LifeFit Group MidCo GmbH
Munich

Short-form audit report
Consolidated financial statements and group management report
31 October 2021

Translation from the German language

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

Building a better working world

Translation from the German language

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Engagement Terms, Liability and Conditions of Use

General Engagement Terms

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 2021, 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 November 2020 to 31 October 2021, 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 November 2020 to 31 October 2021.

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 2021 and of its financial performance for the fiscal year from 1 November 2020 to 31 October 2021, 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.

Key audit matters in the audit of the consolidated financial statements

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 November 2020 to 31 October 2021. 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.

Impact of the COVID-19 pandemic on the going concern forecast

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

The entire fitness industry has been adversely affected by the COVID-19 pandemic. The Group's fitness clubs were completely closed as a result of two national lockdowns in the periods from March 2020 to June 2020 (fiscal year from 1 January 2020 to 31 October 2020) and from November 2020 to May 2021 (reporting year). The club closures had negative effects on the business development and liquidity of the Company. The material operational impacts and measures in connection with the lockdowns were putting employees on temporary short-time work (up to 70%) and negotiating with lessors on the deferral of rent payments. After reopening, operations returned to normal pre-crisis levels within a short period. Future cash flows have been projected until October 2024 and are expected to remain positive for the existing businesses.

For fiscal year 2021, the Group applied for direct government aid (in addition to short-time work benefits) of EUR 50.5m, of which EUR 24.3m had already been approved and paid out as of the reporting date. The remaining amount of EUR 26.2m had yet to be approved and was recognized as a receivable as of 31 October 2021. By the date of preparation of the financial statements, EUR 28.7m had been received by the Group.

The management board has prepared a liquidity plan for the following fiscal years up to and including 2024 considering potential effects from additional closure scenarios in connection with the COVID-19 pandemic. The result of this planning is highly dependent on the assumptions made by the executive directors regarding the Group's future business performance and the resulting cash inflows and outflows.

In light of this fact and the potential significance for the Company, the impact of the COVID-19 pandemic on the going concern forecast was a key audit matter.

In consideration of the foregoing, the members of the management board have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future.

Auditor’s response:

We discussed with the executive directors how the COVID-19 pandemic including the closure scenarios could impact LifeFit Group MidCo GmbH. 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 2021 and an analysis of the expected results for the following years considering various scenarios, in particular regarding 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.

We further discussed with management the measures taken to safeguard liquidity, in particular the appropriateness of the accounting for the direct government aid not yet approved, and assessed their recognition in principle and in amount. We considered whether all applications filed by the executive directors for direct government aid are covered by an aid regime. Furthermore, we reconciled all payments received from government aid programs with the related bank statements.

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

Our procedures did not lead to any reservations relating to the impact of the COVID-19 pandemic on the going concern forecast and the use of the going concern basis of accounting.

Reference to related disclosures:

With regard to the executive directors' assessment of the Company's ability to continue as a going concern and the related recognition and measurement policies applied, refer to the information in the notes to the consolidated financial statements in note 2.1 "Basis of preparation – Going concern."

Please also refer to the comments in the "Outlook, opportunities and risks" section of the group management report.

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.

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.

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 31 August2021 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, 28 February 2022

Ernst & Young GmbH
Wirtschaftsprüfungsgesellschaft

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 FISCAL YEAR ENDED 31 OCTOBER 2021

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GENERAL INFORMATION

For the fiscal year from 1 November 2020 to 31 October 2021

SHAREHOLDER

LifeFit Group TopCo GmbH, Munich

REGISTERED OFFICE

The Company, having its registered office in Munich, is entered in the commercial register of Munich Local Court under HRB no. 248092. The business address is Hanauer Landstrasse 148a in 60314 Frankfurt am Main.

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 fiscal year from 1 November 2020 to 31 October 2021 (prior fiscal year from 1 January 2020 to 31 October 2020)

in EUR k	Notes	2021	2020
Revenue	3.1	**64,928**	**101,055**
COVID-19 government aid	2.1, 6.4	50,476	0
Other operating income	3.2	2,100	922
Cost of materials	3.3	5,872	4,661
Personnel expenses	3.4	24,485	28,388
Other operating expenses	3.7	31,427	36,227
Depreciation and impairment	3.6	35,729	32,088
Operating profit or loss (EBIT)		**19,992**	**613**
Profit/loss from investments accounted for using the equity method	5.5	-194	-34
Finance income		160	0
Finance costs		15,975	13,034
Finance costs, net	5.6	**15,815**	**13,034**
Profit or loss before income taxes		**3,984**	**-12,455**
Income taxes	3.8	-2,537	799
Consolidated profit or loss for the period		**1,447**	**-11,656**
Thereof attributable to:			
- equity holders of the parent		1,447	-11,656
Profit or loss for the period		**1,447**	**-11,656**
Reconciliation to the consolidated statement of comprehensive income			
Profit or loss for the period		**1,447**	**-11,656**
Total comprehensive income/loss		**1,447**	**-11,656**

Translation from the German language

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of 31 October 2021

in EUR k	Notes	31 Oct 2021	31 Oct 2020
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	4.2	33,805	35,728
Property, plant and equipment	4.1	37,692	45,366
Right-of-use assets	7.1	115,267	131,619
Securities classified as non-current assets	4.5	1,676	0
Investments in joint ventures		1	1
		188,440	212,714
CURRENT ASSETS			
Inventories	6.1	865	742
Trade receivables	6.2	400	2,224
Receivables from related parties	7.4	602	1,322
Income tax assets	6.3	396	67
Other non-financial assets	6.4	30,155	6,584
Cash and cash equivalents	6.5	23,040	22,551
		55,459	33,490
TOTAL EQUITY AND LIABILITIES		**243,899**	**246,204**
EQUITY AND LIABILITIES			
EQUITY			
Subscribed capital	5.1	26	26
Capital reserves	5.1	99,521	99,521
Other reserves	5.1	-122,068	-122,153
		-22,522	-22,606
NON-CURRENT LIABILITIES			
Financial liabilities	5.2	38,935	38,584
Shareholder loans	5.3	38,097	34,735
Other non-financial liabilities	6.7	7,828	728
Other financial liabilities	6.8	1,807	2,180
Other provisions	7.2	2,478	2,674
Lease liabilities	7.1	119,914	133,111
Deferred tax liabilities	3.8	3,020	515
		212,079	212,527
CURRENT LIABILITES			
Financial liabilities	5.2	10,113	10,000
Trade payables	6.6	15,128	15,871
Other non-financial liabilities	6.7	8,200	3,925
Other financial liabilities	6.8	2	3,121
Related party debt	7.4	0	296
Other provisions	7.2	601	1,544
Lease liabilities	7.1	20,119	21,112
Income tax liabilities	7.3	181	414
		54,342	56,282
TOTAL EQUITY AND LIABILITIES		**243,899**	**246,204**

Translation from the German language

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the fiscal year from 1 November 2020 to 31 October 2021

		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 31 December 2019	5.1	**25**	**99,522**	**-110,498**	**-10,951**
Contribution in kind		1	-1		0
Loss for the year				-11,656	-11,656
Total comprehensive income/loss		**1**	**-1**	**-11,656**	**-11,655**
As of 31 October 2020	5.1	**26**	**99,521**	**-122,154**	**-22,606**
First-time consolidation of MFC (pooling of interests method)	4.4	0	0	-1,362	-1,362
Profit for the year				1,448	1,448
Total comprehensive income/loss		**0**	**0**	**85**	**85**
As of 31 October 2021	5.1	**26**	**99,521**	**-122,068**	**-22,522**

Translation from the German language

CONSOLIDATED STATEMENT OF CASH FLOWS

For the fiscal year from 1 November 2020 to 31 October 2021

	31 Oct 2021	31 Oct 2020
	EUR k	EUR k
Cash flows from operating activities		
Consolidated profit or loss for the period	1,447	-11,655
Amortization and depreciation of non-current assets	35,729	32,088
Other non-cash expenses (+)/income (-)		
Finance costs, net	15,815	13,034
Deferred tax expense (+)/income (-)	2,505	-1,062
Loss on disposals of non-current assets	369	357
Income from the reversal of provisions	-513	0
Other	-878	-289
Increase (-)/decrease (+) in inventories, trade receivables and other assets	-23,260	-5,405
Increase (+)/decrease (-) in trade payables and other liabilities	7,645	-769
Increase (+)/decrease (-) in provisions	-1,139	-896
Interest paid	-3,483	-2,890
Net cash flows from operating activities	**34,237**	**22,513**
Cash flows from investing activities		
Cash paid for investments in property, plant and equipment	-4,541	-13,918
Cash paid for investments in intangible assets	-259	-154
Cash paid for investments in associates	0	44
Net cash paid for business combinations under common control	-89	0
Net cash flows used in investing activities	**-4,890**	**-14,028**
Cash flows from financing activities		
Cash received from borrowings (including embedded derivatives)	0	10,000
Cash outflows from repayment of/cash received from other financial liabilities	-721	-574
Repayment of lease liabilities	-28,138	-17,755
Net cash flows from financing activities	**-28,858**	**-8,329**
Net increase in cash and cash equivalents	**489**	**156**
Cash and cash equivalents as of 31 October 2021 and 1 November 2020	**22,551**	**22,395**
Cash and cash equivalents	**23,040**	**22,551**

Consolidated profit or loss and the cash flow from operating activities were significantly influenced by COVID-19 government aid of EUR 50.5m granted in the reporting year. EUR 24.3m of this amount was paid out as of 31 October 2021. The remaining amount of EUR 26.2m had yet to be approved and was thus recognized as a receivable as of 31 October 2021 (see Note 6.3). However, by the date of preparation of the financial statements, another EUR 28.7m had been received by the Group.

Translation from the German language

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the fiscal year ended 31 October 2021

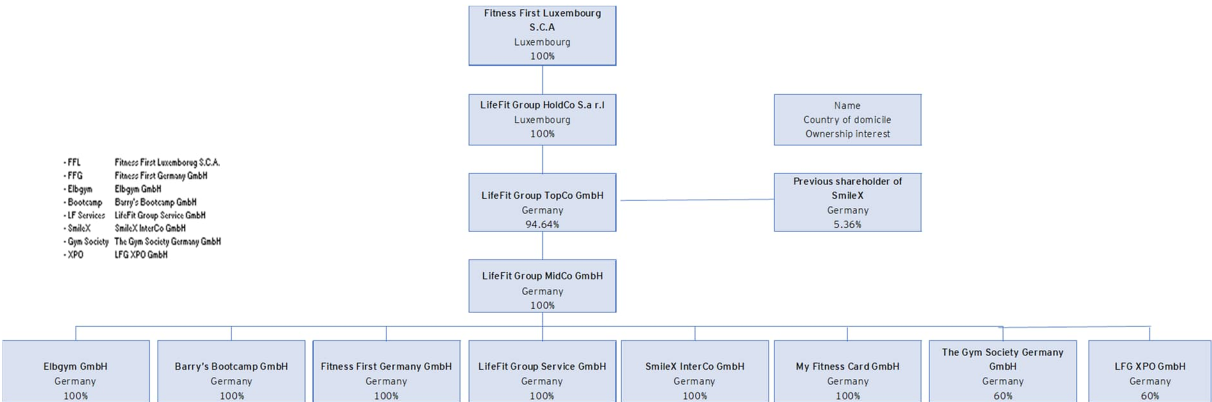
1. Corporate and group information

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.

As the ultimate parent, LifeFit Group TopCo GmbH, Munich, prepares consolidated financial statements which are published in the *elektronischer Bundesanzeiger* [electronic German Federal Gazette].

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 prior year was a short fiscal year which started on 1 January 2020 and ended on 31 October 2020. The current reporting year started on 1 November 2020 and ended on 31 October 2021.

The group structure was as follows as of 31 October 2021:



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 90 clubs (prior year: 88 clubs) (of which 12 (prior year: 6) under a franchise) with more than 179,000 members (prior year: 224,000 members). The decrease in members is attributable to the consequences of the COVID-19 health crisis.

With 58 clubs (prior year: 64 clubs) at the end of October 2021, 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 three (prior year: four) fitness clubs in central Hamburg and one club in Berlin Steglitz and is well known in the region for offering its own cross-fit training, wellness and intensive personal advice. Franchise licenses have also been granted to three clubs under which they can use the “Elbgym” brand and the corresponding business model. In November 2021, two of these clubs were acquired, so Elbgym operated six clubs at the time this report was prepared.

Translation from the German language

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 two studios in Germany opened in Berlin and Frankfurt in the summer of 2021.

The subsidiary smileX Interco GmbH is a parent of 13 fitness clubs (prior year: 13) primarily located in the South East of Germany and operating under the brand name SMILEFITNESSCLUB. Franchise licenses have also been granted to three (prior year: 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 result of the fiscal year refers to the period from 1 November 2020 to 31 October 2021. The result of the prior year refers to the period from 1 January to 31 October 2020. Since the prior year was a short fiscal year and both years were affected by the COVID-19 health crisis to different extents, the comparability of financial performance in the two reporting periods is limited.

The consolidated financial statements of LifeFit Group MidCo GmbH for the fiscal year from 1 November 2020 to 31 October 2021 will be authorized for issue in accordance with a resolution by the shareholder on 28 February 2022. 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 2021.

GOING CONCERN

As in the prior year, these consolidated financial statements were prepared on a going concern basis. The Group's clubs were completely closed as a result of two national lockdowns in the periods from March 2020 to June 2020 (fiscal year from 1 January 2020 to 31 October 2020) and from November 2020 to May 2021 (reporting year).

The material operational impacts and measures in connection with the lockdowns were putting employees on temporary short-time work (up to 70%) and negotiating with lessors 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 up to 60% of all membership fees during the lockdowns, 35% 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.

In the reporting year, the Group was granted COVID-19 government aid in the amount of EUR 50.5m, of which EUR 24.3m was paid out as of 31 October 2021.

Future cash flows have been projected until October 2024 and are expected to remain positive for the existing businesses.

In the fiscal year, consolidated equity amounted to -EUR 22.5m (prior year: -EUR 22.6m). Including the subordinated shareholder loans (presented under "Shareholder loans" in the consolidated statement of financial position) of EUR 38.1m (prior year: EUR 34.7m), the equity ratio came to 6.4% (prior year: 4.9%). 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 loss for the year in the last three reporting periods, the negative equity mainly resulted 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 the acquisition cost 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.

Translation from the German language

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 70m (prior year: EUR 75.2m).

In consideration of the foregoing, the members of the management board 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 consolidated financial statements.

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 include the period from 1 November 2020 to 31 October 2021. The prior-year consolidated financial statements covered a short fiscal year and included the period from 1 January 2020 to 31 October 2020.

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 2021. 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. As in the prior year, the fiscal year of the parent company ends on 31 October.

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%
Smile Konzept GmbH**	Homburg	100%
Smilefit Homburg GmbH**	Saarbrücken	100%
MKS Sport GmbH**	Saarbrücken	100%
MKS Sport 2 GmbH**	Pirmasens	100%
MKS Sport 3 GmbH**	Trier	100%
MKS Sport 4 GmbH****	Homburg	100%
MKS Sport 5 GmbH**	Zweibrücken	100%
MKS Sport 7 GmbH & Co. KG**	Trier	100%
Smilefit SLS GmbH**	Saarlouis	100%
Smilefit BK GmbH**	Saarbrücken	100%
Smilefit BaKr GmbH**	Bad Kreuznach	100%
smileX KN GmbH**	Kirn	100%
Smilefit Best I-O GmbH*****	Idar-Oberstein	100%
Smile Verwaltungs GmbH 2**	Homburg	100%
My Fitness Card GmbH***	Munich	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

*** See Note 4.4

**** MKS Sport 4 GmbH arose from the merger of Smile Verwaltungs GmbH 4 and Vivasport GmbH in the reporting year

***** Smilefit Best I-O GmbH arose from the merger of Smilefit Verwaltungs GmbH and Smile I-O GmbH & Co. KG in the reporting year

The Gym Society Germany GmbH (TGS) and LFG XPO GmbH (XPO) are joint ventures which are included in the consolidated financial statements using the equity method.

Translation from the German language

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.

Revenue stream	Accounting treatment
Membership fee	The transaction price paid monthly by the customer, depending on club level and contract duration, 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 suspension of membership (and thus suspension of payment) and free membership extension 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 prepaid expense and released over the expected contractual terms. Alternatively, customers were offered the use of “higher-quality” clubs and special services. The step-up in club level became immediately effective on reopening so the related additional commitments were largely satisfied by 31 October 2021.
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.

Translation from the German language

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.

As a rule, no individual asset of the Group generates its own attributable cash inflows. Instead, the individual clubs are the smallest cash-generating units. Impairment testing is thus carried out at this level and the costs of the headquarters are allocated as a corporate asset to the individual clubs based on their corresponding membership numbers.

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 valuation method generally used by the Group is based on the value in use.

Translation from the German language

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 2021. Goodwill is also tested for impairment when circumstances indicate that the carrying amount may be impaired (triggering event). Goodwill is allocated to the individual brands within the Group and is defined based on the total number of clubs allocated.

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.

Translation from the German language

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.

Translation from the German language

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.

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

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.

Translation from the German language

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.

Derecognition

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

Initial recognition and measurement

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).

Subsequent measurement

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.

Derecognition

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 (“Körperschaftsteuer”), 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.

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

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

Translation from the German language

- 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:

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, contract negotiations were concluded with 20 lessors (no new business) relating to the COVID-19 health crisis and other matters. As a consequence, the Group was able to take retained and accrued rent of EUR 0.5m from the prior year to profit or loss. In addition, rent reductions of EUR 0.8m (undiscounted) were negotiated for the current and future fiscal years. EUR 0.3m of this amount related to contracts whose renewal options were exercised earlier than usual. These were contracts for clubs whose performance is relatively strong. In total, this led to a EUR 3m increase in recognized right-of-use assets and the corresponding lease liabilities. All of these changes were treated as contract modifications, with the lease liability remeasured on the basis of the new contractual provisions and the current market rate of interest. The right-of-use assets were adjusted through other comprehensive income to reflect the resulting liability adjustment.

In the prior year, seven lessors agreed to a contractual rent concession. 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) were concluded. The options would have been exercised, however, even without the COVID-19 health crisis as the clubs generate very positive contribution margins. The same approach was used in this case.

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. 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).

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

Since the prior year was a short fiscal year ending on 31 October 2020, the same unchanged financial reporting standards must be applied this reporting year.

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.

The following standards, amendments to standards, and interpretations have become effective since 1 January 2021:

Title	Description	Effective date[1]
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
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

[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.

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)

3.1 Revenue

3.1.1 Disaggregated revenue information

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

Brand name	1 Nov 2020 to 31 Oct 2021 EUR k	1 Jan 2020 to 31 Oct 2020 EUR k
Fitness First	54,135	89,007
smileX	9,019	9,673
Elbgym	1,774	2,376
Total	**64,928**	**101,055**

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.

Revenue of the SmileX and Elbgym brands includes franchise income of EUR 0.2m (prior year: EUR 0.2m).

3.2 Other operating income

	1 Nov 2020 to 31 Oct 2021 EUR k	1 Jan 2020 to 31 Oct 2020 EUR k
Reversals of provisions	535	0
Vehicle use	305	260
Recharges	343	274
Net gain on disposal of assets	169	29
Dunning charges	61	83
Insurance reimbursements	82	2
Other	605	274
Total	**2,100**	**922**

With regard to the reversal of provisions, see Note 7.2. The item “Other” includes income from the reversal of liabilities of EUR 194k and income from investment subsidies of EUR 64k.

Translation from the German language

3.3 Cost of materials

Type of goods or service	1 Nov 2020 to 31 Oct 2021 EUR k	1 Jan 2020 to 31 Oct 2020 EUR k
Outsourced services	5,067	3,387
Cost of materials (food and beverages, merchandising, etc.)	805	1,274
Total	**5,872**	**4,661**

The increase in the cost of outsourced services is attributable to the greater use of freelancers in the training segment (e.g., aerobics, personal trainers). In return, personnel expenses were reduced.

3.4 Personnel expenses

	1 Nov 2020 to 31 Oct 2021 EUR k	1 Jan 2020 to 31 Oct 2020 EUR k
Wages and salaries	20,282	23,358
Social security contributions	4,203	5,030
Total	**24,485**	**28,388**

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 2.1m (prior year: EUR 2.4m).

As of 31 October 2021, an average of 1,375 people were employed by the Group (prior year: 1,654 people). Of these, 1,206 people worked in the clubs (prior year: 1,499 people) and 169 employees in the service center (prior year: 155 employees).

During the lockdown periods between November 2020 and May 2021 (prior year: 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 5.3m for the reporting year (prior year: EUR 4.0m), which is a saving from an economic point of view. The amounts received were included in personnel expenses reducing expenses.

Translation from the German language

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.

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 Nov 2020 to 31 Oct 2021	1 Jan 2020 to 31 Oct 2020
	EUR k	**EUR k**
Depreciation of property, plant and equipment	11,344	10,204
Amortization of other intangible assets	2,264	2,837
Depreciation of right-of-use assets	22,121	19,047
Total	**35,729**	**32,088**

In fiscal year 2021, the Group recognized impairments of EUR 4.9m, of which EUR 1.1m relates to property, plant and equipment and EUR 3.8m to right-of-use assets. The impairment of property, plant and equipment and right-of-use assets relates to a total of 15 and 14 gyms, respectively, of Fitness First Germany GmbH.

3.7 Other operating expenses

	1 Nov 2020 to 31 Oct 2021	1 Jan 2020 to 31 Oct 2020
	EUR k	**EUR k**
Premises and land costs	12,010	17,816
Advertising, marketing and travel expenses	3,972	3,774
Maintenance costs	3,015	3,374
Administrative expenses	3,092	3,108
Legal, audit and advisory fees	2,897	2,647
Impairment of receivables	1,453	1,159
Royalty fees	1,427	1,254
Club closure costs	1,122	0
Other	2,439	3,095
Total	**31,427**	**36,227**

Translation from the German language

Costs for land and buildings declined primarily due to lower expenses for energy, electricity, water and management costs as a result of club closures.

Impairment of receivables mainly relates to XPO (EUR 996k) and TGS (EUR 430k) (see Note 7.4).

Club closure costs relate to expenses for two permanently closed locations in Regensburg and Nuremberg.

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 Nov 2020 to 31 Oct 2021 EUR k	1 Jan 2020 to 31 Oct 2020 EUR k
Consolidated statement of comprehensive income		
Income taxes		
Current income tax		
Current income tax charge	31	263
Deferred income tax		
Relating to origination and reversal of temporary differences	2,506	-1,062
Tax expense/income recognized in profit or loss	**2,537**	**-799**

Deferred tax expense of EUR 2.5m is mainly attributable to a tax expense of EUR 7.8m from deferred revenue (contract liabilities) less income from the recognition of tax loss carryforwards (EUR 4.0m) and income from the purchase price allocation for SmileX (EUR 0.6m).

The reconciliation between the income taxes recognized and the expected income taxes for fiscal year 2021 is as follows:

	1 Nov 2020 to 31 Oct 2021 EUR k	1 Jan 2020 to 31 Oct 2020 EUR k
Profit/loss before taxes	3,984	-12,454
Theoretical tax expense (+)/income (-) based on the current tax rate of 31.93%	1,272	-3,977
Effect from unrecognized deferred tax assets arising from the		
current tax loss in the fiscal year	301	2,619
Additional taxes due to non-deductible		
add-backs	1,619	517
Non-deductible impairment of receivables	517	0
Recognition of deferred tax assets on loss carryforwards	-3,834	0
Out-of-period (deferred) taxes	2,833	0
Other	-171	42
Income taxes (effective tax rate as of 31 Oct 2021: 63.7%; prior year: 6.4%)	**2,537**	**-799**

Translation from the German language

As of 31 October 2021, the Group had the following tax loss carryforwards to reduce future taxable income:

	2021	2020
	EUR k	EUR k
LifeFit Group MidCo GmbH (corporate income tax)	16,332	13,944
LifeFit Group MidCo GmbH (trade tax)	9,486	10,107
MFC (corporate income tax)	563	0
MFC (trade tax)	563	0
Tax loss carryforwards as of 31 Oct 2021/31 Oct 2020	**26,944**	**24,051**

Since the beginning of the prior 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, with the exception of MFC. The tax loss carryforwards of the fiscal year can be used indefinitely.

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 (or deferred tax liabilities will exist) against which the unused tax losses/credits can be utilized. Based on the Group's medium-term plan, sufficient future taxable profits are expected from fiscal year 2022/2023 onwards. All tax effects were therefore recognized on the unused loss carryforwards in the reporting year.

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

	31 Oct 2021	
	EUR k	
	Deferred tax assets	**Deferred tax liabilities**
Intangible assets	0	2,175
Property, plant and equipment	0	4,583
Right-of-use assets	0	36,800
Trade receivables	0	65
Deferred income	0	7,804
Shareholder loans	0	1,070
Financial liabilities	281	0
Trade payables	180	0
Other financial liabilities	68	0
Other provisions	230	0
Lease liabilities	44,706	0
Recognition of deferred tax assets on loss carryforwards	3,950	0
Other	62	0
	49,477	52,497
Offsetting	-49,477	-49,477
Consolidated statement of financial position	0	3,020

Translation from the German language

	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

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 (15.0%), trade tax and solidarity surcharge (0.825%). The effective trade tax rate differs depending on the location and the number of employees of the related entity in question. In the fiscal year, it amounted to 16.1% (prior year: 16.1%).

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)
- Information about securities classified as non-current assets (Note 4.5)

Translation from the German language

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 November 2020	**31,275**	**21,134**	**5,949**	**58,358**
Additions	1,974	1,858	709	4,541
Reclassifications	4,454	94	-4,548	0
Disposals	-2,026	-2,582	0	-4,608
Cost as of 31 October 2021	**35,677**	**20,504**	**2,110**	**58,291**
Depreciation and impairment losses				
as of 1 November 2020	**8,145**	**4,847**	**0**	**12,992**
Additions	6,813	4,531	0	11,344
Disposals	-1,492	-2,245	0	-3,737
Depreciation and impairment losses as of 31 October 2021	**13,466**	**7,133**	**0**	**20,599**
Net carrying amounts as of 31 October 2021	**22,211**	**13,371**	**2,110**	**37,692**

	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 as of 31 October 2020	**31,275**	**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	**8,145**	**4,847**	**0**	**12,992**
Net carrying amounts as of 31 October 2020	**23,130**	**16,287**	**5,949**	**45,366**

In the reporting year, impairment charges of a total of EUR 1.1m (prior year: EUR 1.8m) were recognized in leasehold improvements.

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 4.4 for further disclosures.

Translation from the German language

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 November 2020	**26,456**	**11,636**	**1,512**	**39,604**
Additions	0	0	269	269
Addition from first-time consolidation of MFC	0	0	72	72
Disposals	0	0	0	0
Cost as of 31 October 2021	**26,456**	**11,636**	**1,853**	**39,945**
Depreciation and impairment losses				
as of 1 November 2020	**900**	**2,516**	**460**	**3,876**
Additions	0	2,010	254	2,264
Disposals	0	0	0	0
Amortization and impairment losses as of 31 October 2021	**900**	**4,526**	**714**	**6,140**
Net carrying amounts as of 31 October 2021	**25,556**	**7,110**	**1,139**	**33,805**

	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 as of 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 carrying amounts as of 31 October 2020	**25,556**	**9,120**	**1,052**	**35,728**

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. In the short fiscal year ended 31 December 2019, an amount of EUR 3,096k was allocated to the Elbgym CGU and EUR 23,360k to the smileX CGU.

In the reporting year and in the prior 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.

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 2021, this growth rate was 0.5% (prior year: 0.5%). 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: 10.4%). 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 2021 was 8.2% (prior year: 8.2%).

Upon review of the performance of SmileX and Elbgym, no impairment loss was recognized for Elbgym in fiscal year 2021 (prior year: impairment loss of EUR 0.9m). As in the prior year, no impairment was charged for SmileX. There is headroom of EUR 0.2m for SmileX and EUR 1.1m for Elbgym.

The key inputs used in the impairment tests are the long-term growth rate as a primary driver for EBITDA and the discount rate. 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 no notable additional headroom between the recoverable amount of the CGU and its carrying amount.

- An increase in the discount rate to 9.2% after taxes would lead to an impairment of goodwill of EUR 4.2m.
- Reducing the forecast EBITDA by 10% would result in an impairment loss of EUR 4.8m.

The sensitivity analysis of the Elbgym CGU showed that there is sufficient headroom between the recoverable amount of the CGU and its carrying amount. Only the following changes would result in additional impairment losses:

- An increase in the discount rate to 9.6% after taxes would lead to an additional impairment of goodwill.
- Reducing the forecast EBITDA by 9% would result in an additional impairment loss.

Translation from the German language

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), which is used as the planning horizon 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 2021. The development was in line with the range in the planning for the brand.

In fiscal year 2021, property, plant and equipment of EUR 1.1m in the Fitness First segment relating to 15 locations had to be written down. Impairment losses of EUR 3.8m were also recognized for right-of-use assets arising from lease contracts relating to 14 locations of the Fitness First segment.

4.4 Business combinations

Acquisition of shares in My Fitness Card GmbH

On 20 November 2020, MidCo signed an agreement with PROFESSION Fit GmbH, Landshut, (a wholly owned subsidiary of Fitness First Group S.C.A.) on the acquisition of all of the shares in My Fitness Card GmbH (MFC), Munich, for a purchase price of EUR 174k. My Fitness Card GmbH operates in the digital fitness segment.

The Company acquired this entity in order to increase its market share in the German digital fitness market by making use of the established brand models and business plans.

Since Fitness First Luxembourg S.C.A. is the ultimate parent company of MidCo and MFC, this transaction is defined as a business combination under common control and must be accounted for using the pooling of interests method.

Translation from the German language

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

- recognized the assets and liabilities of the subsidiary when control was obtained at the carrying amounts recognized by MFC;
- 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 in other reserves;
- reflects the result of MFC 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.

As a result of the abovementioned acquisition of MFC on 20 November 2020, the following assets and liabilities were included in the consolidated financial statements of LifeFit Group MidCo GmbH as of 20 November 2020:

			EUR k
	Carrying amount	**Step-ups/step-downs**	**Fair value**
Assets			
Intangible assets	72	0	72
Property, plant and equipment	26	0	26
Trade receivables	382	0	382
Other current assets	28	0	28
Cash	85	0	85
Total assets acquired	**593**	**0**	**593**
Liabilities			
Other provisions	5	0	5
Tax provisions	2	0	2
Trade payables	1,878	-760	1,118
Loan liabilities	308	0	308
Other current liabilities	349	0	349
Total liabilities assumed	**2,542**	**-760**	**1,782**
Net assets	-1,949	760	- 1,189
Recognition in other reserves			1,362
Consideration transferred			**174**

Translation from the German language

As part of the inclusion in the consolidated financial statements of MidCo, the following adjustment was made on first-time consolidation:

- In the prior year, the Group wrote down receivables from MFC by EUR 0.8m; the related liabilities at MFC were neutralized during first-time consolidation and recognized directly in equity.

MFC, which is allocated to the Fitness First segment, contributed EUR 131k to revenue and a loss of EUR 563k to the Group in the reporting year.

4.5 Securities classified as non-current assets

Securities classified as non-current assets refer to a life insurance policy deposited at Genossenschaftliche FinanzGruppe Volksbanken Raiffeisenbanken as a long-term rent deposit. The carrying amount is EUR 1,560k and the fair value EUR 1,661k as of the reporting date.

The Company uses bank guarantees for rent deposits which are provided by Genossenschaftliche FinanzGruppe Volksbanken Raiffeisenbanken. In addition to the monthly bank guarantee fees, the Bank required collateral, which was provided in the form of a unit-linked life insurance policy (maturing on 1 February 2066). The Company is the policyholder and contributor and FinanzGruppe Volksbanken Raiffeisenbanken is the collateral holder. EUR 1,560k was made as a one-time payment. Through the insurance policy, the Company invests in an exchange-traded fund (15,154.978613 shares) with a repurchase value on the exchange of EUR 1,676k as of the reporting date. The EUR 116k increase in the repurchase value was recognized in profit or loss under finance income.

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: 26,416) individual shares.

Capital reserves

On 31 October 2021, the capital reserves amounted to EUR 99,521k (prior year: EUR 99,521k).

Translation from the German language

Other reserves

The other reserves attributable to the owners of the parent amount to -EUR 122,068k (prior year: -EUR 122,153k). They are primarily a result of accounting for the common control acquisitions in 2019 and 2020 as a pooling of interests. This led to a negative entry in equity of EUR 111,194k in total. 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, the results of the last two prior-year periods (-EUR 15,983k) in particular led to a corresponding decrease in other reserves.

5.2 Financial liabilities

	Interest rate	*Maturity*	*2021 EUR k*	*2020 EUR k*
Current interest-bearing loans and borrowings				
Lease liabilities	4.35%	2022 (prior year: 2021)	20,119	21,112
Revolving credit facility	3% + EURIBOR + (1.5% PIK from Feb 2021)	2022 (prior year: 2021)	10,113	10,000
Total current interest-bearing loans and borrowings			**30,232**	**31,112**
Non-current interest-bearing loans and borrowings				
Lease liabilities	4.45%-7.20%	2020-2032	119,914	133,111
Bond	7.5% + 3M EURIBOR	26 Jul 2023	38,644	37,960
Embedded derivatives	Floor at 0% and prepayment option included in bond		291	624
Total non-current interest-bearing loans and borrowings			**158,849**	**171,695**

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 2021 was EUR 38,644k (prior year: EUR 37,960k).

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 333k (prior year: EUR 107k) and it was valued at EUR 291k as of the reporting date (prior year: EUR 624k).

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 keeping 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 0.0%. At the date the consolidated financial statements were prepared, the credit facility has been utilized in full.

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 30 April 2022 and replaced by a minimum cash covenant. This stipulates that the Company must show evidence of a permanent minimum level of cash. The Company was able to comply with this covenant at all times in the reporting period.

In the event of any breach of the covenants, the creditors could call in the related loans irrespective of the contractually agreed maturities provided certain conditions are met.

In addition to the existing fixed interest rate of 3.0% p.a., an additional PIK interest rate of 1.5% was agreed, which is due cumulatively as of 31 October 2022.

In the reporting year, PIK interest of EUR 113k was accrued.

Translation from the German language

IBOR benchmark reform

As a result of the IBOR benchmark reform (EU Benchmark Regulation (BMR) 2016/1011), LIBOR-based loan agreements will be restructured in the LifeFit Group from 1 January 2022. The EURIBOR-based financial transactions are not affected by the restructuring. EURIBOR was already reformed in accordance with the BMR in November 2019 and will continue to be used as a reference rate for the time being.

Currently, the Group has the following financing arrangements based on EURIBOR:

- Bond with a volume of EUR 40.0m and a term until 26 July 2023
- Revolving credit facility with a volume of EUR 10.0m and a term until 26 July 2023

The terms of the bond and the revolving credit facility do not contain any requirements to adjust the interest rate should EURIBOR be discontinued.

5.3 Shareholder loans

	2021 EUR k	2020 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)	4,989	2,716
	25,122	**22,849**
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)	2,042	1,081
	10,623	**9,662**
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	272	144
	1,416	**1,288**
Loan from FFGH to Barry's Bootcamp	**936**	**936**
Total	**38,097**	**34,735**

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 date 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.

Translation from the German language

In addition, effective 27 July 2019 TopCo granted MidCo a subordinated loan of EUR 10,000k. The loan has a term until the expiry date 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 date 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 finance costs, net 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:

	2021 EUR k	2020 EUR k
Total financial liabilities	227,178	237,542
Less: Cash and cash equivalents	-23,040	-22,551
Net debt	**204,137**	**214,990**
Total equity	-22,522	-22,606
Total assets	243,899	246,204
Ratio total equity to total assets	**-9.2%**	**-9.2%**

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.

Translation from the German language

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
2021						
Bond	0	750	2,250	42,500	0	**45,500**
Revolving credit facility	0	10,050	112	0	0	**10,162**
Lease liabilities	0	6,779	20,814	94,913	50,818	**173,324**
Shareholder loans	0	0	0	45,786	0	**45,786**
Trade payables	15,128	0	0	0	0	**15,128**
Other financial liabilities	0	0	2	1,807	0	**1,809**
Total	**15,128**	**17,579**	**23,178**	**185,006**	**50,818**	**291,709**

	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**
Shareholder loans	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**

* The liabilities from the bond are due as of 26 July 2023. The liabilities from the shareholder loans are due as of 31 January 2024.

In connection with loan agreements, several financial covenants were agreed, of all which were met in the reporting period. Key financial indicators are the net debt to EBITDA ratio and the interest coverage ratio. Compliance with covenants is rigorously monitored in the course of group planning and reported to the creditors on a quarterly basis. In the event of any breach of the covenants, the creditors could call in the related loans irrespective of the contractually agreed maturities provided certain conditions are met. This could result in a refinancing risk for the Group, depending on the volume of the loan in question and the existing refinancing opportunities on the financial market.

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.

Translation from the German language

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.

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.

Translation from the German language

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
2021				
Financial assets				
Cash and cash equivalents	23,040	0	23,040	23,040
Securities classified as non-current assets	0	1,676	1,676	1,676
Trade receivables	400	0	400	400
Financial liabilities				
Lease liabilities	-140,033	0	-140,033	-140,033
Trade payables	-15,128	0	-15,128	-15,128
Shareholder loans	-38,097	0	-38,097	-38,366
Bond	-38,644	-291	-38,935	-39,800
Revolving credit facility	-10,113	0	-10,113	-10,113
	-218,574	**1,385**	**-217,189**	**-218,323**

	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	-40,800
Revolving credit facility	-10,000	0	-10,000	-10,000
Earn-out liabilities (Elbgym)	0	-700	-700	-700
	-228,014	**-1,324**	**-229,338**	**-235,350**

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 prior-year contingent consideration of EUR 700k (payment in January 2021) in connection with the acquisition of Elbgym, the securities classified as non-current assets measured at fair value and derivatives embedded in the bond, the Group does not have any financial instruments held at fair value through profit or 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:

	2021	2020
	EUR k	EUR k
LFG-XPO	0	-17
The Gym Society	0	-17
Total	**0**	**-34**

In the reporting period, XPO and TGS generated a loss for the year of EUR 136k (Group's share of loss: EUR 82k) and EUR 186k (Group's share of loss: EUR 112k), respectively. The Group's share of losses for the year was deducted from the receivables from these companies because the carrying amounts of these equity investments had already been written down in full (see Note 7.4).

5.6 Finance costs, net

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

	2021	2020
	EUR k	EUR k
Interest expenses from leases (IFRS 16)	8,722	6,872
Effective interest on bond	3,726	2,450
Effective interest expenses for shareholder loans	3,362	2,563
Income/loss from fair value adjustment of embedded derivatives		
Fair value	-333	720
Interest income	-44	0
Other	382	429
Total	**15,815**	**13,034**

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:

	2021 EUR k	2020 EUR k
Food and beverages	671	547
Merchandising	80	81
Other	158	158
Write-downs	-44	-44
Total	**865**	**742**

6.2 Trade receivables

	2021 EUR k	2020 EUR k
Trade receivables	407	2,865
Bad debt allowances	-7	-641
Total	**400**	**2,224**

	2021 EUR k	2020 EUR k
As of 1 November 2020/1 January 2020	641	610
Additions	0	31
Utilization/reversal	-634	0
As of 31 October 2021/31 October 2020	**7**	**641**

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.

The allowance account developed as follows:

	2021	2020
	EUR k	EUR k
As of 1 November 2020/1 January 2020	641	610
Additions	0	31
Utilization/reversal	-634	0
As of 31 October 2021/31 October 2020	**7**	**641**

The utilization/reversal of loss allowances relate almost exclusively to receivables from MFC.

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.

6.3 Income tax assets

Income tax assets mainly include tax on investment income and pre-tax group refund claims of SmileX companies.

6.4 Other non-financial assets

	2021	2020
	EUR k	EUR k
Receivables from government aid	26,145	0
Prepaid expenses	1,034	784
VAT refund claims	1,025	3,466
Ancillary costs	420	256
Other	1,531	2,078
Total	**30,155**	**6,584**

EUR 26.2m of the recognized receivables from government aid had already been received by the date on which these financial statements were prepared.

The item “Other” mainly includes receivables from health insurance companies and the Federal Employment Agency, creditors with debit balances, security deposits and receivables from employees.

Translation from the German language

6.5 Cash and cash equivalents

The composition of cash and cash equivalents is as follows:

	2021 EUR k	2020 EUR k
Bank balances	23,040	22,551
Total	**23,040**	**22,551**

6.6 Trade payables

Trade payables are non-interest bearing and are generally on a maximum of 60 days' terms. As of 31 October 2021, EUR 0k (prior year: EUR 594k) is due in more than one year.

6.7 Other non-financial liabilities

	2021 EUR k	2020 EUR k
Contract liabilities	13,370	2,442
Other personnel-related liabilities	1,169	989
Vacation obligation	641	639
Wage and church tax	301	289
VAT payable	0	115
Social security contributions	23	3
Other	524	176
Total	**16,028**	**4,653**

Translation from the German language

Contract liabilities developed as follows:

	Monthly prepaid membership fees	*Prepaid membership fees*	*Deferred revenue from lockdowns*	**Total**
	EUR k	**EUR k**	**EUR k**	**EUR k**
As of 31 December 2019	1,548	1,000	0	**2,548**
Utilization	1,548	417	0	**1,965**
Reversal	0	0	0	**0**
Allocation	600	60	1,199	**1,859**
As of 31 October 2020	**600**	**643**	**1,199**	**2,442**
Utilization	600	613	200	**1,413**
Allocation	500	245	11,595	**12,340**
As of 31 October 2021	**500**	**275**	**12,594**	**13,370**
Thereof current:	500	200	4,794	**5,494**
Thereof non-current:	0	75	7,800	**7,875**
Prior year: thereof current:	600	400	499	**1,499**
Prior year: thereof non-current	0	243	700	**943**

During the lockdown, the Group offered its members the suspension of their membership or compensation options. These options include either free-of-charge periods or a membership upgrade for a corresponding term. This free-of-charge period can start immediately, at the end of the current term or at the end of the membership. The upgrade became immediately effective on reopening.

In accordance with IFRS 15, these free-of-charge periods are spread over the entire remaining (expected) term of the contract (including the periods affected by the lockdown – estimate based on the contractually agreed minimum term and the estimate of the expected average remaining membership term). As presented under general accounting policies, the performance obligation under the membership relates to the provision of a fitness offering which can take the form of online training and/or visiting fitness studios in person. During the lockdown, the performance obligation was satisfied in the form of online training, so the contractually agreed payments (those already made and those to be made in the future) are allocated to the lockdown period and the expected remaining term of the contract (taking the free-of-charge period into account).

The related deferred income amounts to EUR 12.6m (prior year: EUR 1.2m), approximately 70% of which will be released to profit or loss during the next 24 months. Approximately EUR 7.8m (prior year: EUR 0.7m) of the contract liabilities recognized due to the lockdown have a remaining term of more than one year.

Translation from the German language

Furthermore, the contract liabilities of EUR 0.3m (prior year: 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 0.5m (prior year: EUR 0.6m) of deferred membership fees for members who pay their fees in the middle of the month, which will have been fully released to profit or loss in November 2021 (prior year: November 2020).

EUR 28k (prior year: EUR 28k) of liabilities are due in more than one year and are classified under non-current liabilities.

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

	2021	**2020**
	EUR k	**EUR k**
Obligations relating to permanently closed locations	1,513	2,597
Guarantee and security deposits	294	274
Payments received on accounts of orders	0	1,357
Earn-out liabilities (Elbgym)	0	700
Other	2	373
Total	**1,809**	**5,301**

Obligations relating to the permanently closed locations of EUR 1,513k (prior year: EUR 1,906k) are due in more than one year.

Guarantee and security deposits of EUR 294k (prior year: EUR 274k) have a maturity of more than one year and are classified under non-current liabilities.

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. The remaining EUR 700k was paid in January 2021.

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 out 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 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**
Additions	3,224	2,545	**5,769**
Depreciation expense	-20,092	-2,029	**-22,121**
As of 31 October 2021	**110,615**	**4,652**	**115,267**

Impairment losses of EUR 3.8m were recognized for right-of-use assets arising from lease contracts relating to 14 locations of the Fitness First segment. These are included in depreciation expense.

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.

Translation from the German language

The lease liability for leased assets per asset class is as follows:

	31 Oct 2021	31 Oct 2020	31 Dec 2019
	EUR k	**EUR k**	**EUR k**
Buildings	135,341	149,837	132,248
Other equipment, furniture and fixtures	4,692	4,386	4,900
	140,033	**154,223**	**137,148**

Maturity analysis of lease liabilities	**31 Oct 2021**	**31 Oct 2020**
Current (within one year)	20,119	21,112
Non-current (more than one year)	119,914	133,111
	140,033	**154,223**

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:

	2021	2020
	EUR k	**EUR k**
Depreciation expenses of right-of-use assets	22,121	19,047
Interest expense on lease liabilities	8,722	6,872
Total amount recognized in profit or loss	**30,843**	**25,919**

The Group had total cash outflows for leases of EUR 28,138k for the period from 1 November 2020 to 31 October 2021 (prior year: EUR 17,755k).

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 did not sign any new lease contracts before 31 October 2021 which will only start after the reporting date.

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 2.3).

Translation from the German language

Set out below (in EUR k) 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	7,913	133,534

7.2 Other provisions

Other provisions break down as follows:

	2021	**2020**
	EUR k	**EUR k**
Club restoration provision	2,816	3,370
Litigation	256	791
Other provisions	7	57
	3,079	**4,218**
Of which:		
Current portion of provisions (< 1 year)	601	1,544
Non-current portion of provisions (> 1 year)	2,478	2,674
	3,079	**4,218**

Other provisions developed as follows:

	Club restoration provisions	*Litigation provisions*	*Other provisions*	**Total**
	EUR k	**EUR k**	**EUR k**	**EUR k**
As of 31 December 2019	3,630	902	63	**5,114**
Utilization	260	0	63	**842**
Reversal	0	54	0	**54**
As of 31 October 2020	**3,370**	**848**	**0**	**4,218**
Utilization	554	57	0	**611**
Reversal	0	535	0	**535**
Allocation	0	0	7	**7**
As of 31 October 2021	**2,816**	**256**	**7**	**3,079**
Thereof current:	345	256	0	**601**
Thereof non-current:	2,471	0	7	**2,478**
Prior year: thereof current:	696	848	0	**1,544**
Prior year: thereof non-current	2,674	0	0	**2,674**

Translation from the German language

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.

Provisions for litigation

Following the settlement of a legal dispute in favor of the Group, provisions of EUR 535k were released to profit or loss.

7.3 Income tax liabilities

	2021	2020
	EUR k	EUR k
Corporate income tax	120	314
Trade tax	61	100
Total	**181**	**414**

There are tax groups in place in the Group. Income tax liabilities mainly relate to prior-year and current-year 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.

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 the LifeFit Group, since 1 June 2019

Receivables from related parties

	2021	2020
	EUR k	**EUR k**
Receivables from former smileX shareholders	464	0
Recharges to LifeFit Group TopCo GmbH	112	129
Recharges to Fitness First Holdings	22	21
Receivables from XPO	0	890
Receivable from TGS	0	264
Other	4	18
Total	**602**	**1,322**

The nominal amounts of receivables from XPO (EUR 1,078k) and TGS (EUR 542k) were reduced by the Group's share in the losses of these companies (EUR 82k and EUR 112k) as well as impairment losses (EUR 996k and EUR 430k) (see Notes 3.7 and 5.5) as they are currently assumed to be uncollectible.

Acquisition of shares in My Fitness Card GmbH

On 20 November 2020, MidCo signed an agreement with PROFESSION Fit GmbH, Landshut, (a subsidiary of Fitness First Group S.C.A.) on the acquisition of all of the shares in My Fitness Card GmbH (MFC), Munich, for a purchase price of EUR 174k. My Fitness Card GmbH operates in the digital fitness segment.

Since Fitness First Luxembourg S.C.A. is the ultimate parent company of MidCo and MFC, this transaction is defined as a business combination under common control and must be accounted for using the pooling of interests method.

This transaction is purely internal below the ultimate parent, with no external parties being involved, and the transaction was not conducted at fair value. Consequently, MidCo did not apply the acquisition method in the consolidated financial statements (see Note 4.4).

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 date 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 date 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 date 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 finance costs, net 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 3,362k (prior year: EUR 2,563k).

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.

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.

The shareholder meeting on 18 August 2021 resolved to remove Mr. Christian Müller as managing director with effect from 31 October 2021.

Translation from the German language

7.5 Changes in liabilities arising from financing activities

	As of 1 November 2020	Cash inflows	Cash outflows	Additions/revaluations	(Accrued) interest	As of 31 October 2021
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Shareholder loans	33,316	0	0	0	3,362	**36,678**
Capital injection	1,419	0	0	0	0	**1,419**
Bond	37,960	0	0	684	0	**38,644**
Embedded derivatives	624	0	0	-333	0	**291**
Revolving credit facility	10,000	0	0	0	113	**10,113**
Other financial liabilities	5,301	0	-721	-2,771	0	**1,809**
Lease liabilities	154,223	0	-28,138	5,226	8,722	**140,033**
	242,843	**0**	**-28,859**	**2,806**	**12,197**	**228,987**

	As of 1 January 2020	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
Shareholder loans	30,753	0	0	0	2,563	**33,316**
Capital injection	1,419	0	0	0	0	**1,419**
Bond	37,439	0	0	521	0	**37,960**
Embedded derivatives	517	0	0	107	0	**624**
Revolving credit facility	0	10,000	0	0	0	**10,000**
Other financial liabilities	5,875	434	-1,008	0	0	**5,301**
Lease liabilities	137,148	0	-17,755	27,958	6,872	**154,223**
	213,151	**10,434**	**-18,763**	**28,586**	**9,435**	**242,843**

The revolving credit facility was used throughout the reporting year and continues to be available to the Group until 31 October 2022.

7.6 Auditor's fees

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

	2021	2020
	EUR k	EUR k
Audit services	235	400
Tax services	0	5
Other services	0	0
Total	**235**	**405**

Translation from the German language

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, MFC)
- Elbgym
- SmileX Interco GmbH and subsidiaries

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

FY 2021	Holding/admin	Fitness First	Elbgym	smileX	Consolidation	Total
	EUR k	EUR k	EUR k	EUR k	EUR k	EUR k
Revenue	0	54,135	1,774	9,019	0	**64,928**
EBITDA	-1,039	48,323	678	7,759	0	**55,721**
Finance costs, net	-7,044	-8,251	-260	-260	0	**-15,815**
Income taxes	3,221	-5,879	59	62	0	**-2,537**
Profit or loss for the period	-5,055	2,681	-408	4,230	0	**1,447**
Total assets	166,637	193,221	6,372	14,571	-136,900	**243,900**
Non-current liabilities	72,875	132,286	3,087	3,831	0	**212,079**

Prior year	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**
Finance costs, net	-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	131,988	4,096	4,060	0	**212,527**

7.8 Events after the reporting date

COVID-19 government aid

Final approval of COVID-19 government aid totaling EUR 53.0m was granted by the most recent notice issued on 18 February 2022. After the payments of EUR 24.3m already received in the reporting year, another EUR 21.5m was transferred on 11 February 2022 and EUR 7.2m on 22 February 2022.

COVID-19 health crisis

All studios opened up again in June 2021. After the arrival of the Omicron variant shortly before Christmas 2021, access to the studios was restricted to vaccinated or recovered persons (2G) by law in all German federal states. From January 2022, these persons additionally have to undergo a COVID-19 rapid lateral flow test (2G+) or have had a booster shot. Since these restrictions exclude members not included in these groups from training, further member losses may occur.

Acquisition of shares in 3 plus 5 Management GmbH & Co. KG

On 30 September 2021, elbgym GmbH entered into an agreement with Mr. Bastian Benjamin Bienlein, Berlin, Mr. Andreas Buchalla, Hamburg, Mr. Max Döringer, Hamburg, Ms. Lisa Maus, Hamburg, and Mr. Wilhelm Schröter, Elmshorn, on the acquisition of all of the shares in 3 plus 5 Management GmbH & Co. KG, Hamburg, for a provisional purchase price of EUR 623,432. 3 plus 5 Management GmbH & Co. KG operates an elbgym fitness studio at Quartier Hofstatt, Munich, as a franchisee. 1 November 2021 was agreed as the date of transfer.

The fair value of the identifiable assets and liabilities of the entity as of 1 November 2021 was:

			EUR k
	Carrying amount	Step-up	Fair value
Assets			
Property, plant and equipment	303	101	404
Trade receivables	19	0	19
Other non-financial assets	2	0	2
Cash	31	0	31
Total assets acquired	**355**	**101**	**456**
Liabilities			
Other provisions	26	0	26
Trade payables	476	0	476
Other current liabilities	4	0	4
Deferred tax	0	32	32
Total liabilities assumed	**506**	**32**	**538**
Net assets	-151	69	- 82
Goodwill arising on acquisition			705
Consideration transferred			**623**

The transaction did not have any material impact on the Group's assets, liabilities, financial position and financial performance. No notable fair value step-ups were made. If the transaction had already taken place in the prior year, revenue would have been affected by approximately EUR 0.5m and the consolidated profit or loss by approximately EUR 0.0m.

Acquisition of shares in 4 plus 2 Management GmbH & Co. KG

On 30 September 2021, elbgym GmbH entered into an agreement with Mr. Bastian Benjamin Bienlein, Berlin, Mr. Andreas Buchalla, Hamburg, Mr. Max Döringer, Hamburg, Ms. Lisa Maus, Hamburg, and Mr. Wilhelm Schröter, Elmshorn, on the acquisition of all of the shares in 4 plus 2 Management GmbH & Co. KG, Hamburg, for a provisional purchase price of EUR 776,742. 4 plus 2 Management GmbH & Co.

Translation from the German language

KG operates an elbgym fitness studio at Stadthöfe, Hamburg, as a franchisee. 1 November 2021 was agreed as the date of transfer.

The fair value of the identifiable assets and liabilities of the entity as of 1 November 2021 was:

			EUR k
	Carrying amount	Step-up	Fair value
Assets			
Intangible assets	0	342	342
Property, plant and equipment	322	107	429
Trade receivables	62	0	62
Other non-financial assets	60	0	60
Cash	151	0	151
Total assets acquired	**595**	**449**	**1,043**
Liabilities			
Other provisions	26	0	26
Trade payables	355	0	355
Other current liabilities	52	0	52
Deferred tax	0	144	144
Total liabilities assumed	**433**	**144**	**577**
Net assets	162	305	467
Goodwill arising on acquisition			310
Consideration transferred			**777**

The transaction did not have any material impact on the Group’s assets, liabilities, financial position and financial performance. No notable fair value step-ups were made. If the transaction had already taken place in the prior year, revenue would have been affected by approximately EUR 0.5m and the consolidated profit or loss by approximately EUR 0.0m.

Translation from the German language

7.9 Disclosures pursuant to Sec. 264 (3) No. 4 HGB

All direct and indirect subsidiaries of LifeFit Group MidCo GmbH operating as corporations and included in the consolidated financial statements of LifeFit Group MidCo GmbH as of 31 October 2021 (see Note 2.2 Basis of consolidation and consolidated companies) make use of the exemption pursuant to Sec. 264 (3) HGB.

Munich, 28 February 2022

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Martin Seibold
Managing Director

Translation from the German language

Group management report of LifeFit Group MidCo GmbH, Munich, for the fiscal year from 1 November 2020 to 31 October 2021

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A. BACKGROUND OF THE GROUP

1. GROUP BUSINESS MODEL

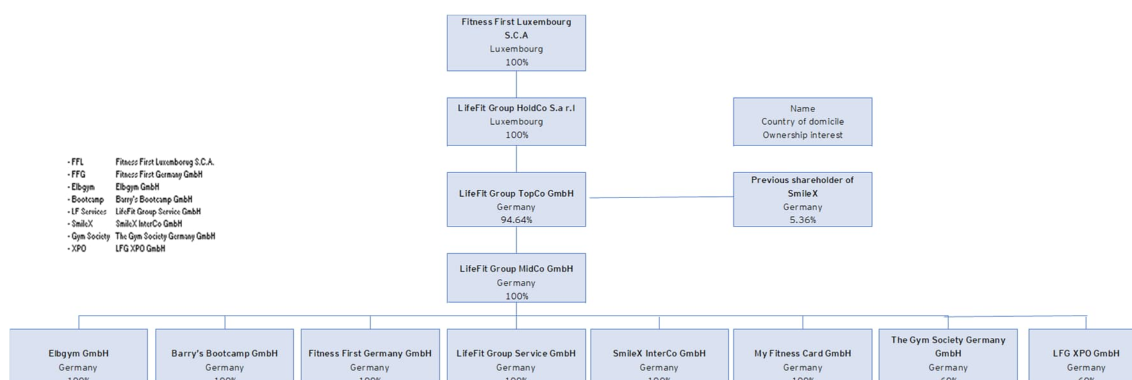
The LifeFit MidCo Group

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. 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 fiscal year of the Company starts on 1 November and ends on 31 October. The prior fiscal year started on 1 January 2020 and ended on 31 October 2020 and was thus a short fiscal year.

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

The group structure is as follows:



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 58 clubs (prior year: 64 clubs).
ii. Elbgym operates three fitness clubs (prior year: four) in central Hamburg and one club in Berlin Steglitz. Franchise licenses have also been granted to three clubs. In November 2021, two of these clubs were acquired, so Elbgym operated six clubs at the time this report was prepared.
iii. Operator smileX with 16 clubs (prior year: 16 clubs) (of which 3 franchises) represents MidCo's 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 were opened 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 86 clubs (prior year: 88 clubs) (of which 6 (prior year: 4) under a franchise) with more than 179,000 members (prior year: 224,000 members). The decrease is attributable 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. There were signs of a slight recovery in fiscal year 2021, but they did not compensate for the growth losses in 2020.

According to the most recent industry study of the German fitness market,[1] by the end of 2019, average annual growth in revenue stood at 3.2% and average growth in memberships at 5.1% over the previous five years.

Having seen a continuous positive development in recent years, the German fitness market was hit by the COVID-19 health crisis, leading to a decline in key market indicators. According to the abovementioned industry study, the approximately four-month shutdown of fitness facilities imposed by the government in 2020 curbed the positive growth of revenue, memberships and the number of facilities. Despite decreases in these areas, at the end of December 2020, the sector still had 10.31 million memberships (down 11.6%) in its 9,583 fitness facilities (down 1.4%), which is a penetration rate of 12.4%.

Although it is not yet entirely clear what impact the lockdown periods will have had, their extension until June 2021 did have a further adverse effect on membership levels.

The German fitness market is still 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 health crisis has passed.

As a result of the pandemic, digital services providers in the fitness industry saw a strong upswing. As the first restrictions were imposed in European countries, demand for health and fitness apps recorded a historic high.

[1] Deloitte "Der deutsche Fitnessmarkt" (the German fitness market) 2021 study, 18th edition

According to the data provider App Annie, health and fitness apps saw a 40% increase in app downloads worldwide when the shutdowns in Europe were first imposed.

Peloton, a manufacturer of internet-connected stationary bikes and treadmills, is another example of this development and was able to double its revenue in its fiscal year 2020 ended 30 June 2020.

2. BUSINESS DEVELOPMENT

The result of the fiscal year refers to the period from 1 November 2020 to 31 October 2021. The result of the prior year refers to the period from 1 January to 31 October 2020. Since the prior year was a short fiscal year and both years were affected by the COVID-19 health crisis to different extents, the comparability of financial performance in the two reporting periods is limited.

Alongside the operative and administrative consolidation efforts following the rapid growth of the Group on the back of transactions in prior years, fiscal year 2021 was still primarily shaped by the COVID-19 health crisis, which has had a significant impact on the financial ratios of the Group in the past two fiscal years.

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 the reporting year, our clubs were closed for up to seven months (November 2020 to the beginning of June 2021), depending on the rules of the various federal states. 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 renovations 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.

During the lockdown period, up to approximately 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 was 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), partial deferral of lease payments and grant of COVID-19 government aid. Overall, the lockdown resulted in a reduction in members by around 69,000, which will have a negative impact on revenue, EBITDA and profit mainly in subsequent years. 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 consolidated financial statements (revenue decrease in a mid two-digit percentage point range) and for EBITDA (considerable drop in EBITDA) cannot be meaningfully compared to the revenue and EBITDA generated, since at the time of the forecast a) the lockdown from November 2020 to June 2021 andb) the COVID-19 government aid received could not be taken into account.

3. FINANCIAL PERFORMANCE

The key performance indicator is consolidated operating profit or loss before interest, taxes, depreciation and amortization (EBITDA). In contrast to the consolidated statement of comprehensive income, in the following table the COVID-19 government aid has been removed from other operating income and presented as a separate item. Financial performance, which has limited comparability due to the length of the reporting year (12 months compared to the prior year of 10 months) and the COVID-19 government aid, is as follows:

in EUR m	1 Nov 2020 to 31 Oct 2021	in %	1 Jan 2020 to 31 Oct 2020	in %	Change
Revenue	64.9	100%	101.1	100%	-36.1
COVID-19 government aid	50.5		0.0		50.5
Revenue and COVID-19 government aid	115.4	100%	101.1	100%	14.3
Cost of materials	-5.9	-9%	-4.7	-5%	-1.2
Personnel expenses	-24.6	-38%	-28.5	-28%	3.9
Other operating expenses less other operating income	-29.3	-45%	-35.3	-35%	6.0
Depreciation and amortization	-35.6	-55%	-32.0	-32%	-3.6
Investment result	-0.2	0%	0.0	0%	-0.2
Finance costs, net	-15.8	-24%	-13.0	-13%	-2.8
Income taxes	-2.5	-4%	0.8	1%	-3.3
Consolidated profit or loss for the period	**1.4**	**2%**	**-11.6**	**-11%**	**13.0**
Income taxes	2.5		-0.8		3.3
Finance costs, net	15.8		13.0		2.8
Depreciation and amortization	35.6		32.0		3.6
Group EBITDA	**55.4**	**85%**	**32.6**	**32%**	**22.8**

Adjusted for COVID-19 government aid (EUR 50.5m) and short-time work benefits, financial performance can be summarized as follows:

in EUR m	1 Nov 2020 to 31 Oct 2021	1 Jan 2020 to 31 Oct 2020	Change
Consolidated profit or loss for the period (before government aid)	**-54.3**	**-15.6**	**-38.7**
Short-time work benefits	5.3	4.0	1.3
COVID-19 government aid	50.5	0.0	50.5
Consolidated profit or loss for the period (after government aid)	**1.4**	**-11.6**	**13.0**

The Group generated revenue of EUR 64.9m (prior year: EUR 101.1m) which breaks down by brand as follows:

in EUR m	1 Nov 2020 to 31 Oct 2021	1 Jan 2020 to 31 Oct 2020
By brand name		
Fitness First	54.1	89.0
smileX	9.0	9.7
Elbgym	1.8	2.4
Total	**64.9**	**101.1**

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.

COVID-19 government aid of EUR 50.5m was granted in the reporting year, of which EUR 24.3m was paid out as of 31 October 2021. The remaining amount of EUR 26.2m had yet to be approved and was thus recognized as a receivable as of 31 October 2021. However, by the date of preparation of the financial statements, another EUR 28.7m had been received by the Group.

Personnel expenses were reduced by EUR 3.9m, mainly due to reimbursements in connection with short-time work during the lockdowns in the period from November 2020 to June 2021 (prior year: from April to June 2020). Compensation from the Federal Employment Agency during the reporting period amounted to approximately EUR 5.3m (prior year: approximately EUR 4.0m).

Depreciation and amortization of assets amounted to EUR 35.7m (prior year: EUR 32.0m) and is attributable to the depreciation of recognized right-of-use assets (EUR 22.1m; prior year: EUR 19.0m), the depreciation of property, plant and equipment (EUR 11.3m; prior year: EUR 10.2m) and the amortization of intangible assets (EUR 2.3m; prior year: EUR 2.8m).

Amortization, depreciation and impairment includes impairment losses of EUR 4.9m, of which EUR 1.1m relate to property, plant and equipment and EUR 3.8m to right-of-use assets.

Amortization, depreciation and impairment in the prior year included impairment losses of EUR 3.9m, of which EUR 0.9m related 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 29.3m (prior year: EUR 35.3m). This position mainly includes ancillary costs for land and buildings (EUR 12.0m; prior year: EUR 17.8m), advertising, marketing and travel expenses (EUR 4.0m; prior year: EUR 3.8m), administrative expenses (EUR 3.1m; prior year: EUR 3.1m), maintenance expenses (EUR 3.0m; prior year: EUR 3.4m), legal, audit and advisory fees (EUR 2.9m; prior year: EUR 2.6m) and impairment of receivables (EUR 1.5m; prior year: EUR 1.2m). Costs for land and buildings declined primarily due to lower expenses for energy, electricity, water and management costs as a result of club closures.

Finance costs, net, chiefly comprise interest expenses for leases (EUR 8.7m; prior year: EUR 6.9m), coupon on bonds (EUR 3.7m; prior year: EUR 2.5m) and interest expenses for shareholder loans (EUR 3.4m; prior year: EUR 2.6m).

Earnings before interest, taxes, depreciation and amortization (EBITDA) came to EUR 55.4m (prior year: EUR 32.6m).

4. ASSETS, LIABILITIES AND FINANCIAL POSITION

As of the reporting date, the Group's total assets amounted to EUR 243.9m (prior year: EUR 246.2m). The assets, liabilities and financial position of the Group are as follows:

in EUR m	31 Oct 2021	31 Oct 2020	Change
ASSETS			
NON-CURRENT ASSETS			
Intangible assets	33.8	35.7	-1.9
Property, plant and equipment	37.7	45.4	-7.7
Right-of-use assets	115.3	131.6	-16.4
Securities	1.7	0.0	1.7
	188.4	212.7	-24.3
CURRENT ASSETS			
Inventories	0.9	0.7	0.1
Trade receivables	0.4	2.2	-1.8
Receivables from related parties	0.6	1.3	-0.7
Income tax assets	0.4	0.1	0.3
Other non-financial assets	30.2	6.6	23.6
Cash and cash equivalents	23.0	22.6	0.5
	55.5	33.5	22.0
TOTAL ASSETS	**243.9**	**246.2**	**-2.3**
EQUITY AND LIABILITIES			
EQUITY	-22.5	-22.6	0.1
NON-CURRENT LIABILITIES			
Financial liabilities	38.9	38.6	0.4
Shareholder loans	38.1	34.7	3.4
Other non-financial liabilities	7.8	0.7	7.1
Other financial liabilities	1.8	2.2	-0.4
Other provisions	2.5	2.7	-0.2
Lease liabilities	119.9	133.1	-13.2
Deferred tax liabilities	3.0	0.5	2.5
	212.1	212.5	-0.4
CURRENT LIABILITES			
Financial liabilities	10.1	10.0	0.1
Trade payables	15.1	15.9	-0.7
Other non-financial liabilities	8.2	3.9	4.3
Other financial liabilities	0.0	3.1	-3.1
Related party debt	0.0	0.3	-0.3
Other provisions	0.6	1.5	-0.9
Lease liabilities	20.1	21.1	-1.0
Income tax liabilities	0.2	0.4	-0.2
	54.4	56.3	-1.9
TOTAL EQUITY AND LIABILITIES	**243.9**	**246.2**	**-2.3**

Intangible assets comprise goodwill from business combinations (EUR 25.6m; prior year: EUR 25.6m), customer lists/contracts and trademarks (EUR 7.1m; prior year: EUR 9.1m) and licenses and software (EUR 1.1m; prior year: EUR 1.1m).

In the prior year, an impairment loss of EUR 0.9m relating to the goodwill of the Elbgym GmbH cash-generating unit was recognized.

Property, plant and equipment amounted to EUR 37.7m (prior year: EUR 45.4m) and mainly included land and buildings (EUR 22.2m; prior year: EUR 23.1m), other equipment, furniture and fixtures (EUR 13.4m; prior year: EUR 16.3m) and prepayments and assets under construction (EUR 2.1m; prior year: EUR 5.8m).

The right-of-use assets consist of leased buildings (EUR 110.6m, prior year: EUR 127.5m) as well as leased fitness equipment and vehicles (EUR 4.7m; prior year: EUR 4.1m).

The increase in other non-financial assets is mainly attributable to receivables from COVID-19 government aid of EUR 26.2m.

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 2021**	**31 Oct 2020**
Bond	38.9	38.6
Shareholder loans	38.1	34.7
Revolving credit facility	10.1	10.0
Lease liabilities	140.1	154.2
Less cash and cash equivalents	-23.0	-22.6
Net debt	**204.1**	**214.9**

The bond (senior secured callable floating rate bond) is valued at EUR 38.9m as of the reporting date (prior year: EUR 38.6m) 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 38.1m (prior year: EUR 34.7m) 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 119.9m (prior year: EUR 133.1m) and short-term: EUR 20.1m (prior year: EUR 21.1m)) relate to leased buildings (EUR 135.3m; prior year: EUR 149.8m) and leased fitness equipment and vehicles (EUR 4.7m; prior year: EUR 4.4m).

The Group’s freely available cash amounted to EUR 23.0m (prior year: EUR 22.6m).

Provisions (long-term: EUR 2.5m (prior year: EUR 2.7m); short-term: EUR 0.6m (prior year: EUR 1.5m)) are mainly composed of club restoration provisions (EUR 2.8m; prior year: EUR 3.4m) and provisions for litigation (EUR 0.3m; prior year: EUR 0.8m).

Deferred tax liabilities amounted to EUR 3.0m (prior year: EUR 0.5m) and relate mainly to accounting differences in deferred income items (EUR 7.8m; prior year: EUR 0.2m), intangible assets from acquisitions (EUR 2.2m; prior year: EUR 2.7m) and in property, plant and equipment (EUR 4.6m; prior year: EUR 5.0m), which are offset by deferred tax assets, primarily resulting from accounting differences in lease accounting (EUR 7.9m; prior year: EUR 6.8m) and deferred tax assets on tax loss carryforwards (EUR 4.0m; prior year: EUR 0.0m).

The cash flow from operating activities amounted to EUR 34.2m in the reporting period (prior year: EUR 22.5m).

The Group invested EUR 4.8m (prior year: EUR 14.0m), mainly in the acquisition of property, plant and equipment (EUR 4.5m; prior year: EUR 13.9m).

The Group made cash payments of around EUR 28.1m (prior year: EUR 17.8m) for interest and principal repayments in connection with lease payments. In the prior year, the Group received cash from the arrangement of a credit facility amounting to EUR 10.0m.

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 profit after tax for the period of EUR 1.4m (prior year: loss after tax of EUR 11.6m), negative equity of EUR 22.5m (prior year: EUR 22.6m) and a positive cash flow from operating activities of EUR 34.2m (prior year: EUR 22.5m). The Group's liquidity is well positioned owing to a high level of cash and cash equivalents as of the reporting date (EUR 23.0m; prior year: EUR 22.6m). Overall, taking into account the special effects of COVID-19 and 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 members of the management board have 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 2024 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 22.5m (prior year: -EUR 22.6m). Including the subordinated shareholder loans (presented under “Shareholder loans” in the consolidated statement of financial position) of EUR 38.1m (prior year: EUR 34.7m), the equity ratio came to 6.4% (prior year: 4.9%). 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 losses for the year in the (short) fiscal years 2019, 2020 and 2020/2021, the negative equity mainly resulted 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 the acquisition cost 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 [“Handelsgesetzbuch”: German Commercial Code]) LifeFit Group MidCo GmbH reported positive equity of EUR 70.0m (prior year: EUR 75.2m).

6. NON-FINANCIAL PERFORMANCE INDICATORS

Employees

As of 31 October 2021, 1,375 people were employed by the Group (prior year: 1,654 people). Of these, 1,206 people worked in the clubs (prior year: 1,499 people) and 169 employees in the service center (prior year: 155 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 2021, we had around 179,000 members (prior year: around 224,000 members). The average monthly membership yield was EUR 46.8 (prior year: EUR 42.5) and the customer retention rate was 52.2% (prior year: 70.4%) per year.

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's audit committee comprises the following members:

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

Climate protection

Measures to protect the climate protection are discussed and implemented on an ongoing basis, including the efficient and economical use of paper (substitution through digitalization), continuous reduction and substitution of plastic usage as well as energy saving activities in collaboration with our lessors.

Human rights, women's rights and other minority rights

We comply with all laws for the protection of minority groups and human rights, provided that these are not overridden by the IfSG ["Infektionsschutzgesetz": German Infection Protection Act].

Non-financial statement

MidCo makes use of the exemption under Sec. 315b (2) HGB with respect to the obligation to present a non-financial statement in accordance with Sec. 315b HGB. The non-financial statement is included in the consolidated financial statements of LifeFit Group TopCo GmbH, Munich, in which MidCo is included. These consolidated financial statements are published in the *elektronischer Bundesanzeiger* [Electronic German Federal Gazette].

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 4.9%. Economic output in the US is expected to climb by 5.2% in 2022. GDP in the European Union could grow by 4.3% in 2022 and growth of 5.6% is forecast for China.

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: IMF).

The entire fitness industry has been adversely impacted by the outbreak of the COVID-19 health crisis. Following the renewed closure of all clubs in the Group during the second lockdown and the impact of the COVID-19 health crisis that is not over yet, management expects a business recovery and positive effects on the Group's future assets, liabilities, financial position and financial performance. However, fiscal year 2021/2022 will still be adversely affected.

After the lockdown lasting around seven months, visitor numbers returned to pre-pandemic levels and in some instances more new contracts were signed than in 2019. However, the recovery was held back somewhat by the severe restrictions imposed by the 2G (vaccinated or recovered) and 2G+ (vaccinated or recovered plus test or booster shot) regulations from November 2021. Based on the current political debate, the existing regulations are expected to be repealed from the beginning of March. The management board anticipates a significant catch-up effect in terms of the number of memberships as a result. Many former customers of the fitness industry are waiting to see what happens at the moment and will probably sign up again once the COVID-19 crisis comes to an end. The Company is optimizing the appeal of its club portfolios by expanding the product range to include state-of-the-art strength and mobility training equipment and modernizing the equipment pool one club at a time. In combination with effective marketing initiatives, especially through social media channels, this provides a very good basis from which to launch into the following year.

For fiscal year 2022, the Company expects significant growth in the number of memberships, but also a high single-digit decrease in revenue due to the end of government aid. As a result, EBITDA will drop considerably in the year to come before significantly exceeding the pre-crisis level in fiscal year 2023. The reduction of operating expenses, which has already been implemented to a large extent, will thus contribute to increasing long-term profitability.

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 there will be no more comprehensive lockdowns.

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 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. Additionally, providers of home fitness equipment have been able to achieve significant growth, so the trend towards home fitness could continue to have a negative impact on in-person memberships. 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.

In the event of any breach of the covenants (such as the minimum cash covenant, minimum EBITDA, debt service coverage ratio) the creditors could call in the related loans irrespective of the contractually agreed maturities provided certain conditions are met.

Overall, the risk positions changed significantly in the reporting year as a result of the Coronavirus crisis. 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 crisis management 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 aid programs which the LifeFit Group has been and will be able to utilize, being a group which is without a doubt 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, 28 February 2022

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Martin Seibold
Managing Director

Translation from the German language

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 Wirtschaftsprüfer": IDW] on 1 January 2017.

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.

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[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.

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(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.

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