Fitness World A/S

Egegårdsvej 61
2610 Rødovre

CVR no. 25 65 29 91

Annual report for 2018

Adopted at the annual general meeting on 31 May 2019

chairman Niels Eldrup Meidahl
Fitness World A/S

Table of contents

Statement by management on the annual report

The Board of Directors and Executive Board have today discussed and approved the annual report of Fitness World A/S for the financial year 1 January - 31 December 2018.

The annual report is prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the company's financial position at 31 December 2018 and of the results of the company's operations for the financial year 1 January - 31 December 2018.

In our opinion, management's review includes a fair review of the matters dealt with in the management's review.

Management recommends that the annual report should be approved by the company in general meeting.

Rødovre, 31 May 2019

Executive board

Steen Albrechtslund
CEO

Board of Directors

Peter Korsholm chairman	Kasper Sørensen	Thomas Broe-Andersen
Niels Meidahl		

Independent auditor's report

To the shareholder of Fitness World A/S

Opinion

We have audited the financial statements of Fitness World A/S for the financial year 1 January – 31 December 2018, which comprise income statement, balance sheet, statement of changes in equity and notes, including accounting policies. The financial statements are prepared in accordance with the Danish Financial Statements Act.

In our opinion, the financial statements give a true and fair view of the financial position of the Company at 31 December 2018 and of the results of the Company's operations and cash flows for the financial year 1 January – 31 December 2018 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and additional requirements applicable in Denmark. Our responsibilities under those standards and requirements are further described in the "Auditor's responsibilities for the audit of the financial statements" section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Company in accordance with the International Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code) and additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these rules and requirements.

Management's responsibilities for the financial statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with the Danish Financial Statements Act and for such internal control as Management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting in preparing the financial statements unless Management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Independent auditor's report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs and additional requirements applicable in Denmark will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with ISAs and additional requirements applicable in Denmark, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, 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 opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.

- Conclude on the appropriateness of Management's use of the going concern basis of accounting in preparing the financial statements and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. 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 Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and contents of the financial statements, including the note disclosures, and whether the financial statements represent the underlying transactions and events in a manner that gives a true and fair view.

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.

Independent auditor's report

Statement on management's review

Management is responsible for the Management's review.

Our opinion on the financial statements does not cover the Management's review, and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the Management's review and, in doing so, consider whether the Management's review is materially inconsistent with the financial statements or our knowledge obtained during the audit, or otherwise appears to be materially misstated.

Moreover, it is our responsibility to consider whether the Management's review provides the information required under the Danish Financial Statements Act.

Based on the work we have performed, we conclude that the Management's review is in accordance with the financial statements and has been prepared in accordance with the requirements of the Danish Financial Statement Act. We did not identify any material misstatement of the Management's review.

Copenhagen, 31 May 2019

ERNST & YOUNG
Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Steen Skorstengaard
State Authorised Public Accountant
mne19709

Ole Becker
State Authorised Public Accountant
mne33732

Company details

The company	Fitness World A/S Egegårdsvej 61 2610 Rødovre	
	Website:	www.fitnessworld.com
	CVR no.:	25 65 29 91
	Reporting period:	1 January - 31 December 2018
	Domicile:	Rødovre
Board of directors	Peter Korsholm, chairman Kasper Sørensen Thomas Broe-Andersen Niels Meidahl	
Executive board	Steen Albrechtslund, CEO	
Auditors	ERNST & YOUNG Godkendt Revisionspartnerselskab Osvald Helmuths Vej 4 2000 Frederiksberg	
Consolidated financial statements	The company is included in the consolidated financial statements for Fitness World Group A/S and the ultimative parent company Forward TopCo A/S. The consolidated financial statements can be obtained by contacting the company.	
General meeting	The annual general meeting is held at the company's address on 31 May 2019.	

Financial highlights

	2018 TDKK	2017 TDKK	2016 TDKK	2015 TDKK	2014 TDKK
Key figures					
Revenue	1,302,685	1,213,403	1,076,615	1,035,891	959,746
Gross profit	570,361	523,403	493,210	514,597	470,810
Profit before net financials	118,882	53,086	90,360	129,806	98,375
Net financials	(3,634)	(2,603)	(10,037)	(18,426)	(9,963)
Profit for the year	68,740	19,147	39,647	52,891	69,889
Balance sheet total	786,276	787,035	822,150	943,947	931,316
Investment in property, plant and equipment	94,529	88,337	66,817	115,518	160,743
Equity	421,871	458,725	533,857	559,590	311,699
Number of employees	939	873	800	756	718
Financial ratios					
Gross margin	43.8%	43.1%	45.8%	49.7%	49.1%
EBIT margin	9.1%	4.4%	8.4%	12.5%	10.3%
Solvency ratio	53.7%	58.3%	64.9%	59.3%	33.5%
Return on equity	15.6%	3.9%	7.3%	12.1%	44.8%

Key Figures

The financial ratios above are calculated as following;

Gross margin %	Gross profit/revenue
EBIT margin %	EBIT/revenue
Solvency ratio %	Equity/total liabilities
ROE %	Profit for the year/average equity

Management's review

Business activities

The company's main activity is to operate fitness clubs and related activities. Fitness World is the country's largest fitness chain with clubs throughout Denmark.

Business review

The company's income statement for the year ended 31 December shows a profit of DKK 68.7 million and the balance sheet at 31 December 2018 shows an equity of DKK 421.8 million.

The company's financial results for 2018 showed strong earnings, and increased gross profit despite continued major investments including building a new low-price brand in Denmark and the expansion of our business in Poland. In 2018 the company acquired 10 clubs, here of 5 as activities and 5 as companies, which after the acquisitions were merged into to Fitness World A/S with accounting impact from 1 January 2018.

2019 will be a year of sustained investment in new fitness clubs and upgrading of our existing Fitness World clubs.

Financial review

Revenue

Revenue amounted to DKK 1,303 million. DKK 1,213 million in 2017, an increase of DKK 90 million. The growth is partly due to membership and higher sales per unit. The development in revenue is in an according with the expectation for 2018. Sales of goods sold and personal training services amounted to DKK 134 million, against DKK 129 million in 2017, an increase of DKK 5 million or 4%, driven by a sharper focus on personal training, further expansion of the product portfolio and the introduction of FUNCTIONAL, our own brand of shakes, energy bars and other sports nutrition products.

Gross profit amounted to DKK 570 million, compared to DKK 523 million in 2017, an increase of DKK 47 million, which is mainly due to growth in turnover. We expect to further grow the result from primary operations in 2019

The result of primary operations amounted to DKK 119 million in 2018 (equal to profit margin of 9.1%) against DKK 53 million in 2017, an increase of DKK 66 million, primarily due to an avarage revenue per member compared with 2017, and increased capacity utilisation of our clubs due to the increased membership base had a positive impact on margins, offset partly by our value-for-money brand, Urban Gym.

The result before taxes

Net financial items were DKK -4 million in 2018 against DKK -3 million in 2017. Profit before tax amounted to DKK 100 million. DKK 35 million in 2017, an increase of DKK 65 million, conditions described under "primary operations" above.

Income tax expense

Tax for 2018 amounted to 32 million. DKK 16 million in 2017.

The result of the year

The year's result ended at DKK 69 million, against DKK 19 million in 2017, an increase of DKK 78 million. Adjusted for the effect of one-off expenses for the year at DKK 22 million, the result has been improved compared to 2017, which was according to the statements about expectations for 2018. Management consider the result as satisfactory.

The total balance at the end of 2018 was DKK 786 million against DKK 787 million at the end of 2017.

Investment

The company has made investments in property, plant and equipment of DKK 97 million and intangible assets of DKK 77 million. Investments were primarily driven by new clubs and investments in existing clubs due to rebuilding. In addition, investments were made for software development, and acquisition of customer base etc.

Capital

Equity at end of 2018 amounted to DKK 421 million (DKK 459 million in 2017), corresponding to an equity ratio of 54 %. The decline of DKK 38 million compared to year-end 2017, was due to the payout of dividend DKK 100 million, and the result of the profit for the period partly being offset by the DKK 4 million adjustment of the initial application of IFRS 15 as intepretation.

The year at a glance and follow-up on expectations expressed last year

Fitness world has managed to meet expectations for the current year.
Net investments are amounted to DKK 95 million in 2018. The development in the market in Denmark has expanded with 16 new centers in 2018. Beside the member development, the product portfolio and Personal Training have shown great results. The economic results in Poland have also improved markedly in existing centers, which is due to new members.

Management's review

Statutory report on corporate governance

The Board of Directors is responsible for ensuring the overall strategic management and for ensuring that the financial and managerial control of the company is carried out in an appropriate manner.

The Board of Directors constitutes a highly qualified dialogue partner for the Executive Board in relation to strategic initiatives and continuously monitors the company's financial conditions, risk management and business activities.

In 2018, the Board of Directors held one meeting. No extraordinary meetings were held.

The Board of Directors consists of four members:

• Peter Korsholm chairman since 2019

• Kasper Sørensen member since 2016

• Thomas Broe-Andersen member since 2015

• Niels Eldrup Meidahl member since 2016

Executive Board and Management
Management is responsible for the day-to-day operation of Fitness World. The management level
consists of CEO Steen Albrechtslund, CFO Niels Eldrup Meidahl, and CCO
Lars Frødstrup (Executive Committee) and three heads of department (Management).

In 2018, several organisational initiatives were agreed to strengthen the overall management of Fitness World. Lars Frødstrup was appointed Managing Director of Fitness World Denmark, having previously filled the role of Value Added Sales Director. Claus Nielsen was appointed CMO in August 2018, he came from a position as Sales and Marketing Director in Red Bull.

By the end of 2018, Fitness World had a total number of employees of approx. 4,100. It is crucial that Fitness World is able to attract and retain competent and motivated employees.

Management's review

Statutory report on corporate social responsibility
Corporate Social Responsibility

Fitness World considers corporate social responsibility to be important. Fitness World's commitment to the sustainable development of the company is based on combining financial performance with socially responsible behaviour and environmental awareness.

In 2018, the company focused in particular on minimising its consumption of water and energy per visit. As a result, costs were reduced in a number of areas, and the environmental impact was also reduced. Among other things, we have changed nearly all light bulbs in the clubs to LED bulbs to significantly reduce energy consumption.

The company runs charity events. One example is a collaboration with Team Rynkeby called "Bike for the kids", where 70 Fitness World clubs arrange cycling events. The proceeds from the tickets sold are donated to the Child Cancer Foundation Denmark.

The company does not have an explicit CSR policy covering human rights, social and employee conditions, environment and climate, since the company operates in mature markets, but aims to maintain and enhance its professional and commercial relationships with internal and external stakeholders based on mutual respect. Fitness World endeavours to comply with applicable local and international legislation.
The company is also very aware of the risks of corruption, but since the Company operates in mature markets, a separate anti-corruption policy has not been drawn up.

See FSN Capital's website, ww.fsncapital.com, for a detailed description of social responsibility and ethical guidelines.

Statutory report on the underrepresented gender

The company aims to appoint candidates with the best profiles and qualifications. In so doing, the company takes gender into consideration only after ensuring that its other recruitment criteria, including requirements relating to professional qualifications, industry experience and educational background, have been met, as its primary consideration is ensuring that its board members and top executives have the right profiles.

Currently the Board of Directors consist of 4 men and no women. Fitness World aims to have at least one female member on the Board of Directors by the end of 2019. The company did not achieve this in 2018, as there was no election to the Board during the year, but it still intends to achieve the aim within the agreed timeframe. Currently, 40% of the Group Management team is female. Fitness World has a policy of offering all employees equal opportunities and is aiming for a more equal gender distribution among employees in leadership positions. Going forward, Fitness World will, when recruiting managers, focus on gender equality, assuming there are qualified applicants. However, Fitness World will not compromise on qualifications and will continue to employ the best-qualified candidate regardless of gender, political beliefs, religion or sexual orientation.

The company also intends to increase the proportion of women in both Group Management and general management so as to reflect the proportion of women employed by Fitness World, which is currently 63%. In 2018, the general management comprised 41% men and 59% women (including fitness club managers).

Accounting policies

The annual report of Fitness World A/S for 2018 has been prepared in accordance with the provisions of the Danish Financial Statements Act applying to large enterprises of reporting class C.

The accounting policies applied are consistent with those of last year, except for the implemetation of standards mentioned under "Changes in accounting policies".

The annual report for 2018 is presented in TDKK.

Pursuant to sections §112, of the Danish Financial Statements Act, the Company has not prepared consolidated financial statements. The company is included in a consolidated financial statement with Fitness World Group A/S and Forward TopCo A/S (the ultimative parent company).

Fees paid to auditors
Pursuant to section §96,3 of Danish Financial Statement Act, the company has not disclosed audit fees, since the company is included in the consolidated financial statement with the ultimative parent company Forward TopCo A/S, where consolidated information is disclosed.

Changes in accounting policies
Fitness World adopted IFRS 15 as interpretation from 1 January 2018, when recognising revenue by using the cumulative method and recognising the accumulated effect in equity at 1. January 2018. The figures for 2017 has not been restated. The impact from 2017 and 2018 is recognized in the revenue for the annual report 2018. The impact of IFRS 15, is mainly attributed to revenues from joining fee.

The revenue from joining fee is no longer recognised at the point of time they are charged, but on a monthly basis over the expected contract period. Revenue streams as membership fee and add-on fees, day passes, personal trainer revenue and revenue from sales from vending machine, discounts etc. are not impacted by adopting IFRS 15 as interpretation. Impact on the equity 1 January 2018 is an decrease of DKK 4,233 thousand, reduced with tax impact of DKK 931 thousand.

Further IFRS 9 will also be used for interpretation for financial instruments, which introduces new rules for hedge accounting and new expected credit loss impairment model.

The financial statement at 1 January 2018, had no material impact by adopting IFRS 9 as interpretation, because there are no changes in measuring of payables, borrowings and receivables which continue to be measured at amortized cost. Furthermore, there is no material impact by using the new expected credit loss model, as members pay up front and therefore, member receivable balances are always past due.

Accounting policies

Basis of recognition and measurement

Income is recognised in the income statement as earned, including value adjustments of financial assets and liabilities. All expenses, including amortisation, depreciation and impairment losses, are also recognised in the income statement.

Assets are recognised in the balance sheet when it is probable that future economic benefits will flow to the company and the value of the asset can be measured reliably.

Liabilities are recognised in the balance sheet when it is probable that future economic benefits will flow from the company and the value of the liability can be measured reliably.

On initial recognition, assets and liabilities are measured at cost. On subsequent recognition, assets and liabilities are measured as described below for each individual accounting item.

Certain financial assets and liabilities are measured at amortised cost using the effective interest method. Amortised cost is calculated as the historic cost less any instalments and plus/less the accumulated amortisation of the difference between the cost and the nominal amount.

On recognition and measurement, allowance is made for predictable losses and risks which occur before the annual report is presented and which confirm or invalidate matters existing at the balance sheet date.

Statement of goodwill

Gains or losses on the disposal of subsidiaries are stated as the difference between the selling price and the carrying amount of net assets at the time of sale, including non-amortised goodwill and expected costs to sell.

Acquisitions of entities are accounted for using the purchase method, according to which the identifiable assets and liabilities acquired are measured at their fair values at the date of acquisition. Provision is made for costs related to adopted and announced plans to restructure the acquired entity in connection with the acquisition. Allowance is made for the tax effect of revaluations made.

Any excess (goodwill) of the cost over the fair value of the acquired identifiable assets and liabilities, including provisions for restructuring costs, is recognised under intangible assets and amortised systematically in the income statement based on individual assessments of the useful lives of the assets. Goodwill from acquires can be adjusted until the end of the year following acquisition.

Accounting policies

Intra-group business combinations

The book value method is applied to intra-group business combinations such as acquisition of equity investments and mergers, etc., in which entities controlled by the parent company are involved, provided that the combination is considered completed at the acquisition date without any restatement of comparative figures.

Revenue

The company's principal sources of revenue are membership services (fitness club memberships, including joining fees and live group lessons). Other revenue includes revenues related to the sale of day passes, nutritional products and personal training sessions.

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied and services rendered, stated net of discounts, returns and value added taxes. The company recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the company’s activities, as described below.

Sale of services

The company provides fitness club services for its customers. For sale of services, revenue is recognised in the accounting period in which the services are rendered. Delivery of fitness club services extends throughout the term of membership.

Until year-end 2017, a joining fee was recognised in the month that a new customer signed the membership contract, and membership revenues were recognised on a monthly basis over the contract term.

As of 2018, joining fees are recognised over the contract period (for one-year contracts) and over the expected duration of the membership ("average length of stay") for "flex contracts" (contracts that can be cancelled at any time). Membership revenues continue to be recognised on a monthly basis over the contract term.

Membership fees collected but not earned are included in deferred revenue. The company’s promotional offers often include a discount in the form of a free period (e.g. current month free or next month free), waiver of the joining fee (fully or partly) or a promotional item, or a combination of the three. The member's payment will be based on the applicable promotion, but the monthly revenue is determined for the entire period by taking into consideration the discounts granted, which are allocated using relative amounts. Until year-end 2017, all discounts were recognised over the length of stay for all contracts. As of 2018, discounts related to one-year contracts are recognised over the contract term.

Accounting policies

Sale of goods

The sale of goods comprises revenue from sales of nutritional and other fitness-related products, such as ready-to-drink beverages, protein powders, merchandise, etc. Sales of these products are recognised in the income statement, provided that risks and rewards have been transferred to the customer and that the income can be reliably measured and is expected to be received, excluding VAT and taxes charged on behalf of third parties.

Sale of personal training

The sale of personal training comprises revenue from sale of personal training service vouchers. Revenue from sale of personal training services is recognised in the income statement as the services are rendered, excluding VAT and taxes charged on behalf of third parties. Sale of vouchers for personal training sessions not used before year-end is recognised under contract liabilities, and will be recognised as revenue in the following financial years.

Information is provided on business segments and geographical markets. The segment information is provided in consideration of the company’s accounting policies, risk and management control.

Cost of goods sold

Costs of raw materials and consumables include the raw materials and consumables used in generating the year’s revenue.

Other operating income

Other operating income comprises items of a secondary nature relative to the company's activities, including gains on the sale of intangible assets and property, plant and equipment.

Other operating expenses

Other operating expenses comprise items of a secondary nature relative to the company's activities, including losses on the sale of intangible assets and property, plant and equipment.

Other external expenses

Other external expenses include expenses related to distribution, sale, advertising, administration, premises, bad debts, payments under operating leases, etc.

Other external expenses also comprise research and development costs that do not qualify for capitalisation.

Staff costs

Staff costs include wages and salaries, including compensated absence and pensions, as well as other social security contributions, etc. made to the entity's employees. The item is net of refunds made by public authorities.

Accounting policies

Amortisation, depreciation and impairment losses

Amortisation, depreciation and impairment losses comprise the year's amortisation, depreciation and impairment of intangible assets and property, plant and equipment.

Financial income and expenses

Financial income and expenses are recognised in the income statement at the amounts relating to the financial year. Net financials include interest income and expenses, financial expenses relating to finance leases, realised and unrealised capital/exchange gains and losses on securities and foreign currency transactions, amortisation of mortgage loans and surcharges and allowances under the advance-payment-of-tax scheme, etc.

Tax on profit for the year

Tax for the year consists of current tax for the year and changes in deferred tax for the year. The tax attributable to the profit for the year is recognised in the income statement, whereas the tax attributable to equity transactions is recognised directly in equity.
The company is jointly taxed with Danish group entities. The tax effect of the joint taxation is allocated to enterprises in proportion to their taxable incomes.

Forward TopCo A/S is the management company for joint taxation and consequently settles all payments of corporation tax with the tax authorities.

Intangible assets

Goodwill, customer base and software aquired are measured at cost less accumulated amortisation. Goodwill, customer base and software are amortised on a straight-line basis over its estimated economic useful life, which is as follows;

Goodwill	max.	10 years
Customer base		5 years
Software		5 years

The estimated economic life of intangible assets, is determined on the basis of management's experience within the individual business areas.

An impairment test is prepared to support the value of the intangible assets.

Development project in progress are measured at cost and amortisation over economic period, when finalised and taken into use.

Property, plant and equipment

Items of plant and machinery and fixtures and fittings, tools and equipment are measured at cost less accumulated depreciation and impairment losses.

The depreciable amount is cost less the expected residual value at the end of the useful life.

Cost comprises the purchase price and any costs directly attributable to the acquisition until the date when the asset is available for use. The cost of self-constructed assets comprises direct and indirect costs of materials, components, sub-suppliers and wages.

Straight-line depreciation is provided on the basis of the following estimated useful lives of the assets:

	Useful life	
Other fixtures and fittings	3-10	years
Leasehold improvements	8	years
Leasehold improvements in progress	Depreciation when taking into use	

Gains or losses from the disposal of property, plant and equipment are recognised in the income statement as other operating income or other operating expenses, respectively.

The depreciation basis is calculated taking into account the residual value of the asset and is reduced by any write-downs. The amortization period and the residual value are determined at the time of acquisition period and the residual value are determined at the time acquistition are reviewed annually. If the residual value exceeds the carrying amount of the asset depreciation ceases. In the event of a change in the depreciation period or residual value the effect on depreciation going forward is recognized as a change in accounting estimate.

Gains and losses on the disposal of property, plant and equipment are calculated as the difference between the selling price less selling cost and the carrying amount at the time of sale. Gain or losses are recognized in the income statement under other operating income or other external cost.

Leases

Leases for items of property, plant and equipment that transfer substantially all the risks and rewards incident to ownership to the company (finance leases) are recognised in the balance sheet as assets. On initial recognition, assets are measured at estimated cost, corresponding to the lower of fair value of the leased asset and the present value of the future lease payments. In calculating the net present value of the future lease payments, the interest rate implicit in the lease or the incremental borrowing rate is used as the discount factor. Assets held under finance leases are subsequently depreciated as the company's other non-fixed assets.

The capitalised residual lease commitment is recognised in the balance sheet as a liability, and the interest element of the lease payment is recognised in the income statement over the term of the lease.

All other leases are operating leases. Payments relating to operating leases and any other leases are recognised in the income statement over the term of the lease. The company's total liabilities relating to operating leases and other rent agreements are disclosed under 'Contingencies, etc.'.

Investments in subsidiaries

Investments in subsidiaries are measured at the proportionate share of the net asset value of the entities, calculated on the basis of the group's accounting policies, plus or less unrealised intra-group gains or losses and plus or less any remaining value of positive or negative goodwill stated according to the purchase method.

Investments in subsidiaries with a negative net asset value are measured at DKK 0, and the carrying amount of any receivables from these entities is reduced to the extent that they are considered irrecoverable. If the parent company has a legal or constructive obligation to cover a deficit that exceeds the receivable, the balance is recognised under provisions.

Net revaluations of investments in subsidiaries are taken to the net revaluation reserve according to the equity method in so far as that the carrying amount exceeds the cost. Dividends from subsidiaries which are expected to be declared before the annual report of Fitness World A/S is adopted are not taken to the net revaluation reserve.

Acquisitions are accounted for using the purchase method, cf. the above description of the statement of goodwill.

Financial investments

Deposits are measured at amortised cost, substanially corresponding to nominal value.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries is tested for impairment, other than what is reflected through normal amortisation and depreciation, on an annual basis.

Where there is evidence of impairment, an impairment test is performed for each individual asset or group of assets, respectively. The carrying amount of impaired assets is reduced to the higher of the net selling price and the value in use (recoverable amount).

The recoverable amount is the higher of the net selling price and the value in use. The value in use is determined as the present value of the anticipated net cash flows from the use of the asset or group of assets and the anticipated net cash flows from the disposal of the asset or group of assets after the end of their useful life.

Accounting policies

Stocks

Stocks are measured at cost using the FIFO method. Where the net realisable value is lower than the cost, inventories are recognised at this lower value.

The cost of goods for resale, raw materials and consumables comprises the purchase price plus delivery costs.

The cost of finished goods and work in progress includes the cost of raw materials, consumables, direct cost of labour and production/production overheads.

The net realisable value of stocks is calculated as the selling price less costs of completion and expenses incurred to effect the sale. The net realisable value is determined taking into account marketability, obsolescence and expected selling price movements.

Receivables

Receivables are measured at amortised cost.

Trade receivables are measured at amortised cost or net realisable value, equivalent to nominal value less allowances for doubtful receivables, whichever is lower.
The company applies the simplified approach to measure expected credit losses which uses lifetime expected credit losses for all the trade receivables at each reporting date. The provision for expected credit losses is based on days past due for groups of customer with similar credit risk characteristics as well as an individual assessment.

Impairment and write-down of receivables are carried out based on expected credit losses. This requires managements judgement.

The implementation of the expected credit loss method under IFRS 9 as interpretation did not result in any significant change in the allowance for bad debts.

Equity

Reserve for development costs

Reserve for development costs includes recognized development costs. The reserve cannot be used for dividends or coverage of losses. The reserve is reduced or dissolved if the recognized development costs are incurred by the company's operations. This is done by transferring directly to the equity reserve's free reserve.

Reserve for net revaluation according to the equity method

The reserve for net revaluation according to the equity method in the company's financial statements comprises net revaluation of investments in subsidiaries and associates relative to the cost.

Accounting policies

Dividends

Proposed dividends are disclosed as a separate item under equity. Dividends are recognised as a liability when declared by the annual general meeting of shareholders.

Provisions

Provisions comprise expected expenses relating to warranty commitments, losses on work in progress, restructuring, etc. Provisions are recognised when, as a result of a past event, the company has a legal or constructive obligation and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation.

Income tax and deferred tax

Current tax liabilities and current tax receivables are recognised in the balance sheet as the estimated tax on the taxable income for the year, adjusted for tax on the taxable income for previous years and tax paid on account.

Deferred tax is measured according to the liability method in respect of temporary differences between the carrying amount of assets and liabilities and their tax base, calculated on the basis of the planned use of the asset and settlement of the liability, respectively.

Deferred tax assets, including the tax base of tax losses allowed for carry forward, are measured at the value to which the asset is expected to be realised, either as a set-off against tax on future income or as a set-off against deferred tax liabilities within the same legal tax entity. Any deferred net tax assets are measured at net realisable value.

Liabilities

Financial liabilities are recognised on the raising of the loan at the proceeds received net of transaction costs incurred. On subsequent recognition, the financial liabilities are measured at amortised cost, corresponding to the capitalised value, using the effective interest method. Accordingly, the difference between the proceeds and the nominal value is recognised in the income statement over the term of the loan.

Mortgage debt is thus measured at amortised cost, which for cash loans corresponds to the outstanding debt. For bond loans, amortised cost corresponds to an outstanding debt calculated as the underlying cash value of the loan at the time of borrowing, adjusted by amortisation of the value adjustment of the loan at the time of borrowing.

Financial liabilities also include the capitalised residual finance lease commitment.

Other liabilities, which include trade payables, payables to group entities and other payables, are measured at amortised cost, which is usually equivalent to nominal value.

Accounting policies

Deferred income

Deferred income recognised under 'Current liabilities' comprises payments received concerning income in subsequent financial years.

Cash flow statement

Pursuant to sections §86.4 of the Danish Financial Statment Act, no cash flow statement has been prepared for the company. The company are consolidated with Fitness World Group A/S and Forward TopCo A/S, where the company's cash flow statement are included.

Income statement 1 January - 31 December

	Note	2018 TDKK	2017 TDKK
Revenue	1	**1,302,685**	**1,213,403**
Other operating income	2	1,692	3,287
Cost of goods sold		(78,840)	(74,644)
Other external expenses	3	(655,176)	(618,643)
Gross profit		**570,361**	**523,403**
Staff costs	4	(302,965)	(290,074)
Profit before amortisation/depreciation and impairment losses (EBITDA)		**267,396**	**233,329**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	5	(148,514)	(180,243)
Profit before net financials (EBIT)		**118,882**	**53,086**
Income from investments in subsidiaries		(14,987)	(15,687)
Financial income	6	1,947	1,633
Financial costs	7	(5,581)	(4,236)
Profit before tax		**100,261**	**34,796**
Tax on profit for the year	8	(31,521)	(15,649)
Profit for the year		**68,740**	**19,147**
Distribution of profit	9		

Balance sheet 31 December

Assets

	Note	2018	2017
		TDKK	TDKK
Fixed assets			
Intangible assets			
Software		36,651	15,552
Customer base		51,034	8,486
Goodwill		122,440	148,110
Development projects in progress		1,728	0
Intangible assets	10	**211,853**	**172,148**
Property, plant and equipment			
Other fixtures and fittings, tools and equipment		211,148	198,920
Leasehold improvements		141,393	183,851
Leasehold improvements in progress		20,446	5,426
Property, plant and equipment	11	**372,987**	**388,197**
Financial assets			
Investments in subsidiaries	12	41,409	2,082
Receivables from group companies	13	0	31,538
Trade receivables	13	3,015	5,532
Deposits	13	45,493	43,804
Deferred tax assets	13-17	0	2,950
Financial assets		**89,917**	**85,906**
Total fixed assets		**674,757**	**646,251**

Balance sheet 31 December (continued)

Assets

	Note	2018 TDKK	2017 TDKK
Non fixed assets			
Stocks	14	**17,969**	**19,449**
Receivables			
Trade receivables		20,115	20,869
Receivables from group companies		16,817	6,875
Other receivables		33,393	32,406
Prepayments	15	8,625	9,093
Receivables		**78,950**	**69,243**
Cash at bank and in hand		**14,600**	**52,092**
Total non-fixed assets		**111,519**	**140,784**
Total assets		**786,276**	**787,035**

Balance sheet 31 December

Equity and liabilities

	Note	2018	2017
		TDKK	TDKK
Equity			
Share capital		891	891
Reserve for development expenditures		28,538	8,435
Retained earnings		242,442	349,399
Proposed dividend for the year		150,000	100,000
Equity	16	**421,871**	**458,725**
Provisions			
Provision for deferred tax	17	17,780	0
Other provisions	18	40,133	78,102
Total provisions		**57,913**	**78,102**
Liabilities other than provisions			
Non-current liabilities other than provisions			
Lease obligations	19	43,517	34,502
Total non-current liabilities other than liabilities		**43,517**	**34,502**

Balance sheet 31 December (continued)

Equity and liabilities

	Note	2018 TDKK	2017 TDKK
Current liabilities other than provisions			
Lease obligation	19	20,703	20,744
Trade payables		86,268	68,280
Payables to group companies		68,205	33,883
Joint taxation contributions payable		18,859	16,165
Other payables		43,893	51,350
Deferred income	20	25,047	25,284
Total current liabilities other than provisions		**262,975**	**215,706**
Total liabilities other than provisions		**306,492**	**250,208**
Total equity and liabilities		**786,276**	**787,035**
Contingencies, etc.	21		
Mortgages and collateral	22		
Transactions with related parties	23		

Statement of changes in equity

	Share capital	Reserve for development expenditures	Retained earnings	Proposed dividend for the year	Total
Equity at 1 January	891	8,435	349,398	100,000	458,724
Changes in accounting policies, IFRS 15	0	0	(4,233)	0	(4,233)
Tax related adjustments	0	0	931	0	931
Adjusted equity at 1 January	891	8,435	346,096	100,000	455,422
Exchange adjustments	0	0	(347)	0	(347)
Ordinary dividend paid	0	0	0	(100,000)	(100,000)
Net effect from merger	0	0	(1,944)	0	(1,944)
Transfers, reserves	0	20,103	(20,103)	0	0
Net profit for the year	0	0	68,740	0	68,740
Proposed dividend for the year	0	0	(150,000)	150,000	0
Equity at 31 December	**891**	**28,538**	**242,442**	**150,000**	**421,871**

Notes

		2018 TDKK	2017 TDKK
1	**Revenue**		
	Sales of memberships	1,168,709	1,084,310
	Sale of goods	100,740	101,997
	Personal training	33,236	27,096
	Total revenue	**1,302,685**	**1,213,403**
2	**Other operating income**		
	Gain on sale of assets	354	482
	Other operating income	1,338	2,805
		1,692	**3,287**
3	**Other external expenses**		
	Other external expenses	655,176	618,643
		655,176	**618,643**

Other external expenses included a number of one-off expenses related to change in strategy, change in the organisation, business combinations, GDPR, M&A, etc. of DKK 22 million. (2017: DKK 30 millon.)

Notes

		2018	2017
		TDKK	TDKK
4	**Staff costs**		
	Wages and salaries	290,922	280,648
	Pensions	7,686	4,724
	Other social security costs	4,357	4,702
		302,965	**290,074**
	Average number of employees	939	873

According to section 98 B(3) of the Danish Financial Statements Act, renumeration to the Executive Board has not been disclosed.

		2018	2017
5	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	36,961	33,613
	Depreciation of property plant, and equipment	111,553	146,630
		148,514	**180,243**
6	**Financial income**		
	Interest received from group companies	1,509	1,633
	Other financial income	438	0
		1,947	**1,633**
7	**Financial costs**		
	Other financial costs	5,528	4,188
	Exchange adjustments, net	53	48
		5,581	**4,236**

Notes

		2018	2017
		TDKK	TDKK
8	**Tax on profit for the year**		
	Current tax for the year	18,442	19,575
	Deferred tax for the year	12,903	(3,275)
	Adjustment of tax concerning previous years	176	(4,061)
	Adjustment of deferred tax concerning previous years	0	3,410
		31,521	**15,649**

		2018	2017
9	**Distribution of profit**		
	Proposed dividend for the year	150,000	100,000
	Retained earnings	(81,260)	(80,853)
		68,740	**19,147**

10 Intangible assets

	Software	Customer base	Goodwill	Development projects in progress	Total
Cost at 1 January	17,128	19,945	282,487	0	319,560
Additions for the year	27,457	8,741	0	1,728	37,926
Additions from Business combinations	0	38,740	0	0	38,740
Cost at 31 December	44,585	67,426	282,487	1,728	396,226
Impairment losses and amortisation at 1 January	1,576	11,459	134,377	0	147,412
Amortisation for the year	6,358	4,933	25,670	0	36,961
Impairment losses and amortisation at 31 December	7,934	16,392	160,047	0	184,373
Carrying amount at 31 December	**36,651**	**51,034**	**122,440**	**1,728**	**211,853**

Notes

11 Property, plant and equipment

	Other fixtures and	Leasehold improvements	Leasehold improvements in progress	Total
Cost at 1 January	525,654	473,828	5,426	1,004,908
Additions from business combinations	3,576	661	0	4,237
Additions for the year	62,491	9,508	20,446	92,445
Disposals for the year	(1,917)	0	0	(1,917)
Transfer for the year	0	5,426	(5,426)	0
Cost at 31 December	589,804	489,423	20,446	1,099,673
Impairment losses and depreciation at 1 January	326,734	289,977	0	616,711
Depreciation for the year	53,500	58,053	0	111,553
Impairment and depreciation of sold assets for the year	(1,578)	0	0	(1,578)
Impairment losses and depreciation at 31 December	378,656	348,030	0	726,686
Carrying amount at 31 December	**211,148**	**141,393**	**20,446**	**372,987**
Tangible assets include financial leasing assets with a total carrying amount	75,102	0	0	

Notes

		2018	2017
		TDKK	TDKK
12	**Investments in subsidiaries**		
	Cost at 1 January	58,927	58,927
	Net effect from merger	12,940	0
	Additions for the year	32,195	0
	Disposals for the year	(32,195)	0
	Net effect capital increase	41,721	0
	Cost at 31 December	113,588	58,927
	Revaluations at 1 January	(56,845)	(41,879)
	Exchange adjustment	(347)	721
	Net loss for the year	(14,987)	(15,687)
	Revaluations at 31 December	(72,179)	(56,845)
	Carrying amount at 31 December	**41,409**	**2,082**

Remaining positive difference included in the above carrying amount at 31 December:	11,017

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership interest
Fitness World Sp. z.o.o, Polen	Poland	100%
Fitness Institute ApS	Denmark	100%

All foreign subsidiaries are recognised and measured as separate entities.

Notes

13 Financial assets

	Trade receivables	Deposits
Cost at 1 January	5,532	43,804
Additions for the year	0	2,517
Disposals for the year	(2,517)	(828)
Cost at 31 December	3,015	45,493
Carrying amount at 31 December	**3,015**	**45,493**

	2018 TDKK	2017 TDKK
14 Stocks		
Finished goods and goods for resale	17,969	19,449
	17,969	**19,449**

15 Prepayments

Prepayments comprise prepaid expenses regarding rent and insurance premiums.

16 Equity

The share capital consists of 891,101 shares of a nominal value of TDKK 1. No shares carry any special rights.

The share capital has developed as follows:

	2018 TDKK	2017 TDKK	2016 TDKK	2015 TDKK	2014 TDKK
Share capital at 1 January	891	891	891	891	945
Disposals for the year	0	0	0	0	(54)
Share capital	**891**	**891**	**891**	**891**	**891**

17 Provision for deferred tax

	2018 TDKK	2017 TDKK
Provision for deferred tax at 1 January	(2,950)	(3,085)
Additions from Business Combinations	8,758	0
Change in the year	11,972	135
Provision for deferred tax at 31 December	**17,780**	**(2,950)**

Intangible assets	19,361	6,650
Property, plant and equipment	19,560	19,081
Prepayments	810	656
Provisions	(8,916)	(17,160)
Liabilities	(12,899)	(12,177)
	17,780	**(2,950)**

Notes

		2018 TDKK	2017 TDKK
18	**Other provisions**		
	Balance at beginning of year at 1 January	78,102	89,020
	Reversal of provision	(7,634)	(10,000)
	Provision in year	2,500	0
	Utilised provision	(32,835)	(918)
	Balance at 31 December	**40,133**	**78,102**
	The expected due dates of other provisions are:		
	Within one year	22,133	62,602
	Between 1 and 5 years	9,000	7,750
	Over 5 years	9,000	7,750
		40,133	**78,102**

Other provisions consist of provision mainly related to an ongoing VAT dispute with the Danish Tax Authorities of DKK 21 million (2017: DKK 63 million), and provision related to restoration costs of DKK 18 million (2017: DKK 16 million).

19 Long term debt

Lease obligations

	2018	2017
Between 1 and 5 years	43,517	34,502
Non-current portion	43,517	34,502
Within 1 year	20,703	20,744
	64,220	**55,246**

20 Deferred income

Deferred income consists of payments received in respect of income in subsequent financial years, related to personal training offerings and prepaid memberships subscriptions.

21 Contingencies, etc.

The company is taxed jointly with the Danish companies in the Group. The company is, together with the other companies in the Group, liable for corporate taxes and withholding taxes on dividends, interests and royalties within the joint taxation.

Notes

21 Contingencies, etc. (continued)

Contingent liabilities

Operating leases and leaseobligations
Operating leases and leases have been concluded with an average annual rent and lease payment of DKK 293 million. DKK (2018 cost). The lease and lease contracts have a residual maturity of up to 10 years with a total nominal residual lease payment of DKK 1,270 million. kr.

Fitness World performed a preliminary assessment during 2018, and it is expected that most of the current leases will qualify as leases to be recognised in the balance sheet under IFRS 16 and only insignificant commitments may be covered by exceptions. Based on the preliminary assessment, the company expects a positive impact on the EBITDA margin.

IFRS 16 leases will be implemented 1 January 2019. The expected impact on the financial statements is;

An increase in property, plant and equipment of approx. DKK 1,160 million.

A decrease in operating expenses of approx. DKK 265 million.

An increase in depreciations of approx. DKK 265 million.

An increase in financial expenses of approx. DKK 40 million.

There is an ongoing tax audit in the company, for which Management has recognised DKK 21 million (2017: DKK 61 million) as a provision to cover the costs related to 2013-2014; see note 18 Provisions (2017: 2013-2016). This is subject to uncertainty.

The company is party to a few pending disputes. Management assesses that the outcome of the disputes will not have a negative impact on the company's financial position, and any positive impact cannot currently be measured reliably.

22 Mortgages and collateral

Property, operating equipment, etc. a carrying amount of DKK 75 million at 31 December 2018, see note 11, ‘Property, plant and equipment’, are financed by way of finance leases. The lease liability totals DKK 64 million at 31 December 2018.

Notes

22 Mortgages and collateral (continued)

Fitness World A/S is jointly and severally liable for the Fitness World Groups bank loans of total DKK 1,095 million (2017: DKK 775 million).

Fitness World A/S has executed a share pledge over its shares in Fitness World Sp. Z.o.o. in Poland as security under the Facility Agreement

Guarantees on rent obligations constitute DKK 39 million at 31 December 2018. (2017: DKK 39 million)

23 Transactions with related parties

Fitness World A/S has following transactions with related parties:

Purchase of goods from subsidiaries DKK 30 million (2017: DKK 0,6 million).

Management fee DKK 0,5 million (2017: DKK 0,7 million)

Rent expenses DKK 7 million (2017: DKK 9 million)

Financial income from group companies DKK 2 million (2017: DKK 2 million)

Receivables from group companies DKK 17 million (2017: DKK 7 million)

Payables to group companies DKK 68 million (2017: DKK 34 million)

Dividend paid DKK 100 million (2017: DKK 95 million)

Ownership structure

According to the company's register of shareholders, the following shareholder holds at least 5% of the votes or at least 5% of the share capital:

Fitness World Group A/S, Egegårdsvej 61, 2610 Rødovre, 100%.
Fitness World A/S is included in the consolidated financial statements of the parent company Fitness World Group A/S and Forward TopCo A/S, which is Fitness World A/S ultimate parent company.
The consolidated statements can be obtained by contacting Forward TopCo A/S, Egegårdsvej 61, 2610 Rødovre.