Fitness World A/S

Egegårdsvej 61
2610 Rødovre

CVR no. 25 65 29 91

Annual report for 2019

Adopted at the annual general meeting on 31 August 2020

chairman

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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 2019.

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 2019 and of the results of the company's operations for the financial year 1 January - 31 December 2019.

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 August 2020

Executive board

Lars Brøndum Hagedorn
Frødstrup
CEO

Board of Directors

Humphrey Michael Cobbold chairman	Lars Brøndum Hagedorn Frødstrup	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 2019, which comprise a summary of significant accounting policies, income statement, balance sheet, statement of changes in equity and notes. The financial statements are prepared under 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 2019 and of the results of the company's operations for the financial year 1 January - 31 December 2019 in accordance with the Danish Financial Statements Act.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs) and the 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 the additional requirements applicable in Denmark, and we have fulfilled our other ethical responsibilities in accordance with these 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 the 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 about 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 the 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 these financial statements.

As part of an audit conducted in accordance with ISAs and the additional requirements applicable in Denmark, we exercise professional judgment and maintain professional skepticism 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 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.

Statement on management's review

Management is responsible for management's review.

Our opinion on the financial statements does not cover 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 management's review and, in doing so, consider whether 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 management's review provides the information required under the Danish Financial Statements Act.

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

Copenhagen, 31 August 2020

EY Godkendt Revisionspartnerselskab
CVR no. 30 70 02 28

Steen Skorstensgaard	Ole Becker
State Authorised Public Accountant	State Authorised Public Accountant
mne19709	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 2019
	Domicile:	Rødovre
	Humphrey Michael Cobbold, chairman Lars Brøndum Hagedorn Frødstrup Niels Meidahl	
Executive board	Lars Brøndum Hagedorn Frødstrup, CEO	
Auditors	EY Godkendt Revisionspartnerselskab Dirch Passers Allé 36 2000 Frederiksberg	
Consolidated financial statements	The company is included in the consolidated financial statements for Fitness World Group A/S and the ultimate parent company Pinnacle Topco Limited. 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 August 2020.	

Financial highlights

	2019	2018	2017	2016	2015
	TDKK	TDKK	TDKK	TDKK	TDKK
Key figures					
Revenue	1,366,239	1,302,685	1,213,403	1,076,615	1,035,891
Gross profit	607,162	584,247	523,403	493,210	514,597
Profit/loss before net financials	122,182	118,882	53,086	90,360	129,806
Net financials	(11,098)	(3,634)	(2,603)	(10,037)	(18,426)
Profit/loss for the year	78,731	68,740	19,147	39,647	52,891
Balance sheet total	816,345	786,276	787,035	822,150	943,947
Investment in property, plant and equipment	98,361	94,529	88,337	66,817	115,518
Equity	349,235	421,871	458,725	533,857	559,590
Number of employees	947	939	873	800	756
Financial ratios					
Gross margin	44.4%	44.8%	43.1%	45.8%	49.7%
EBIT margin	8.9%	9.1%	4.4%	8.4%	12.5%
Solvency ratio	42.8%	53.7%	58.3%	64.9%	59.3%
Return on equity	20.4%	15.6%	3.9%	7.3%	12.1%

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 gyms and related activities. Fitness World is the country's largest fitness chain with gyms throughout Denmark.

Business review

The company's income statement for the year ended 31 December shows a profit of TDKK 78,731, and the balance sheet at 31 December 2019 shows equity of TDKK 349,235.

The company's financial results for 2019 showed strong earnings, and increased gross profit despite continued major investments in new gyms. In 2019 the company acquired 4 gyms as companies, which after the acquisitions were merged into to Fitness World A/S with accounting impact from 1 January 2019.

As a consequence of the impact from COVID-19, we expect a loss after tax for the year 2020. The loss-making situation in 2020 is expected to be temporary and solely due to the impact of COVID-19.

Financial review

Revenue

Revenue amounted to DKK 1,366 million. DKK 1,303 million in 2018, an increase of DKK 63 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 2019. Sales of goods sold and personal training services amounted to DKK 152 million, against DKK 134 million in 2018, an increase of DKK 18 million or 13%, driven by a sharper focus on personal training, further expansion of the product portfolio and higher sales focus on our own brand of shakes, energy bars and other sports nutrition products FUNCTIONAL NUTRITION.

Gross profit amounted to DKK 607 million, compared to DKK 584 million in 2018, an increase of DKK 23 million, which is mainly due to growth in turnover.

The result of primary operations amounted to DKK 122 million in 2019 (equal to profit margin of 9%) against DKK 119 million in 2018, an increase of DKK 3 million, primarily due to an avarage revenue per member compared with 2018, and increased capacity utilisation of our gyms 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 -11 million in 2019 against DKK -4 million in 2018. Profit before tax amounted to DKK 103 million. DKK 100 million in 2018, an increase of DKK 3 million.

Management's review

Income tax expense

Tax for 2019 amounted to 22 million. DKK 32 million in 2018.

The result of the year

The year's result ended at DKK 80 million, against DKK 69 million in 2018, an increase of DKK 11 million. Management consider the result as satisfactory.

The total balance at the end of 2019 was DKK 816 million against DKK 786 million at the end of 2018.

Investment

The company has made investments in property, plant and equipment of DKK 99 million and intangible assets of DKK 54 million. Investments made during the year was mainly related to new gym openings, refurbishment of existing gyms and upgrading our equipment in the gyms. The investment made on intangible assets mainly relates to further strengthening our digitalisation.

Capital

Equity at end of 2019 amounted to DKK 350 million (DKK 422 million in 2018), corresponding to an equity ratio of 43 %. The decline of DKK 72 million compared to year-end 2018, was due to the payout of dividend DKK 150 million, and the result of the profit for the period.

Management's review

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 99 million in 2019. The development in the market in Denmark has expanded with new centers in 2019. Beside the member development, the product portfolio and Personal Training have shown great results.

Events after the balance sheet date

Acquisition of Fitness World Group

In December 2019 we published an agreement where Pinnacle Europe Holdings Limited (“PureGym”) acquired Forward TopCo A/S, which is the parent company of Fitness World A/S, at a price of DKK 3.1 Billion. Final closing took place at 14 January 2020. As part of the acquisition, the short term loan to credit institutions of DKK 1,036m in Fitness World Group A/S was repaid and substituted with a new long-term intercompany loan with roll-up interests from our new owners. Please refer to note 21 for further details.

COVID-19

As many other industries around the world, the company was, and still is, impacted by the COVID-19 pandemic. All of ours gyms were closed since the governments in the countries of operations imposed a total lockdown to control the spread of COVID-19. Today, we have most of our employees back in the offices, and all gyms have reopened in the countries we operate within, but health and safety continue to be our first priority.

The company meets its day to day working capital requirements, capex and funding of new gyms through its cash reserves. The company has carried out extensive financial modelling, taking into account the potential impact of the COVID-19 pandemic on the cashflows and liquidity of the company. This has included; significantly reduced revenue during the extended COVID-19 closure period, mitigation measures announced by our governments, measures put in place by the company to preserve cash and to reduce discretionary expenditure and potential reductions in revenues resulting from changes in the behaviours of members after reopening. The company has received government support packages in the countries we operate in for compensation of payroll and fixed costs to limit the consequence of COVID-19.

During lockdown, the group’s weekly cash burn has been reduced by nearly 50% and actions have been taken to preserve cash after reopening in June. This burn rate includes government mitigation. When compared to current available liquidity, the Management consider that the group has sufficient liquidity to allow the planned future operations and cash need. The Directors have also considered the impact of additional downside scenarios with longer closure lengths. Should it become clear that the closure period is to be prolonged, the business would be placed into hibernation allowing the mitigated cash burn to reduce further, thereby significantly extending the liquidity lifespan.

Management's review

Significant work was undertaken to ensure that we were well prepared for reopening and our hard efforts to secure a smooth and safe reopening have paid of well. We opened all our 186 gyms in Denmark on June 11, 2020. As of end of June 2020, we had 560,000 members across the Combined Group within Fitness World Group (parent company), this represents approx. 95% versus the prior year membership level. That we are almost back on last year member numbers shows that we are successful in securing a safe training environment after the reopening, see note 21 for further description of the impact from COVID-19.

Restructuring
In August 2020 it have been determined to implement restructuring initiatives, primarily related to the staff set-up in the gyms in Denmark. The restructuring is decided to implement a more streamlined service in the gyms and to strengthen the business model. Further two gyms are planned to be closed during fall 2020, as a result of low performance. The restructuring is not expected to have any significant influence on the member base, Groups operations and future earnings, except of cost savings in a long term.

No other events have occurred after the balance sheet date that could influence the evaluation of this Annual Report.

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 2019, the Board of Directors held one meeting. On 14th January 2020 Fitness World was acquired by PureGym (UK) and an extraordinary meetings were held on 14th January 2020 for the election of members to the board of directors.

The Board of Directors consists of three members:

• Humphrey Cobbold since 2020

• Lars Brøndum Hagedorn Frødstrup since 2020

• Niels 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 Meidahl, and CCO Lars Brøndum Hagedorn Frødstrup (Executive Committee) and three heads of department (Management).

By the end of 2019, Fitness World had a total number of employees of approx. 4,600. It is crucial that Fitness World is able to attract and retain competent and motivated employees.

Statutory report on corporate social responsibility

Corporate Social Responsibility

In accordance with section 99a in the Danish Financial Statement Act, Fitness World A/S refers to Fitness World Group A/S' Annual Report for the company's statutory reporting on corporate social responsibility.

Management's review

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.

The Company pursues the aim of having one female member of the Board of Directors by 2024. The change in Board of Directors in 2020 was conducted as a part of the company being acquired in January 2020. The newly elected member of the Board were considered the best fit in terms of competencies. Since 2020, the Company has not had any female member of the Board of Directors. Fitness World has a policy of offering all employees equal opportunities and aims for a more equal gender distribution among employees in leadership positions. When recruiting managers, Fitness World will in the future focus on gender equality if there are qualified applicants. However, Fitness World does not compromise on qualifications and will continue to employ the best-qualified candidate regardless of gender, or political, religious or personal 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 62%. In 2019, the general management comprised 36% men and 64% women (including fitness gym managers).

Accounting policies

The annual report of Fitness World A/S for 2019 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.

In the annual report for 2018 it was indicated that IFRS 16 would be implemented from 1 January 2019. Subsequent to the publication of the annual report for 2018 it has been decided not to implement IFRS 16.

The annual report for 2019 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 ultimate parent company in 2019).

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 ultimate parent company Forward TopCo A/S, where consolidated information is disclosed.

A number of comparative numbers have been restated, for presentation purpose, affecting financial statement line items in the income statement. None of the restated numbers impacted net result nor equity. The restated numbers were made in order to apply same classification applied in 2019 and to present a more true and fair view of the financial statement.

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.

Accounting policies

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 and associates 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 investemnts 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.

Income statement

Revenue

The company are using IFRS 15 as interpretation for recognition of revenue.

The company's principal sources of revenue are membership services (fitness gym 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 gym services for its customers. For sale of services, revenue is recognised in the accounting period in which the services are rendered. Delivery of fitness gym services extends throughout the term of membership.

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 revenue 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. 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 goods sold are 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 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 their taxable income.

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, software and brand are measured at cost less accumulated amortisation. Goodwill, customer base, software and brand 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
Brand	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 intangible assets.

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

Accounting policies

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-current assets.

Accounting policies

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.'.

Fixed asset investments

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 and associates 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 and associates 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, substantially corresponding to nominal value.

Impairment of fixed assets

The carrying amount of intangible assets, property, plant and equipment and investments in subsidiaries and associates 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).

Accounting policies

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.

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

Prepayments

Prepayments recognised under 'Current assets' comprises expenses incurred concerning subsequent financial years.

Accounting policies

Equity

Reserve for development costs

Reserve for development costs include recognised development costs. The reserve cannot be used for dividends or coverage of losses. The reserve is reduced or dissolved if the recognised 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.

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. Current tax is presented as corporation tax in the balance sheet.

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.

Accounting policies

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.

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.

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 Statement Act, no cash flow statement has been prepared for the company. The company are consolidated eith Fitness World Group A/S and Foward TopCo A/S, where the company's cash flow statement are included.

Income statement 1 January - 31 December

	Note	2019 TDKK	2018 TDKK
Revenue	1	**1,366,239**	**1,302,685**
Other operating income	2	1,963	1,692
Cost of goods sold		(99,105)	(78,840)
Other external expenses	3	(661,935)	(641,290)
Gross profit		**607,162**	**584,247**
Staff costs	4	(322,783)	(316,851)
Profit before amortisation/depreciation and impairment losses (EBITDA)		**284,379**	**267,396**
Depreciation, amortisation and impairment of intangible assets and property, plant and equipment	5	(162,197)	(148,514)
Profit before net financials (EBIT)		**122,182**	**118,882**
Loss from investments in subsidiaries		(8,431)	(14,987)
Financial income	6	186	1,947
Financial costs	7	(11,500)	(5,581)
Profit before tax		**102,437**	**100,261**
Tax on profit for the year	8	(23,706)	(31,521)
Profit for the year		**78,731**	**68,740**
Distribution of profit	9		

Balance sheet 31 December

Assets

	Note	2019	2018
		TDKK	TDKK
Fixed assets			
Intangible assets			
Software		61,724	36,651
Customer base		44,859	51,034
Goodwill		111,481	122,440
Development projects in progress		10,642	1,728
Trademarks		600	0
Intangible assets	10	**229,306**	**211,853**
Property, plant and equipment			
Other fixtures and fittings, tools and equipment		217,010	211,148
Leasehold improvements		153,333	141,393
Leasehold improvements in progress		14,862	20,446
Property, plant and equipment	11	**385,205**	**372,987**
Fixed asset investments			
Investments in subsidiaries	12	33,194	41,409
Trade receivables	13	0	3,015
Deposits	13	47,070	45,493
Fixed asset investments		**80,264**	**89,917**
Total non-current assets		**694,775**	**674,757**

Balance sheet 31 December (continued)

Assets

	Note	2019 TDKK	2018 TDKK
Current assets			
Stocks	14	**22,653**	**17,969**
Trade receivables			
Trade receivables		24,048	20,115
Receivables from group companies		35,412	16,817
Other receivables		26,537	33,393
Prepayments	15	12,920	8,625
Receivables		**98,917**	**78,950**
Cash at bank and in hand		**0**	**14,600**
Total current assets		**121,570**	**111,519**
Total assets		**816,345**	**786,276**

Balance sheet 31 December

Equity and liabilities

	Note	2019 TDKK	2018 TDKK
Equity			
Share capital		891	891
Reserve for development expenditures		42,430	28,538
Retained earnings		305,914	242,442
Proposed dividend for the year		0	150,000
Equity	16	**349,235**	**421,871**
Provisions			
Provision for deferred tax	17	26,825	17,780
Other provisions	18	27,000	40,133
Total provisions		**53,825**	**57,913**
Debt			
Lease obligations	19	77,256	43,517
Other payables		5,585	0
Total non-current liabilities		**82,841**	**43,517**

Balance sheet 31 December (continued)

Equity and liabilities

	Note	2019 TDKK	2018 TDKK
Current liabilities			
Banks		57,127	0
Lease obligation	19	30,127	20,703
Trade payables		113,167	86,268
Payables to group companies		56,649	68,205
Joint taxation contributions payable		23,970	18,859
Other payables	19	28,804	43,893
Deferred income	20	20,600	25,047
Total current liabilities		**330,444**	**262,975**
Total liabilities		**413,285**	**306,492**
Total equity and liabilities		**816,345**	**786,276**
Subsequent events	21		
Contingencies, etc.	22		
Mortgages and collateral	23		
Transactions with related parties	24		

Statement of changes in equity

	Share capital	Reserve for development expenditures	Retained earnings	Proposed dividend for the year	Total
Equity at 1 January	891	28,538	242,443	150,000	421,872
Exchange adjustments	0	0	216	0	216
Ordinary dividend paid	0	0	0	(150,000)	(150,000)
Net effect from merger	0	0	(1,584)	0	(1,584)
Transfers, reserves	0	13,892	(13,892)	0	0
Net profit/loss for the year	0	0	78,731	0	78,731
Equity at 31 December	**891**	**42,430**	**305,914**	**0**	**349,235**

Notes

		2019	2018
		TDKK	TDKK
1	**Revenue**		
	Sales of memberships	1,214,552	1,168,709
	Sale of goods	111,146	100,740
	Personal training	40,541	33,236
	Total revenue	**1,366,239**	**1,302,685**
2	**Other operating income**		
	Gain on sale of assets	1,954	354
	Other operating income	9	1,338
		1,963	**1,692**
3	**Other external expenses**		
	Other external expenses	661,935	641,290
		661,935	**641,290**

Other external expenses included a number of one-off expenses related to merger and acqusition, change in the organisation, M&A, etc. of DKK 18 million. (2018: DKK 22 millon.)

There are ongoing legal disputes with two former suppliers for which Management has made provision under other provisions: one legal dispute relates to a former turnkey contractor and the other to a dispute with a former supplier of fitness equipment.

Notes

		2019	2018
		TDKK	TDKK
4	**Staff costs**		
	Wages and salaries	306,177	304,808
	Pensions	10,543	7,686
	Other social security costs	6,063	4,357
		322,783	**316,851**
	Average number of employees	947	939

According to section 98 B(3) of the Danish Financial Statements Act, renumeration to the Executive Board has not been disclosed. No remuneration are paid to the Board of Directors.

		2019	2018
5	**Depreciation, amortisation and impairment of intangible assets and property, plant and equipment**		
	Amortisation of intangible assets	60,196	36,961
	Depreciation of property plant, and equipment	102,001	111,553
		162,197	**148,514**
6	**Financial income**		
	Interest received from group companies	0	1,509
	Other financial income	23	438
	Exchange adjustments, net	163	0
		186	**1,947**

Notes

		2019	2018
		TDKK	TDKK
7	**Financial costs**		
	Other financial costs	11,500	5,528
	Exchange adjustments, net	0	53
		11,500	**5,581**

8	**Tax on profit for the year**		
	Current tax for the year	24,859	18,442
	Deferred tax for the year	7,082	12,903
	Adjustment of tax concerning previous years	(8,235)	176
		23,706	**31,521**

9	**Distribution of profit**		
	Proposed dividend for the year	0	150,000
	Retained earnings	78,731	(81,260)
		78,731	**68,740**

10 Intangible assets

	Software	Customer base	Goodwill	Development projects in progress	Trademarks	Total
Cost at 1 January	44,585	67,426	282,487	1,728	0	396,226
Disposals	0	(292)	0	0	0	(292)
Additions for the year	43,299	0	0	10,642	0	53,941
Transfer	1,728	0	0	(1,728)	0	0
Additions from Business combinations	0	8,100	15,300	0	600	24,000
Cost at 31 December	89,612	75,234	297,787	10,642	600	473,875

Notes

10 Intangible assets (continued)

	Software	Customer base	Goodwill	Development projects in progress	Trademarks	Total
Impairment losses and amortisation at 1 January	7,934	16,392	160,047	0	0	184,373
Amortisation for the year	19,954	13,983	26,259	0	0	60,196
Impairment losses and amortisation at 31 December	27,888	30,375	186,306	0	0	244,569
Carrying amount at 31 December	**61,724**	**44,859**	**111,481**	**10,642**	**600**	**229,306**
Value of leased assets	14,189	0	0	0	0	14,189

11 Property, plant and equipment

	Other fixtures and fittings, tools and equipment	Leasehold improvements	Leasehold improvements in progress	Total
Cost at 1 January	589,805	489,423	20,445	1,099,673
Additions from business combinations	3,791	2,482	0	6,273
Additions for the year	55,238	40,894	14,862	110,994
Disposals for the year	(12,410)	(6,496)	0	(18,906)
Transfer for the year	0	20,445	(20,445)	0
Cost at 31 December	636,424	546,748	14,862	1,198,034
Impairment losses and depreciation at 1 January	378,656	348,030	0	726,686
Depreciation for the year	51,317	50,684	0	102,001
Impairment and depreciation of sold assets for the year	(10,559)	(5,299)	0	(15,858)
Impairment losses and depreciation at 31 December	419,414	393,415	0	812,829
Carrying amount at 31 December	**217,010**	**153,333**	**14,862**	**385,205**
Tangible assets include financial leasing assets with a total carrying amount	94,173	0	0	

Notes

	2019	2018
	TDKK	TDKK
12 Investments in subsidiaries		
Cost at 1 January	113,588	58,927
Net effect from merger	0	12,940
Additions for the year	26,000	32,195
Disposals for the year	(26,000)	(32,195)
Net effect capital increase	0	41,721
Cost at 31 December	113,588	113,588
Revaluations at 1 January	(72,179)	(56,845)
Exchange adjustment	216	(347)
Net loss for the year	(8,431)	(14,987)
Revaluations at 31 December	(80,394)	(72,179)
Carrying amount at 31 December	**33,194**	**41,409**

Remaining goodwill included in the above carrying amount at 31 December:	9,858

Investments in subsidiaries are specified as follows:

Name	Registered office	Ownership and voting interest
Fitness World Sp. z.o.o.	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	3,015	45,493
Additions for the year	0	1,577
Disposals for the year	(3,015)	0
Cost at 31 December	0	47,070
Carrying amount at 31 December	**0**	**47,070**

14 Stocks

	2019 TDKK	2018 TDKK
Finished goods and goods for resale	22,653	17,969
	22,653	**17,969**

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.
There have been no changes in the share capital during the last 5 years.

Notes

	2019 TDKK	2018 TDKK
17 Provision for deferred tax		
Provision for deferred tax at 1 January	17,780	(2,950)
Additions from Business Combinations	1,963	8,758
Change in the year	7,082	11,972
Provision for deferred tax at 31 December	**26,825**	**17,780**
Intangible assets	21,956	19,361
Property, plant and equipment	4,567	19,560
Prepayments	702	810
Provisions	(5,940)	(8,916)
Liabilities	5,540	(13,035)
	26,825	**17,780**

Notes

		2019	2018
		TDKK	TDKK
18	**Other provisions**		
	Balance at beginning of year at 1 January	40,133	78,102
	Reversal of provision	0	(7,634)
	Provision in year	11,241	2,500
	Utilised provision	(24,374)	(32,835)
	Balance at 31 December	**27,000**	**40,133**

	2019	2018
The expected due dates of other provisions are:		
Within one year	6,500	22,133
Between 1 and 5 years	14,000	9,000
Over 5 years	6,500	9,000
	27,000	**40,133**

Other provisions mainly consist of provision related to restoration costs of DKK 19 million (2018: DKK 18 million). There are ongoing legal disputes with two former suppliers for which Management has made provision under other provisions of DKK 7 million.

The VAT case have been resolved during 2019. As a result, the provision at 31 December 2019 is 0 (2018 DKK 21 million).

		2019	2018
19	**Long term debt**		
	Lease obligations		
	Between 1 and 5 years	77,256	43,517
	Non-current portion	77,256	43,517
	Within 1 year	30,127	20,703
		107,383	**64,220**

Other payables

Between 1 and 5 years	5,585	0
Non-current portion	5,585	0
Other short-term other debt	28,804	43,893
Current portion	28,804	43,893
	34,389	**43,893**

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.

Notes

21 Subsequent events

Acquisiton by Pinnacle Europe Holdings Limited
On 14 January 2020, Forward TopCo A/S (parent company to the company) was acquired by Pinnacle Europe Holdings Limited ("PureGym"). As part of the acquisition, the term loan of DKK 1,036m in Fitness World Group A/S was repaid and subsequently replaced by an intercompany loan from our new owners at an interest rate of 4.375%. The loan is falling due in 10 years with roll-up interests and can't be required repaid on an earlier date. The credit facility is not subject to covenants testing, besides normal information to be included for group level covenant testing in PureGym. This testing will not have any influence on Forward TopCo A/S and subsidiaries.

COVID-19
The COVID-19 pandemic has developed rapidly in 2020, and has impacted the company's operation. All of ours gyms were closed since the governments in the countries of operations imposed a total lockdown to control the spread of COVID-19. In June, all of our facilities around countries of operations was reopened and our member base was back at approx. 95% of last year's level.
The company meets its day to day working capital requirements, capex and funding of new gyms through its cash reserves. In considering its assessment continued operations the company has carried out extensive financial modelling, taking into account the potential impact of the COVID-19 pandemic, on the cashflows and liquidity of the company. This has included; significantly reduced revenue during the extended COVID-19 closure period, mitigation measures announced by our governments, measures put in place by the company to preserve cash and to reduce discretionary expenditure and potential reductions in revenues resulting from changes in the behaviours of members after reopening.

The currently known impact of COVID-19 on the group for the first six months in 2020 are:

- A decline in revenues for the first 6 months of 2020 compared with the same period in 2019 of 42%

- The decline in revenue partly offset by compensation schemes received from the governance of approx. DKK 160m

- A positive cash flow in the first half of 2020, due to mitigation actions and government support both directly through cash compensating of salary expenses and fixed cost, and deferments of various tax and VAT payments

- The first full month after lockdown, July, shows revenue at same level as July 2019

To mitigate the consequences of COVID-19, the entity has taken the following actions:

- Initiated several mitigation actions to preserve cash, hereunder extended supplier payments, postponed investments, cost reviews;

- Obtained all compensation possible from the local governments in the countries of operation

As a result of the actions and the fact that the company activities almost have been back on a normal level immediately after reopening, the liquidity is strong and sufficient for the continued operations. Forecast for the remaining part of 2020 shows a negative cash flow from operations of approx. DKK 40m, which can be covered by current cash reserves. The forecast thereby shows a significant headroom in the liquidity reserve. The sensitivity analysis shows that the cash inflow from memberships are very firm due to termination periods and only significant reductions will impact the cash reserve. On cash outflow the cost structures are very predictable and also show that only significant unexpected increases can exceed the cash reserve. The assessment from management is that the group can handle another 16-20 weeks of complete lockdown period before absorbing the cash reserve and therefore our modelling demonstrates that the group has sufficient liquidity to continue to operate without support.

Restructuring

In continuation of the COVID-19 pandemic, a restructuring plan in Denmark has been implemented late August, including a new and stronger staff set-up in the gyms and closedown of two gyms. The initiatives have been taken to streamline the service in the gyms and to be even stronger in unforeseen situations as COVID-19. The closedown of two gyms will not let to impairment losses, as equipment from the gyms will be reused in our other gyms.

Restructuring costs related to these activities are included in the forecasted requirement of liquidity. The restructuring is not expected to have any significant influence on the member base, Groups operations and future earnings. Cost saving are expected going forward.

22 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.

Contingent liabilities

The tax audit, for which Management had recognised a contingent liability of DKK 21 million in 2018, was resolved during 2019. As a result, the provision at 31 December is 0.

Operating leases and leases have been concluded with an annual rent and lease payment of DKK 301 million (2018: DKK 293 million. The lease and lease contracts have a residual maturity of up to 16 years with a total nominal residual lease payment of DKK 1,327 million (2018: DKK 1,270 million).

Notes

22 Contingencies, etc. (continued)

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.

The company has submitted statement of support to the subsidiaries, Fitness Institute ApS and Fitness World Sp. z.o.o., to ensure sufficient liquidity at least up until 1 January 2021.

23 Mortgages and collateral

Property, operating equipment, etc. a carrying amount of DKK 94 million at 31 December 2019, see note 11, 'Property, plant and equipment', are financed by way of finance leases. Intangible assets, software, include leased assets with a carrying amount of DKK 14 million at 31 December 2019. The lease liability totals DKK 107 million at 31 December 2019.

Fitness World A/S is jointly and severally liable for the Fitness World Groups bank loans of total DKK 976 million (2018: DKK 1,075 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 45 million at 31 December 2019. (2018: DKK 39 million).

24 Transactions with related parties

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

Purchase of goods from subsidiaries DKK 67 million (2018: DKK 30 million).

Mangement fee DKK 6 million (2018: DKK 0.5 million)

Rent expenses DKK 6 million (2018: DKK 7 million)

Financial income from group companies DKK 0 million (2018: DKK 2 million)

Receivables from group companies DKK 35 million (2018: DKK 17 million)

Payables to group companies DKK 57 million (2018: DKK 68 million)

Dividend paid DKK 150 million (2018: DKK 100 million)

Notes

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 in 2019. The ultimate parent company is Pinnacle Europe Holdings Limited, Town Centre House 1. Merrion Centre, Leeds LS2 8LY, United Kingdom (from 14 January 2020).
The consolidated statements can be obtained by contacting Forward TopCo A/S, Egegårdsvej 61, 2610 Rødovre.