law requires an express written agreement.

(3) If circumstances or the legal situation change subsequent to the release of the final professional statement, the German Public Auditor is not obligated to refer the engaging party to changes or any consequences resulting therefrom.

3. The obligations of the engaging party to cooperate

(1) The engaging party shall ensure that all documents and further information necessary for the performance of the engagement are provided to the German Public Auditor on a timely basis, and that he is informed of all events and circumstances that may be of significance to the performance of the engagement. This also applies to those documents and further information, events and circumstances that first become known during the German Public Auditor's work. The engaging party will also designate suitable persons to provide information.

(2) Upon the request of the German Public Auditor, the engaging party shall confirm the completeness of the documents and further information provided as well as the explanations and statements, in a written statement drafted by the German Public Auditor.

4. Ensuring independence

(1) The engaging party shall refrain from anything that endangers the independence of the German Public Auditor's staff. This applies throughout the term of the engagement, and in particular to offers of employment or to assume an executive or non-executive role, and to offers to accept engagements on their own behalf.

(2) Were the performance of the engagement to impair the independence of the German Public Auditor, of related firms, firms within his network, or such firms associated with him, to which the independence requirements apply in the same way as to the German Public Auditor in other engagement relationships, the German Public Auditor is entitled to terminate the engagement for good cause.

5. Reporting and oral information

To the extent that the German Public Auditor is required to present results in writing as part of the work in executing the engagement, only that written work is authoritative. Drafts are non-binding. Except as otherwise agreed, oral statements and explanations by the German Public Auditor are binding only when they are confirmed in writing. Statements and information of the German Public Auditor outside of the engagement are always non-binding.

6. Distribution of a German Public Auditor's professional statement

(1) The distribution to a third party of professional statements of the German Public Auditor (results of work or extracts of the results of work whether in draft or in a final version) or information about the German Public Auditor acting for the engaging party requires the German Public Auditor's written consent, unless the engaging party is obligated to distribute or inform due to law or a regulatory requirement.

(2) The use by the engaging party for promotional purposes of the German Public Auditor's professional statements and of information about the German Public Auditor acting for the engaging party is prohibited.

7. Deficiency rectification

(1) In case there are any deficiencies, the engaging party is entitled to specific subsequent performance by the German Public Auditor. The engaging party may reduce the fees or cancel the contract for failure of such subsequent performance, for subsequent non-performance or unjustified refusal to perform subsequently, or for unconscionability or impossibility of subsequent performance. If the engagement was not commissioned by a consumer, the engaging party may only cancel the contract due to a deficiency if the service rendered is not relevant to him due to failure of subsequent performance, to subsequent non-performance, to unconscionability or impossibility of subsequent performance. No. 9 applies to the extent that further claims for damages exist.

(2) The engaging party must assert a claim for the rectification of deficiencies in writing (*Textform*) [*Translators Note: The German term "Textform" means in written form, but without requiring a signature*] without delay. Claims pursuant to paragraph 1 not arising from an intentional act expire after one year subsequent to the commencement of the time limit under the statute of limitations.

(3) Apparent deficiencies, such as clerical errors, arithmetical errors and deficiencies associated with technicalities contained in a German Public Auditor's professional statement (long-form reports, expert opinions etc.) may be corrected – also versus third parties – by the German Public Auditor at any time. Misstatements which may call into question the results contained in a German Public Auditor's professional statement entitle the German Public Auditor to withdraw such statement – also versus third parties. In such cases the German Public Auditor should first hear the engaging party, if practicable.

8. Confidentiality towards third parties, and data protection

(1) Pursuant to the law (§ [Article] 323 Abs 1 [paragraph 1] HGB [German Commercial Code: *Handelsgesetzbuch*], § 43 WPO [German Law regulating the Profession of Wirtschaftsprüfer: *Wirtschaftsprüferordnung*], § 203 StGB [German Criminal Code: *Strafgesetzbuch*]) the German Public Auditor is obligated to maintain confidentiality regarding facts and circumstances confided to him or of which he becomes aware in the course of his professional work, unless the engaging party releases him from this confidentiality obligation.

(2) When processing personal data, the German Public Auditor will observe national and European legal provisions on data protection.

9. Liability

(1) For legally required services by German Public Auditors, in particular audits, the respective legal limitations of liability, in particular the limitation of liability pursuant to § 323 Abs. 2 HGB, apply.

(2) Insofar neither a statutory limitation of liability is applicable, nor an individual contractual limitation of liability exists, the liability of the German Public Auditor for claims for damages of any other kind, except for damages resulting from injury to life, body or health as well as for damages that constitute a duty of replacement by a producer pursuant to § 1 ProdHaftG [German Product Liability Act: *Produkthaftungsgesetz*], for an individual case of damages caused by negligence is limited to € 4 million pursuant to § 54 a Abs. 1 Nr. 2 WPO.

(3) The German Public Auditor is entitled to invoke demurs and defenses based on the contractual relationship with the engaging party also towards third parties.

(4) When multiple claimants assert a claim for damages arising from an existing contractual relationship with the German Public Auditor due to the German Public Auditor's negligent breach of duty, the maximum amount stipulated in paragraph 2 applies to the respective claims of all claimants collectively.

(5) An individual case of damages within the meaning of paragraph 2 also exists in relation to a uniform damage arising from a number of breaches of duty. The individual case of damages encompasses all consequences from a breach of duty regardless of whether the damages occurred in one year or in a number of successive years. In this case, multiple acts or omissions based on the same source of error or on a source of error of an equivalent nature are deemed to be a single breach of duty if the matters in question are legally or economically connected to one another. In this event the claim against the German Public Auditor is limited to € 5 million. The limitation to the fivefold of the minimum amount insured does not apply to compulsory audits required by law.

(6) A claim for damages expires if a suit is not filed within six months subsequent to the written refusal of acceptance of the indemnity and the engaging party has been informed of this consequence. This does not apply to claims for damages resulting from scienter, a culpable injury to life, body or health as well as for damages that constitute a liability for replacement by a producer pursuant to § 1 ProdHaftG. The right to invoke a plea of the statute of limitations remains unaffected.

10. Supplementary provisions for audit engagements

(1) If the engaging party subsequently amends the financial statements or management report audited by a German Public Auditor and accompanied by an auditor's report, he may no longer use this auditor's report.

If the German Public Auditor has not issued an auditor's report, a reference to the audit conducted by the German Public Auditor in the management report or any other public reference is permitted only with the German Public Auditor's written consent and with a wording authorized by him.

(2) If the German Public Auditor revokes the auditor's report, it may no longer be used. If the engaging party has already made use of the auditor's report, then upon the request of the German Public Auditor he must give notification of the revocation.

(3) The engaging party has a right to five official copies of the report. Additional official copies will be charged separately.

11. Supplementary provisions for assistance in tax matters

(1) When advising on an individual tax issue as well as when providing ongoing tax advice, the German Public Auditor is entitled to use as a correct and complete basis the facts provided by the engaging party – especially numerical disclosures; this also applies to bookkeeping engagements. Nevertheless, he is obligated to indicate to the engaging party any errors he has identified.

(2) The tax advisory engagement does not encompass procedures required to observe deadlines, unless the German Public Auditor has explicitly accepted a corresponding engagement. In this case the engaging party must provide the German Public Auditor with all documents required to observe deadlines – in particular tax assessments – on such a timely basis that the German Public Auditor has an appropriate lead time.

(3) Except as agreed otherwise in writing, ongoing tax advice encompasses the following work during the contract period:

a) preparation of annual tax returns for income tax, corporate tax and business tax, as well as wealth tax returns, namely on the basis of the annual financial statements, and on other schedules and evidence documents required for the taxation, to be provided by the engaging party

b) examination of tax assessments in relation to the taxes referred to in (a)

c) negotiations with tax authorities in connection with the returns and assessments mentioned in (a) and (b)

d) support in tax audits and evaluation of the results of tax audits with respect to the taxes referred to in (a)

e) participation in petition or protest and appeal procedures with respect to the taxes mentioned in (a).

In the aforementioned tasks the German Public Auditor takes into account material published legal decisions and administrative interpretations.

(4) If the German Public auditor receives a fixed fee for ongoing tax advice, the work mentioned under paragraph 3 (d) and (e) is to be remunerated separately, except as agreed otherwise in writing.

(5) Insofar the German Public Auditor is also a German Tax Advisor and the German Tax Advice Remuneration Regulation (*Steuerberatungsvergütungsverordnung*) is to be applied to calculate the remuneration, a greater or lesser remuneration than the legal default remuneration can be agreed in writing (*Textform*).

(6) Work relating to special individual issues for income tax, corporate tax, business tax, valuation assessments for property units, wealth tax, as well as all issues in relation to sales tax, payroll tax, other taxes and dues requires a separate engagement. This also applies to:

a) work on non-recurring tax matters, e.g. in the field of estate tax, capital transactions tax, and real estate sales tax**;**

b) support and representation in proceedings before tax and administrative courts and in criminal tax matters;

c) advisory work and work related to expert opinions in connection with changes in legal form and other re-organizations, capital increases and reductions, insolvency related business reorganizations, admission and retirement of owners, sale of a business, liquidations and the like, and

d) support in complying with disclosure and documentation obligations.

(7) To the extent that the preparation of the annual sales tax return is undertaken as additional work, this includes neither the review of any special accounting prerequisites nor the issue as to whether all potential sales tax allowances have been identified. No guarantee is given for the complete compilation of documents to claim the input tax credit.

12. Electronic communication

Communication between the German Public Auditor and the engaging party may be via e-mail. In the event that the engaging party does not wish to communicate via e-mail or sets special security requirements, such as the encryption of e-mails, the engaging party will inform the German Public Auditor in writing (*Textform*) accordingly.

13. Remuneration

(1) In addition to his claims for fees, the German Public Auditor is entitled to claim reimbursement of his expenses; sales tax will be billed additionally. He may claim appropriate advances on remuneration and reimbursement of expenses and may make the delivery of his services dependent upon the complete satisfaction of his claims. Multiple engaging parties are jointly and severally liable.

(2) If the engaging party is not a consumer, then a set-off against the German Public Auditor's claims for remuneration and reimbursement of expenses is admissible only for undisputed claims or claims determined to be legally binding.

14. Dispute Settlement

The German Public Auditor is not prepared to participate in dispute settlement procedures before a consumer arbitration board (*Verbraucherschlichtungsstelle*) within the meaning of § 2 of the German Act on Consumer Dispute Settlements (*Verbraucherstreitbeilegungsgesetz*).

15. Applicable law

The contract, the performance of the services and all claims resulting therefrom are exclusively governed by German law.