the gym
find your fit

fitter stronger better

The Gym Group plc
Annual Report and Accounts 2017

The original provider of low cost gym facilities, we provide 24/7, flexible gym memberships to deliver value for money for all of our members.

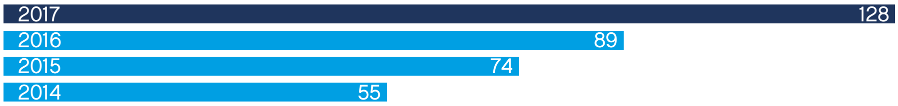
Our technology-led operating model enables us to continually improve our member experience, inform our operating and business strategy with comprehensive data and manage our costs to deliver a great price, strong margins and a high return on capital.

Highlights

We have continued to deliver accelerated profitable growth, organically opening 21 new gyms and supplementing this with the acquisition of 18 sites from Lifestyle Fitness.

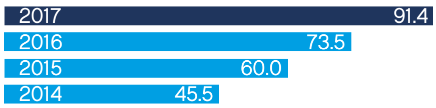
Total Number of Gyms

128



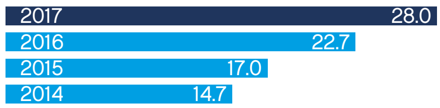
+24.3%

Revenue £m



+23.2%

Group Adjusted EBITDA £m

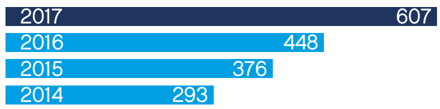


-1.1%

Group Operating Cash Flow £m

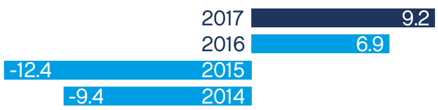
+35.5%

Total Number of Year End Members '000



+32.4%

Statutory Profit before Tax £m



Note: Refer to page 22 for definitions of key performance indicators.

Overview

Strategic Report

Governance

Financial Statements

At a Glance

The Gym Group was founded in 2007 by our Chief Executive Officer, John Treharne. We now operate 128 low cost, high quality gyms across the UK at the end of 2017.

Investment case

Developments in year

Market opportunity

Low cost segment leading the growth of the UK health and fitness market.

- Fastest growing low cost operator.
- Opportunities arising from local authorities and the mid market.
- We have built strength within the South East.
- Creating strength through clusters of sites.

Technology-led business model

Investment in technology has created a low cost, high margin business.

- New Member Management System launched in 2017.
- Enhancing use of data to aid commercial decision making.

Compelling customer proposition

Attractive low cost product drives high levels of member acquisition.

- Developments to our marketing and CRM strategies.
- Focusing on customer satisfaction through Net Promoter Score.
- Developing the product and proposition.

High quality gym estate

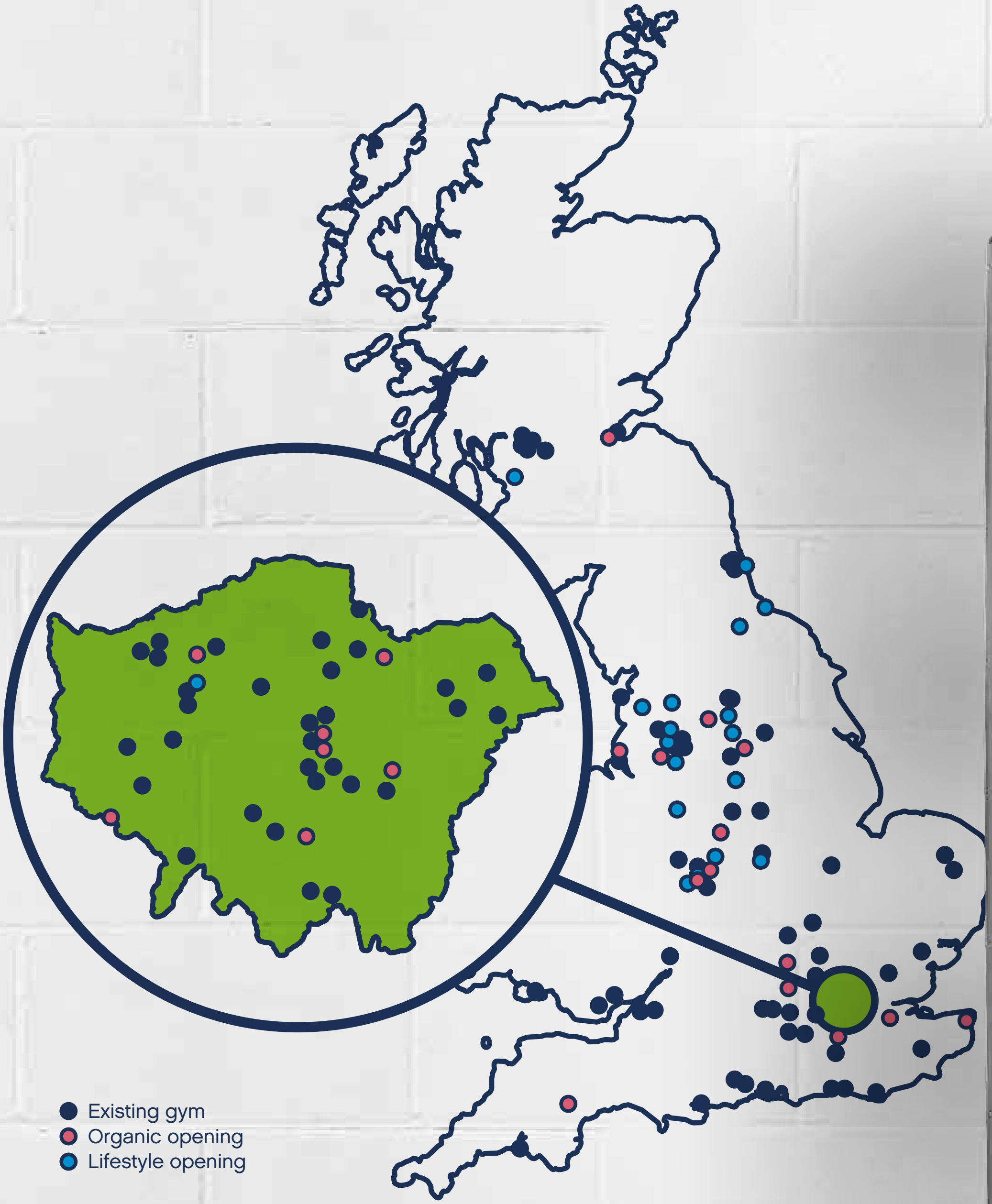
Disciplined site selection process assisted by attractive covenant for landlords.

- Flexible approach to expansion.
- Opportunities from excess retail space.
- Adapting the model for smaller catchments.
- Opportunity for high quality site expansion continues.
- Acquisition of 18 sites from Lifestyle Fitness.

Attractive financial model

High returns on capital, maintained as the market develops.

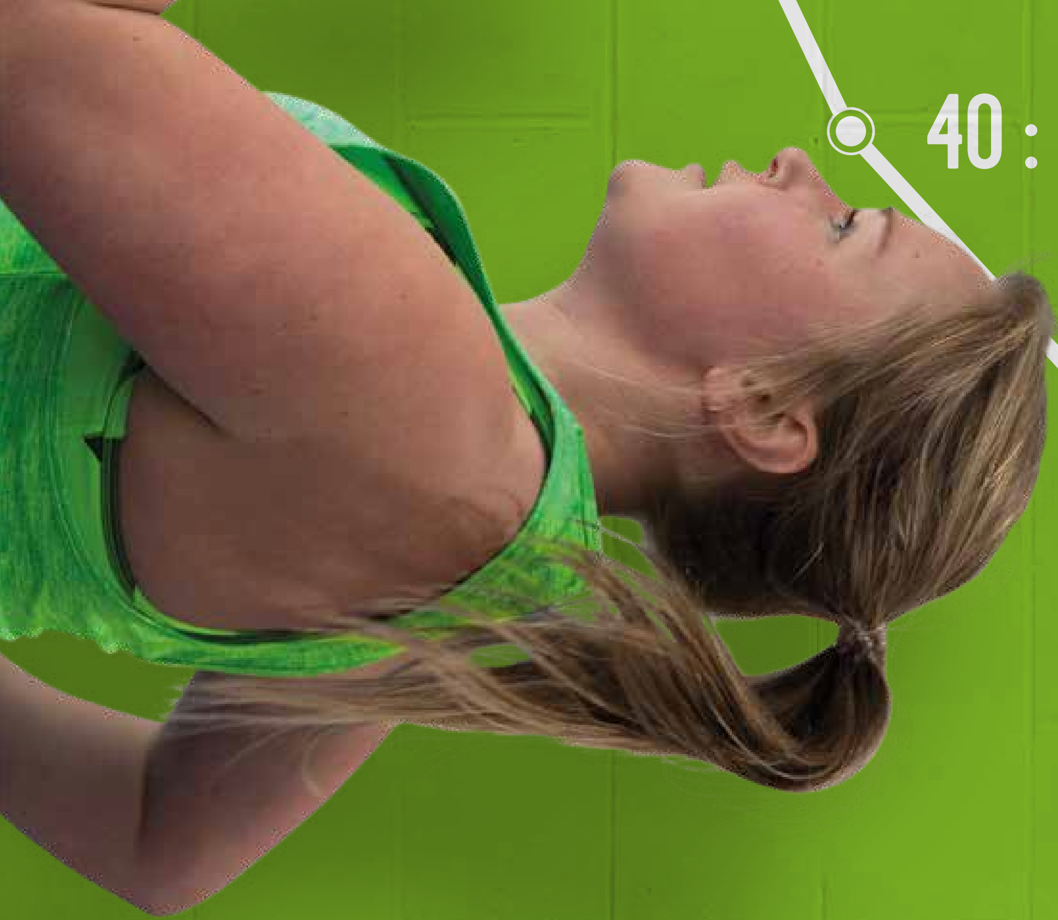
- Reductions in capital cost in all areas.
- Strong balance sheet enables high quality site maintenance programme and drives competitive advantage.



128 gyms across the UK

the gym group track record

Since our inception in 2007, The Gym Group has experienced strong growth and consistent progress, reaching a milestone this year with our 100th gym opening.



40 : 225,000

55 : 293,000

74 : 376,000

89 : 448,000

128 : 607,000

Our 100th Gym

Read the full story on page 20.

Lifestyle Fitness Acquisition

Read the full story on page 28.

focused on our goals

This has been a year of significant success for The Gym Group. 2017 will be remembered for the acceleration of number of sites from 89 to 128 as a result of 21 organic openings and the acquisition of 18 sites from Lifestyle Fitness. This is now a significant business with over 600,000 members enjoying millions of gym visits a year. We are reporting strong financial results which has allowed the Board to recommend a final dividend of 0.90p taking the full year dividend to 1.20p, ahead of the 1p declared in the prior year. It was also significant that our share register normalised as our prior Private Equity owners sold their final tranche of shares, and we welcome those new investors who have joined the register during the year.

This rate of business growth has required us to mature our capabilities. Our operations organisational structure has developed and new talent, particularly in Marketing and Technology, gives both enhanced capability and also greater resilience. The Board was impressed that our significant technology investment in our new Member Management System was successfully launched entirely to plan. Work progresses on the next phase of our infrastructure development programme, Enterprise Resource Planning ('ERP') system, which is on schedule to be implemented mid-2018. These are fundamental milestones to support our future growth potential.

Our approach to property selection is rigorous. We are building a business with strong capital discipline as a result of a thoroughly researched approach to site selection, utilising the skills and experience of our property team supported by the strength of our covenant. This is an area of significant competitive advantage. When we can accelerate openings such as in 2017, we will, but our expectation is to maintain good discipline as we continue to target 15 to 20 organic openings a year.

My Board colleagues and I continue to enjoy visiting sites to see first-hand the energy and commitment of our general managers and just how much our members appreciate their gym. We believe the quality and fit-out of our new sites and refurbishments are a stand out feature in the marketplace. This is such an important part of ensuring that going for a workout is an appealing activity for our members. We may be growing quickly, but I can still say I have visited the majority of our gyms! Our work to transform our acquired sites into The Gym Group's branding is particularly impressive and member response has been overwhelmingly positive. Recently, we were delighted to be awarded the prestigious FEEFO Trusted Service Award.

FEEFO

Trusted Service Award

"We believe the quality and fit-out of our new sites and refurbishments are a stand out feature in the marketplace."

During the course of the year, we have been focused on evolving our relationship with the Personal Trainers that operate their businesses out of our sites. It is estimated that 80%+ of qualified Personal Trainers in the health and fitness industry are self-employed; in our model to date Personal Trainers have been wholly self-employed.

However, as we wish to further enhance the service we give our members, we think it is timely to move this model on. We have commenced a number of trials that will allow some Personal Trainers to be part-time employees, during which time they will be directly managed to deliver services on the gym floor.

We hope that this change will benefit all stakeholders. Personal Trainers will have access to an enhanced range of opportunities and relevant benefits, and members will benefit from a more reliable and committed programme of activities in the gym. These are important changes that we are trialling to understand the learnings, before a wider implementation during the course of 2018.

Many businesses are having to reflect on a more uncertain economic environment and the potential impact of Brexit. We believe The Gym Group is particularly well positioned, with no material identifiable impacts from Brexit at this time and the ability to thrive, even if the economy becomes less buoyant as we offer such good value for money gym membership.

This business has such a positive purpose. To provide affordable access to exercise facilities and expert help to every person who wants to improve their wellbeing, whatever their starting point, whatever their destination.

The impact The Gym Group has had in enabling and encouraging people from all walks of life – we believe several million over the last ten years – to commit to becoming more active is a good news story of which we are incredibly proud, because we know that every new gym that opens can be a force for good in its community. We actively seek to establish gyms where there may previously have been no affordable alternatives. We currently have 36 gyms situated in the top 20% 'most inactive' local authority areas and 41 gyms (a third of all our gyms) situated in the top 20% 'most deprived' local authority areas. The average age of our members is 31, so if they can get into fitness and staying healthy while relatively young, the benefits for them and for society are clear.

We have an engaged and talented Board, and I am grateful to my Non-Executive colleagues for their willingness to both challenge and support the business; they bring a wealth of relevant insight and experience. But most credit must go to the Management team led by CEO John Treharne and all our colleagues. The Gym Group has a special culture; we look forward to giving many more members their best gym experience yet.

Penny Hughes
Chairwoman
20 March 2018

growing stronger year on year

Introduction

This has been a very significant year of growth for the business, one where we have substantially increased our market share in the low cost gym sector through a combination of acquisition and organic openings.

During the year, we expanded our estate by 39 sites, up from 89 in 2016 to 128 at the end of 2017. 21 of these new sites were as a result of our organic opening programme. In September 2017, the acquisition of 18 additional sites from Lifestyle Fitness gave us a strong set of profitable locations to convert into The Gym brand and develop our geographic footprint.

This expansion substantially grew our membership base, with total year end members up 35.5% to 607,000 (2016: 448,000) and average members up 23.4% to 528,000 (2016: 428,000). The impact of this growth is demonstrated by increases in all our key metrics; revenue up 24.3% to £91.4 million (2016: £73.5 million) and Group Adjusted EBITDA up by 23.2% to £28.0 million (2016: £22.7 million). Adjusted Profit before Tax increased by 38.2% to £12.0 million (2016: £8.7 million) and Adjusted Earnings per Share up by 32.1% to 7.4p (2016: 5.6p). Our statutory profit before tax has increased to £9.2 million (2016: £6.9 million).

During the year, we put in place foundations that will enable us to support a business of size and substance. A key part of this was the launch of a new Member Management System in July, an infrastructure development that gives us the flexibility and ability to launch new products and react to changes in market conditions through our pricing structure. It is the backbone of our technology architecture. To launch such a major technological change in a 24/7 business without any interruption in member service was an excellent achievement by our team. The development effort will continue in 2018 as we plan the launch of a new Enterprise Resource Planning ('ERP') platform, a development that gives the finance team the capability to support the increased scale of the business.

The low cost gym market is developing and growing rapidly, and our investment strategy has allowed us to take advantage of these market trends. The Group achieved two-thirds of the estimated net site growth of the low cost market between March 2017 and December 2017. Overall, our market share is up from 17.7% in March 2017 to 22.4% in December 2017. Our model continues to attract new members, including first time gym-goers who are new to the market, as well as taking share from other operators. We have introduced affordable health and fitness provision for those that previously couldn't access it. In doing so, we are positively impacting the nation's collective fitness, a great purpose for a business. Even if the economic environment becomes more difficult, we believe that our core proposition of a quality low cost operation will continue to flourish.

"During the year we put in place foundations that will enable us to support a business of size and substance."

Strategic progress

Delivering performance from gyms

At the year end, we had 74 sites that have been operating for more than two years (2016: 55 sites). We continue to drive significant increases in overall profitability as sites mature. Overall, Mature Site EBITDA was £34.1 million up 30.3% (2016: £26.2 million). Mature Site EBITDA per site was £461,000 (2016: £476,000). This is in line with our expectation reflecting recent moves to relatively smaller sites built at lower capital cost; these sites can achieve our target returns at lower member numbers than we have historically achieved. Overall, we have maintained the return on capital in the mature estate at 32% (2016: 32%). The return on capital for mature sites opened between 2008 and 2013 and for sites opened in 2014 and 2015 is also consistent at 32% overall.

The considerable growth in our estate through our organic rollout and acquisition means that, at the year end, 42% of our sites have been open for less than two years (2016: 38%). This means that growth from sites that are still to reach maturity is substantial, and will be a key profit driver over the coming year.

The sites acquired as part of the Lifestyle transaction are a key part of that growth. We acquired 18 sites for a total consideration of £20.5 million. To date, we have converted eight of the sites to The Gym brand, and a further two are planned for conversion. Recently, we decided to convert the remaining eight Lifestyle sites and expect to conclude the entire programme by September 2018. Total conversion costs are expected to be £470,000 per site. We target 20% plus return on capital on acquisition opportunities such as Lifestyle. This is lower than for our organic openings, reflecting the acquisition premium incurred on such sites and the faster timeline on which sites with an existing membership base will mature, compared to the organic sites that we open from scratch.

Improving operating efficiencies

Mature EBITDA margin in 2017 was 47.0% (2016: 47.5%), reflecting our continued ability to apply our operating model across a business of growing scale. We continue to operate with disciplined cost control, selecting the right sites and negotiating acceptable levels of rent and other fixed costs (rates and service charges). This is assisted by a stronger covenant with landlords through being a listed company.

"42% of sites opened for less than two years. This means that growth from sites that are still to reach maturity is substantial."

Our membership is the beneficiary of the low cost base, as we pass on the positive impact of disciplined cost control to them. This means an average headline price of £17.50 (2016: £17.00) and a membership fee range (excluding LIVE IT.) of £10.99 to £28.99 per month. We do, however, endeavour to increase yield wherever the local market allows and pricing decisions are intelligently made through a combination of data analytics and local market intelligence. Average revenue per member per month increased 0.7% across our estate and we expect further progress in 2018 as sites become more established. Revenue progression will be enhanced by the integration of the Lifestyle sites into our operating model and will benefit from the rollout of the LIVE IT., our premium pricing initiative, across the estate.

Achieving our rollout strategy

We organically opened 21 sites in 2017. As in recent years, there was a strong London bias, with seven of the sites located within the M25 and a further five within the South East. Our proposition goes from strength to strength, and one recent opening saw our record for the largest number of members on launch (day one) broken. Small scale acquisitions from previous years contributed to the strong organic growth as we converted three sites acquired from Fitness First in 2016. We continue to view the acquisition of existing gyms as an important element of our growth plan, and at the end of 2017 we were able to acquire a site in Aylesbury from another operator.

It is encouraging that the availability of excess space from retailers is increasing. Sites in Edinburgh, Walthamstow and Altrincham have arisen from retailers giving up such space. Other sites we have opened are located in new build developments or were previously used for alternative leisure activities.

21 new gym openings

Our new sites continue to trade well, in line with our expectations. Encouragingly, our pipeline is strong and expanding rapidly, and we entered 2018 with the confidence that we will once again be able to open between 15 to 20 sites in the coming year.

The strong returns on capital are now benefiting from the savings which have been achieved on multiple stages of the fit-out process, including build costs, gym equipment and fixtures and fittings. During 2017, our average fit-out cost was £1.35 million compared to a historical average on all mature sites of £1.46 million. In the coming year, we will once again be tendering our gym equipment supply contract, using our increased scale to benefit capital cost.

Developing the customer proposition

Our latest branding means that sites are modern, well-equipped and well-lit as our members expect. We refurbished 17 sites in 2017, taking advantage of their cyclical five year refurbishment to bring them in line with our latest specification. By the end of 2018, we expect all our sites to have been updated to a common and high quality standard. Our experience is of improved performance levels on the completion of a refurbishment, giving us the ability to relaunch the site to prospective members.

During the year, we introduced a new system of tracking Net Promoter Score, which measures customer feedback, enabling us to introduce member satisfaction as a metric within the incentive programme at site level. This system is still in its implementation phase. The previous system, which ran until June 2017, showed an NPS of 63% – a continuation of the high levels achieved in previous years. We continue to see member service as a key differentiating factor in the running of a successful low cost gym, and this new system is a key part of improving the already high standards across our estate.

The most significant innovation in 2017 was the launch of LIVE IT. our premium pricing product. The early results from this were promising, allowing us to expand the initial rollout to the whole estate. LIVE IT. gives members four specific benefits; the ability to bring a friend, multi-site access, use of a fitness measurement machine (Fitquest) and affiliate member offers from third parties. The rollout is on course to complete by May 2018. LIVE IT. is just one part of our strategy to drive yield. Price increases for new members are introduced where applicable, and as markets mature a discounted joining fee is used as a key promotional tool that we use to drive volume.

Our people

During the year, we announced plans to trial a new operating model within our estate that would enable some of our Personal Trainers to take up part-time employment. Outside of the contracted 12 hours, they will continue to run their business on a self-employed basis in our gyms by payment of a rent. The trials are proceeding according to plan and we are in the process of extending the trial, with a full scale rollout currently scheduled in for the summer. The new model is driven by our desire to improve member satisfaction by exercising control over Personal Trainers in their contracted hours. We are confident that this significant change will deliver tangible benefits and, importantly, retain the competitive advantage that we have that enables us to have the best Personal Trainers operating out of our gyms.

During the year, the business has recruited new talent to ensure that our Marketing, Technology and Finance teams have the scope to operate the business at the scale that is required. The benefits of this investment have already been seen in the various value-enhancing projects that have been launched in the year, including the new Member Management System, the Lifestyle acquisition and the LIVE IT. launch. Enhancing our quality team and business infrastructure enables us to drive the business forward at pace. Throughout the business, our culture remains to drive performance at a local level while providing high quality central support. This is a philosophy that has served the business well in its first ten years and will, I am sure, continue to do so in the coming years. The commitment of all our people remains key to the success of this business whether it be in supporting new site openings or in the day-to-day operations. I was delighted that at our employee conference in 2017 we were able to recognise 20 employees who have been with us for more than five years and I hope this number grows exponentially in the coming years.

Our use of technology

With the launch of the new Member Management System now complete, the business can focus on using its technological edge to drive performance. Part of this includes using the newly created platform to launch functional improvements that enhance the customer journey. We will continue to research ways in which using technology will enhance the customer experience for existing members. We are also seeking to improve conversion levels through our website. Artificial Intelligence that can drive efficiencies in our operating processes and dynamic pricing are also part of the plan. Technology and systems development such as the ERP project will remain fundamental to the delivery of our business model and help to facilitate the low cost environment that we operate in.

2017 was also the year when we started to realise the benefits of past technology investment. This includes use of the email sales platform (Salesforce), the new website and a business intelligence platform that supports the data analytics team. In a data rich business, we increasingly see the potential to enhance performance and efficiency by using data gathered on member behaviour. We believe this is an area of significant competitive advantage compared to the traditional market.

During the past 12 months, we have celebrated a number of key milestones, not least our ten year anniversary from when I founded the business. The launch of the 100th gym at Feltham by Jonnie Peacock was a great way to celebrate, and we are well on our way to the next landmark with site numbers having increased to 128 at the year end. We also welcomed our 100 millionth member visit in November. While we celebrate these successes, we remain fiercely ambitious to establish new milestones as we grow the business.

Outlook

The new financial year has started well and current trading is in line with the Board's expectations. Membership numbers at the end of February show an increase to 664,000, a record level, with a 9.4% increase since December 2017. This continued level of member growth helps to underpin our performance for the rest of the year. In 2018, we anticipate opening 15 to 20 sites, and expect openings to be more evenly weighted throughout the year with six in the first half of the year. South East openings are more likely to be geared towards the second half of the year. While it remains early days in the rollout of LIVE IT., we expect to continue to see promising levels of take-up as the initiative is launched across the estate. We expect that it will underpin increased yield growth and we will give a further update at the half year once the rollout has been completed.

After a year in which our business has increased in scale more than at any stage in its history, 2018 will see the realisation of the benefits of our recent investments. This will assist in achieving the uplift in profitability built into our plans and in continuing to expand at a rapid rate. It is an exciting time for everyone involved with the Company as we look to extract the inherent value within our business.

John Treharne
Chief Executive Officer
20 March 2018

Business Model

Our efficient business model drives competitive advantages for the Group.

We exploit the market opportunities

£4.7bn

UK gym market value

100m

Member visits

-7.5%

Reduction in fit-out costs over 2 year period

See our Market Review on page 14.

employing our disruptive business model

01

An attractive member proposition

- 24/7 gym opening hours[1].
- No fixed term contract.
- Typical £17.50 monthly cost[2].
- No premium to pay for extras you won't use.
- High spec gym equipment.
- Online members' area.
- Professional, helpful staff.
- Eco-friendly equipment.

02

Driven by technology

- Online processes to join and manage membership.
- Automated access control and 24-hour CCTV.
- Electronic monitoring of gym equipment and usage.

03

Enabling an efficient operational structure

- Efficient, customer-focused staffing model.
- Disciplined and rigorous approach to site selection.
- Outsourced support functions.
- Economies of scale benefits.
- Strong pipeline of new gyms.

Notes
1 All gyms branded The Gym open 24/7 excluding eight gyms as at 31 December 2017 due to licensing restrictions.
2 £17.50 average membership per month across all 128 gyms as at 31 December 2017.

resulting in competitive advantages

Customer-focused mindset

- Locally empowered staff supported by lean central resources.
- Large format, high utilisation gyms.
- Nine years' refinement of this model.

Technological advantages

- Technology is key to a successful low cost product offering.
- Underpins low staff costs, facilitates online model, 24/7 access and generates valuable data.
- Successful integration of multiple technological components.

Scale advantages and access to capital

- Increasing returns to scale for large operators.
- Reducing marginal costs to operations and fit-out.
- High quality, durable gym fit-out with significant upfront capex.
- Bank debt is difficult to secure until operators have reached a position of scale.

which deliver value to our stakeholders

607,000

Members

£28.0m

Group Adjusted EBITDA

Shareholders

84

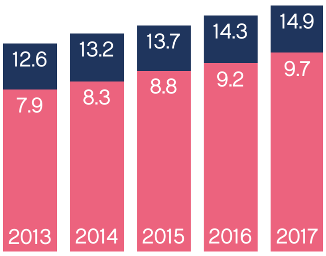
Number of staff contributing to Share Incentive Plan

Staff

Market Review

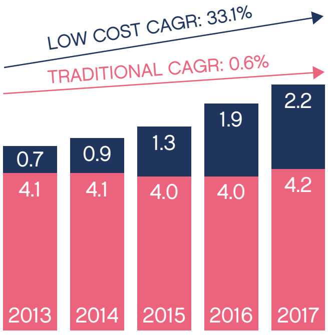
The low cost segment is driving the growth of the UK private gym market. Our position as a leading operator means we are well placed to exploit the opportunities within the sector.

UK health and fitness club members[3]



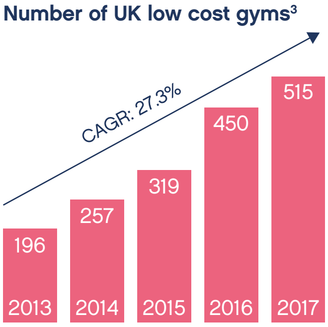
- UK health and fitness club members (m)
- Penetration (%)

Number of UK private gym members[3] (m)
Low cost driving increase in members

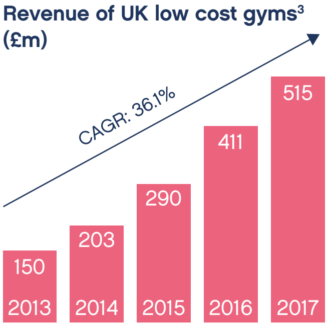


- Traditional
- Low cost

Number of UK low cost gyms[3]



Revenue of UK low cost gyms[3] (£m)



A significant market opportunity

Market fundamentals[1] – UK public health
One of the key macro-economic drivers affecting the UK health and fitness sector is the strategic public health goals of the UK government in establishing the habit of regular exercise in a population in which it currently is not the norm. It is widely recognised that the lack of physical activity is responsible for one in six UK deaths and is estimated to cost the UK £7.4 billion annually, including the £0.9 billion of costs borne by the National Health Service ('NHS').

Only 61%[7] of the population currently achieves the minimum recommended for physical activity of 150 minutes per week of moderate physical activity. In fact, many people don't realise that physical activity has significant benefits for physical health and mental wellbeing quite apart from the preventative role it plays in the fight against obesity and cardiovascular disease.

The UK health and fitness sector is one of the agencies at the forefront of this undertaking to change perceptions amongst the general populous from seeing physical exercise as a purely discretionary life choice to one of necessity for the continuance of good health and wellbeing.

Market overview[2] – UK health sector
Overall, the UK health and fitness sector has seen continued growth in 2017 with market value rising 6.8% from £4.4 billion in 2016 to £4.7 billion. In this period, the number of clubs has increased by 4.6% from 6,435 to 6,728 and membership by 5.4% from 9.2 million in 2016 to 9.7 million in 2017. The penetration rate also increased further from 14.3% to 14.9%.

The sector is characterised by two distinct segments – the private clubs operated by commercial enterprise and the public clubs funded by local authorities. Although the public club key performance indicators have declined over the last 12 months with more gym closures than openings, this has been more than compensated for by the continued strong year-on-year growth experienced by the private clubs with increases of 8.6% in the number of gyms and 8.5% in the number of members.

Much of this increase is accounted for by the rapid growth of the low cost model where the number of clubs has increased 14% to 515 and membership by 20% to 2.2 million. The model now accounts for a third of all private membership and is the driving force behind the continued increase in penetration rates.

Increasing penetration – focus on accessibility and affordability
The increase in penetration continues to be driven mainly by the low cost sector increasing by 0.5% to 3.4% and remains a continued focus within the sector. As part of this focus, in 2017 we completed the acquisition of 18 operating gyms acquired as a portfolio from Lifestyle Fitness, thus executing on a corporate ambition to significantly increase our footprint in the Midlands and the North. We also opened a further 21 sites offering no contract access, increasing our overall estate by 39 locations, thus improving accessibility generally. With our strategic objective to open 15 to 20 sites per year we are set to continue increasing accessibility in future years. Furthermore, the Group's model continues to offer affordability with its focus on low cost and contract free access to gyms on a 24/7 basis.

"Only 61%[7] of the population currently achieves the minimum recommended for physical activity of 150 minutes per week of moderate physical activity."

14.9%

UK penetration rate

Market opportunity

UK market less mature than European peers with penetration rates ranging from 16.4% to 19.4%

Our position in the market

The market consists of five main operators, including The Gym Group, which represented over three-quarters of all low cost clubs as at December 2017[4]. The market also saw one new entrant with four clubs and lost two operators with ten clubs[2]. Low cost gyms continue to be the fastest growing and developing segment, and we have driven the bulk of the expansion of the sector in the past year with two-thirds of the estimated net site growth in the market between March 2017 and December 2017. Overall, our market share is up from 17.7% to 22.4% as of December 2017[4]. Our model continues to attract members who are new to The Gym, with one-third first time users, as well taking share from other operators.

Overall, we added 39 new locations during the year – our strongest showing since inception – and opened our 100th site in October 2017. In a year of milestones, we also celebrated our 10th anniversary of operations and the 100 millionth member visit.

Despite the rapid pace of expansion, all of our sites continue to offer a consistent high quality gym experience at genuinely low cost pricing.

Market potential

In 2016, we highlighted that the UK gym market is still relatively immature compared to other markets in Europe. Norway, Sweden and the Netherlands all have more mature markets with penetration rates of 19.4%, 16.7% and 16.4% respectively[5]. The current UK penetration rate is 14.9%[2]. This indicates that there is great potential for a strong increase in overall member numbers.

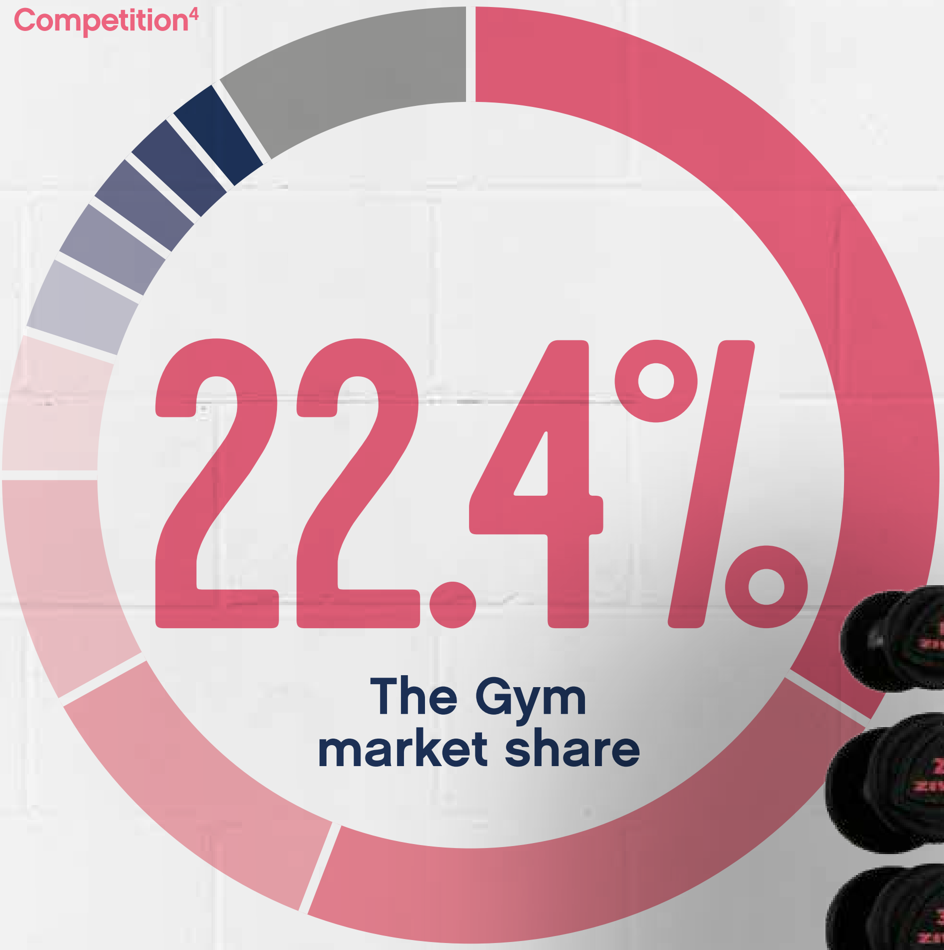
The mood music in the UK is changing, with a recognition that prevention is better than cure and somewhat cheaper in terms of the burden on the NHS. In fact, the Royal College of Physicians has been quoted as recommending the following to the House of Commons Health Committee in 2015.

"Often the benefits of physical activity are closely linked to reductions in obesity, however, it is strongly recommended that the wider benefits of physical activity should be recognised and promoted to improve the health of the nation."

The health and fitness sector is just one of the agencies at the forefront of this new awareness, and based on this information we believe that there is still significant market potential in the UK, and that a number of overseas markets could also offer opportunities.

1. Public Health England – Physical activity: applying All Our Health (Jan 2018).
2. Leisure Database Company 2017 State of the UK Fitness Industry Report.
3. Leisure Database Company data.
4. Leisure Database Company 2017 State of the UK Fitness Industry Report updated by The Gym Group plc.
5. Deloitte and EuropeActive European Health & Fitness Market Report 2016.
6. House of Commons Health Committee – Impact of physical activity and diet on health (March 2015).
7. British Heart Foundation - Physical Inactivity and Sedentary Behaviour Report 2017.

Competition[4]



As at 31 December 2017[4]	Percentage of UK low cost fitness market
PureGym	34%
The Gym	22%
Energie Fitness (formerly Fit4less)	11%
Xercise4Less	8%
Sports Direct Fitness	5%
EasyGym	3%
Fitness4Less	2%
24/7 Fitness	2%
JD Gyms	2%
Simply Gym	2%
Other	9%

39

New sites: fastest growing low cost gym operator in 2017

100th

Gym opening: celebrated milestone in October 2017

Our Strategy

	Drive performance of recently opened gyms	Improve operating efficiencies
Link to our business model	02, 03	02, 03
Progress in 2017	In 2017, our mature sites contributed £34.1 million towards our EBITDA, compared to £26.2 million in 2016. This growth was achieved by the sites opened in 2015 reaching maturity. We expect the contribution from mature sites to increase in the future as sites opened in 2016 and 2017 reach maturity.	The implementation of operating cost savings in 2016 continue to benefit the business with site EBITDA margin marginally lower at 40.6% (2016: 40.8%). This has resulted in maintaining ROCE at 32%.
Risks	• Operational gearing • Member experience • Outsourcing model	• IT dependency • Data protection • Operational gearing
Performance measures	Mature Gym Site EBITDA £m +30.3%	Group Adjusted EBITDA £m +23.2%

Link to our business model

01 An attractive member proposition
02 Driven by technology
03 Enabling an efficient operational structure

Rollout and expansion

03

We opened 21 new gyms during 2017, all of which offer a consistently high quality look and feel, genuinely low cost experience for members. In addition, we acquired 18 gyms as part of the Lifestyle acquisition.

- Organic rollout
- Operational gearing
- Regulatory

Total Number of Gyms

+43.8%

2017 128

2016 89

Continue to improve member proposition

01, 02

During the year, we launched LIVE IT. our premium pricing product. LIVE IT. gives members four specific benefits; the ability to bring a friend, multi-site access, use a fitness measurement machine (Fitquest) and affiliate members offers from third parties.

We refurbished and rebranded 17 sites during the year in line with our refurbishment plans. We also completed 21 gym openings, including our 100th gym in Feltham and acquired a further 18 gyms from Lifestyle Fitness. In addition we welcomed our 100 millionth member.

In February 2018, we were awarded the prestigious FEEFO Trusted Service award for exceptional customer services as voted for by our members.

- Member experience
- Competition
- Outsourcing model

Total Number of Members '000

+35.5%

2017 607

2016 448

Focus on people

03

During 2017, the Group introduced two training programmes to facilitate staff development and enhance customers experience. The programmes were:

- Emerging talent programme to train Assistant General Managers to provide a pipeline of future General Managers.
- Heads Up programme designed to ensure fantastic customer service is well maintained throughout the business.

Each year a variety of awards are issued to recognise employee success and achievement. These include awards for Best Gym, Colleague of the Team and Rising Star.

We also offer long service awards to employees employed by the business for more than five years.

- Staff retention
- Regulatory

Investors in People Gold award

gold medal pace

in 10

CELEBRATING OUR 100TH GYM IN 10 YEARS

2007 - 2017

The Gym Feltham opened on Tuesday 3 October 2017.

To celebrate the opening of The Gym Group's 100th gym, Double Paralympic Champion Jonnie Peacock has developed a specially devised HIIT (High Intensity Interval Training) workout to help get him, and all wannabe dancers, fit for the rigours of the dance floor.

"This a significant milestone in our 10 year history and is also symptomatic of the success of the low cost model pioneered by The Gym Group. We look forward to continuing to provide top quality facilities for our customers as we set about opening our next 100 sites."

John Treharne
Chief Executive Officer

Key Performance Indicators

We use a number of financial and non-financial key performance indicators ('KPIs') to measure our performance over time.

Non-Financial

Total Number of Gyms

+43.8%

2017	128
2016	89
2015	74
2014	55

2017 performance
Total number of sites grew 43.8% during the year with the opening of 21 sites through our organic programme, in addition to the acquisition of 18 gyms from Lifestyle Fitness.

Number of Mature Gyms in Operation

+34.5%

2017	74
2016	55
2015	40
2014	32

Definition
Mature gyms are defined as gyms that have been open for 24 months or more measured at the end of the year.

2017 performance
The Group's progressive rollout strategy means that gyms opened in 2015 are considered to be mature in 2017.

Total Number of Members '000

+35.5%

2017	607
2016	448
2015	376
2014	293

Definition
Number of members reflects gym memberships at the year end.

2017 performance
Total number of members has increased significantly from 448,000 in 2016 to 607,000, resulting from the opening of 21 sites and acquisition of 18 gyms from Lifestyle Fitness.

Mature Gym Site EBITDA £m

+30.3%

2017	34.1
2016	26.2
2015	18.8
2014	16.2

Definition
Mature Gym Site EBITDA is calculated as Group Adjusted EBITDA contributed by the mature gym portfolio.

2017 performance
Mature Gym Site EBITDA has increased by 30.3% due to gyms opened in 2015, reaching maturity in the current year and an increase in the average profitability per site.

Average Revenue per Member per Month £

+0.7%

2017	14.41
2016	14.31
2015	14.08
2014	13.98

Definition
Average Revenue per Member per Month is calculated as revenue divided by the average number of members divided by the number of months in the period.

2017 performance
Average Revenue per Member per Month increased by 0.7% due to the ongoing maturation of pricing in mature sites.

Financial

Revenue £m

+24.3%

2017	91.4
2016	73.5
2015	60.0
2014	45.5

Definition
Revenue is generated from membership fees and ancillary services such as vending income.

2017 performance
An increase in revenue of 24.3% driven by a 23.4% increase in the average member numbers and a 0.7% increase in the average revenue per member per month to £14.41 (2016: £14.31).

Group Adjusted EBITDA £m

+23.2%

2017	28.0
2016	22.7
2015	17.0
2014	14.7

Definition
Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs, and exceptional items. This is an important measure used to assess performance of sites which is a proxy for cash and is a measure used internally and externally by investors.

2017 performance
Group Adjusted EBITDA growth of 23.2% to £28.0m. EBITDA growth largely driven by the increase in the number of gyms in the mature Cohort reaching maturity in 2017.

Group Adjusted EBITDA before Pre-Opening Costs £m

+22.9%

2017	30.6
2016	24.9
2015	19.7
2014	16.7

Definition
Group Adjusted EBITDA before Pre-Opening Costs is defined as Group Adjusted EBITDA excluding the costs associated with new site openings.

2017 performance
Group Adjusted EBITDA before Pre-Opening Costs has increased by 22.9%, reflecting the increase in the gym estate, offset by a significant increase in Pre-Opening Costs arising from the number of gym openings during the year and Q1 2018.

Expansionary Capital Expenditure £m

+150.7%

2017	52.5
2016	20.9
2015	28.2
2014	20.3

Definition
Expansionary Capital Expenditure is the expenditure in relation to the fit-out of new gyms and improvements to the gym layout.

Expansionary Capital Expenditure is stated gross of amounts funded by finance leases.

2017 performance
Expansionary Capital Expenditure has risen significantly as a result of the organic growth in the estate with the opening of 21 gyms in 2017 and the acquisitions of 18 gyms from Lifestyle Fitness.

Group Operating Cash Flow £m

-1.1%

2017	24.7
2016	24.9
2015	18.6
2014	16.5

Definition
Group Operating Cash Flow is calculated as Group Adjusted EBITDA less working capital less maintenance capital expenditures.

Maintenance capital expenditure comprises the replacement of gym equipment and premises refurbishment.

2017 performance
Group Operating Cash Flow has declined marginally despite greater cash generation as a result of the continuation of the site refurbishment programme. In the current year 17 (2016: 8) sites were refurbished.

Group Operating Cash Flow Conversion %

-19.7%

2017	88.2
2016	109.9
2015	109.4
2014	112.4

Definition
Group Operating Cash Flow Conversion is calculated as Group Operating Cash Flow as a percentage of Group Adjusted EBITDA.

2017 performance
Group Operating Cash Flow conversion fell significantly by 19.7%, driven by significant increase in maintenance capital expenditure on refurbishment and rebranding during year.

Net Debt £m

+£32.3m

2017	37.5
2016	5.2
2015	7.1
2014	49.2

Definition
Net Debt is defined as borrowings from bank facilities and finance leases less cash and cash equivalents.

2017 performance
Net Debt increased by £32.3 million due to significant increase in Expansionary Capital Expenditure funding 21 site openings and the acquisition of the Lifestyle portfolio of 18 gyms; offset by Group Operating Cash Flow.

Net Debt to Group Adjusted EBITDA

1.34x

2017	1.34x
2016	0.23x
2015	0.42x
2014	3.35x

Definition
Net Debt to Group Adjusted EBITDA is defined as Net Debt as a proportion of Group Adjusted EBITDA. The increase in 2017 reflects the funding of the Lifestyle acquisition through debt.

2017 performance
Net Debt to Group Adjusted EBITDA has increased due to the increase in Net Debt.

strong to the core

Summary

We are pleased to have delivered another strong set of financial results with revenue growth of 24.3% and Group Adjusted EBITDA growth of 23.2%.

The growth in Group Adjusted EBITDA has been achieved despite significant pre-opening costs of £2.6 million in the opening of 21 new gyms and investment in central services. Overall, we consider that £0.3 million of incremental pre-opening cost that has been incurred in 2017 related to Q1 2018 openings.

Group Operating Cash Flow decreased by 1.1% despite the increase in Group Adjusted EBITDA offset by a 113.7% increase in maintenance capital expenditure due to the refurbishment of 17 (2016: 8) sites under the refurbishment programme.

Revenue

The 24.3% increase in revenue is as a result of the growth in Average Member Numbers and a 0.7% increase in the Average Revenue per Member per month to £14.41 (2016: £14.31).

Member satisfaction is one of our key strategic drivers and our membership numbers reflect the ongoing effectiveness of our proposition. Member Numbers at the year end grew significantly, from 448,000 in 2016 to 607,000 in 2017.

Our average member numbers grew by 23.4% to 528,000 (2016: 428,000), largely due to the opening of 21 sites during the year. Average Revenue per Member per Month increased from £14.31 to £14.41 in 2017 as our pricing continues to mature.

	2017 £'000	2016 £'000
Total Number of Gyms	**128**	89
Total Number of Members ('000)	**607**	448
Revenue	**91,377**	73,539
Group Adjusted EBITDA[1]	**27,963**	22,691
Group Adjusted EBITDA before Pre-Opening Costs[2]	**30,598**	24,888
Statutory Profit before Tax	**9,191**	6,940
Adjusted Earnings[3]	**9,527**	7,153
Group Operating Cash Flow[4]	**24,677**	24,944

1 Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items.
2 Group Adjusted EBITDA before Pre-Opening Costs is defined as Group Adjusted EBITDA excluding the costs associated with new site openings.
3 Adjusted Earnings is calculated as the Group's profit for the year before amortisation, exceptional items, and the related tax effect.
4 Group Operating Cash Flow is calculated as Group Adjusted EBITDA less working capital less maintenance capital expenditures and is a non-IFRS GAAP measure.

Result for the year

	2017 £'000	2016 £'000
Revenue	**91,377**	73,539
Cost of sales	**(982)**	(830)
Gross profit	**90,395**	72,709
Administration expenses	**(78,015)**	(64,153)
Long term employee incentive costs	**(774)**	(519)
Exceptional costs	**(1,664)**	(321)
Operating profit	**9,942**	7,716
Finance income	**12**	19
Finance costs	**(763)**	(795)
Profit before tax	**9,191**	6,940
Tax charge	**(2,020)**	(1,237)
Profit for the year	**7,171**	5,703
Tax charge	**2,020**	1,237
Amortisation of intangible assets	**1,175**	1,442
Exceptional administration expenses	**1,664**	321
Adjusted profit before tax	**12,030**	8,703
Tax charge	**(2,020)**	(1,237)
Tax effect of above items	**(483)**	(313)
Adjusted Earnings	**9,527**	7,153

Group Adjusted EBITDA

	2017 £'000	2016 £'000
Operating profit	**9,942**	7,716
Depreciation of property, plant and equipment	**14,408**	12,693
Amortisation of intangible assets	**1,175**	1,442
Exceptional items	**1,664**	321
Long term employee incentive costs	**774**	519
Group Adjusted EBITDA	**27,963**	22,691

As a result, revenue for the year ended 31 December 2017 increased to £91.4 million (2016: £73.5 million).

Administration expenses

Administration expenses increased by 21.6%, primarily due to the number of gyms increasing from 89 at 31 December 2016 to 128 at 31 December 2017.

The largest cost within administration expenses is property lease rentals. These increased from £13.5 million in 2016 to £17.3 million in 2017 due to the increase in the number of gyms and head office. Staff costs also form a significant part of administration expenses and increased from £9.9 million to £13.2 million, excluding a charge of £0.8 million (2016: £0.5 million) from long term employee incentives. The increase was driven by both gym openings and a scaling up of head office support costs to support future growth.

Head office costs increased from £7.3 million in 2016 to £9.1 million in 2017. This was largely due to the effect of headcount increases in 2017 and staff bonuses associated with improved operating performance.

Depreciation charges increased from £12.7 million in 2016 to £14.4 million in 2017, largely as a result of the increased number of sites. During the year, the Group carried out a re-assessment of the estimated useful lives of gym equipment, resulting in a £1.3 million decrease in the depreciation charge. Depreciation as a percentage of revenue decreased from 17% in 2016 to 16% in 2017, reflecting the growing maturity of our estate.

Amortisation charges decreased from £1.4 million to £1.2 million due to certain intangible assets recognised on the acquisition of The Gym Limited becoming fully amortised. This is offset by three months of amortisation on new intangibles recognised on the Lifestyle acquisition during the year.

Group Adjusted EBITDA

Group Adjusted EBITDA increased by 23.2% to £28.0 million (2016: £22.7 million) due to an increase in the number of existing sites reaching mature profit levels.

Group Adjusted EBITDA is adversely affected by pre-opening costs incurred in the process of opening new sites. Group Adjusted EBITDA before Pre-Opening Costs increased by 22.9% to £30.6 million. Pre-opening costs increased from £2.2 million to £2.6 million, reflecting 21 site openings in 2017, compared to 15 in 2016. In 2017, £0.3 million of the costs related to Q1 2018 openings.

Cash Flow

	2017 £'000	2016 £'000
Group Adjusted EBITDA	**27,963**	22,691
Movement in working capital	**2,981**	5,186
Maintenance capital expenditure[1]	**(6,267)**	(2,933)
Group Operating Cash Flow	**24,677**	24,944
Expansionary capital expenditure[2]	**(52,453)**	(20,922)
Exceptional items	**(1,147)**	(944)
Taxation	**(1,050)**	(243)
Finance costs	**(759)**	(552)
Dividends paid	**(1,347)**	(321)
Other net cash flows from financing activity	**27,714**	–
Net cash flow	**(4,365)**	1,962

1 Maintenance capital expenditure comprises the replacement of gym equipment and premises refurbishment and is a non-IFRS GAAP measure.

2 Expansionary capital expenditure relates to the Group's investment in the fit-out of new gyms and the acquisition of the Lifestyle portfolio, product enhancements, acquisitions and technology projects. It is stated net of contributions towards landlord building costs and is a non-IFRS GAAP measure.

£12.0m

Adjusted PBT

£28.0m

Group Adjusted EBITDA

Growth in EBITDA from our mature sites has contributed significantly towards the growth in Group Adjusted EBITDA. Mature Site EBITDA[3] contributed by the 74 mature sites increased by 30.3% to £34.1 million (2016: £26.2 million from 55 sites).

EBITDA from new sites decreased from £3.8 million in 2016, representing 34 sites, to £3.0 million in 2017, with 54 sites at 31 December 2017. This is as a result of the timing of gym openings in 2017 compared to 2016 and just three months contribution from the 18 Lifestyle sites. The new gyms opened in 2016 and 2017 are performing well.

Exceptional items

Exceptional costs have increased significantly year on year from £0.3 million in 2016 to £1.7 million in 2017. In 2017, Exceptional items includes £0.5 million of acquisition costs and £0.6 million of integration costs associated with the acquisition of the Lifestyle Fitness portfolio. A further £0.5 million related to the restructuring costs from the restructuring of the operating model associated with the personal trainers used within the business.

Long term employee incentives

During the year, the Group granted further Performance Share Plan ('PSP') and Share Incentive Plan ('SIP') shares to certain members of senior management. The Group also introduced a Restricted Stock Option Plan granted to certain members of senior management and Long Service Awards granted to employees of the Group. The awards vest in three years providing continuous employment during this period, and in the case of the PSP certain performance conditions are attained relating to the earnings per share ('EPS') and Total shareholder returns ('TSR').

We continue to operate a matching shares scheme under the SIP, where for every share purchased by an employee the Group will award one matching share, up to a maximum value, which vest in three years subject to continued employment.

The Group recognised a charge of £0.8 million (2016: £0.5 million) in relation to these share based payment arrangements.

Finance costs

Finance costs were unchanged at £0.8 million in 2017 (2016: £0.8 million) despite drawing £28.0 million from our facilities to fund the Lifestyle acquisition, however this occurred in the final quarter of 2017. The Group currently has undrawn facilities of £12.0 million of its five year bullet repayment facility, having increased the facility available by £10.0 million during the year.

Taxation

The Group has incurred a tax charge of £2.0 million for the year ended 31 December 2017, which represents an effective tax rate ('ETR') on statutory profit before tax of 22.0% (2016: 17.8%). The increase in ETR was driven by the adjustments in respect of prior year depressing the ETR for 2016, in addition to which the Group incurred a greater level of costs in 2017 which were not deductible for tax purposes relating to the Lifestyle acquisition and fit-out and refurbishment costs.

The underlying effective tax rate on adjusted profit before tax, after adjusting for amortisation and exceptional items, is 20.8%.

Earnings

The statutory profit before tax increased to £9.2 million (2016: £6.9 million), largely as a result of the increase in Group Adjusted EBITDA, offset by increased depreciation due to increased number of sites and higher exceptional costs. The Group delivered a profit for the year of £7.2 million (2016: £5.7 million) as a result of the factors discussed above.

Basic earnings per share ('EPS') was 5.6p (2016: 4.5p). Adjusted EPS was 7.4p (2016: 5.6p). Adjusted EPS is calculated by excluding amortisation, exceptional items, and the resultant tax effect from earnings.

3 Mature sites are defined as gyms that have been open for 24 months or more measured at the end of the year. New sites are defined as gyms that have been open for less than 24 months at the end of the year, and includes all 18 Lifestyle sites.

"Expansionary capital expenditure of £52.5 million (2016: £20.9 million) arises as a result of the fit-out of new gyms and the acquisition of the Lifestyle portfolio."

Dividend

The Board expect to continue to adopt a progressive dividend policy. When making proposals for the payment of dividends, the Board considers the resources available to the Group.

Due to an oversight, interim accounts were inadvertently not filed at Companies House prior to payment of dividends in 2017, totalling £1,347,000, and hence these distributions were paid in technical infringement of the Companies Act 2006 ('the Act'). We are undertaking a series of administrative steps in order to rectify this issue and put the Company's shareholders and the Directors, insofar as possible, in the position that was originally intended. At the Annual General Meeting ('AGM') of the Company's shareholders to be held on 4 June 2018, a special resolution is proposed to authorise the appropriation of distributable profits to the payment of the relevant dividends, to waive any rights of the Company to pursue shareholders who received the distributions or past, present or future Directors in respect of payment of the distributions and to approve entering into deeds of release in favour of such shareholders and Directors. Entry into the deeds of release constitutes a smaller related party transaction under Listing Rule 11.1.10 and a related party transaction under IAS 24 'Related party disclosures'. The overall effect of the resolution being proposed is to return all parties to the position they would have been in had the relevant dividends been made in full compliance with the Act. The Directors consider it in the best interests of the Company to regularise the position since sufficient distributable reserves were available to make the payment and it was intended that shareholders should receive the dividends.

Balance sheet

	2017 £'000	2016 £'000
Non-current assets	**196,253**	148,157
Current assets	**9,691**	10,795
Current liabilities	**(44,971)**	(34,257)
Non-current liabilities	**(40,089)**	(10,405)
Net assets	**120,884**	114,290

The Group declared an interim dividend of 0.30p per share. The Board recommends a final dividend of 0.90p per share in respect of the financial year ending 31 December 2017, resulting in a full year dividend of 1.20p per share. Shareholders will be asked to approve the dividend at the AGM on 4 June 2018, for payment on 14 June 2018 to shareholders whose names are on the register on 25 May 2018. This final dividend will be paid by reference to interim accounts, which will demonstrate that the Company has adequate distributable reserves to pay the final dividend, to be filed with Companies House in compliance with the Act.

Cash Flow

The Group's increasing Group Adjusted EBITDA and efficient use of working capital continues to deliver strong cash flows. Group Operating Cash Flow has declined marginally by 1.1% from £24.9 million to £24.7 million despite greater cash generation from mature sites as a result of the continuation of the site refurbishment programme: in the current year, 17 (2016: 8) sites were refurbished. Total maintenance capital expenditure was £6.3 million (2016: £2.9 million). Given this, our Group Operating Cash Flow Conversion has fallen significantly to 88.2% for the year (2016: 109.9%) despite the continuing positive effects of our negative working capital profile.

Expansionary capital expenditure of £52.5 million (2016: £20.9 million) arises as a result of the fit-out of new gyms and the acquisition of the Lifestyle portfolio.

The funding of the Lifestyle acquisition and expansionary capital expenditure has resulted in an increase in Net Debt:Group Adjusted EBITDA to 1.34x (2016: 0.23x). Target threshold under banking covenants is less than 3.25x.

Balance sheet

Our business model and strong conversion from revenue to cash results in an uncomplicated balance sheet.

Non-current assets have increased by £48.1 million to £196.3 million (2016: £148.2 million). This is largely as a result of net capital expenditure on property, plant and equipment and intangibles totalling £63.3 million, offset by depreciation and amortisation of £15.6 million.

Current assets have decreased due to lower cash balances, as discussed above, mitigated by an increase in prepayments as a result of the increase in the number of sites. Current liabilities have increased by £10.7 million as a result of lease incentives associated with new gyms opening in the year, and increases in trade and other payables as the size of our operations increases.

The Group has drawn £38.0 million of its five year bullet repayment facility. £12.0 million of the facility was undrawn at 31 December 2017 and will be utilised to fund new sites, working capital and capital expenditure.

Guidance

We reiterate the guidance that we have made previously:

- we expect 15 to 20 new openings for 2018;
- depreciation is expected to be 16% of revenue in 2018; and
- the charge for long term employee incentives is anticipated as £1.5 million in 2018, rising to £1.8 million in 2019.

In addition, in 2018:

- we expect the new sites fit-out costs to continue to be between £1.3 million and £1.4 million, with a further £4.0 million to £4.5 million of capital spend on IT, the ERP platform and other expansionary projects;
- the 18 Lifestyle conversions are expected to complete at a total cost in 2017 and 2018 of £470,000 per site. A total of £1.5 million was spent in 2017 on the six conversions;
- maintenance capital expenditure is expected to equate to 5.5% of revenue in 2018;
- to support the growth of the business, we expect support office costs to be around 8.5% to 9.0% of revenues (2017: 10%);
- the future effective tax rate, after adjusting for amortisation and exceptional items, is estimated to be 23% in 2018 (2017: 20.8%).

Richard Darwin
Chief Financial Officer
20 March 2018

making gains

The Gym Group acquired 18 gyms from Lifestyle Fitness for £20.5 million.

The deal, completed on 29 September, forms part of the Company's rapid expansion plans and increases the size of The Gym Group's portfolio by 18 sites, with an additional 21 new sites organically opened in 2017.

Of the 18 new gyms, eight have been converted to The Gym brand by March 2018. The remaining 10 sites will be rebranded in 2018.

As a result of the acquisition, it is expected this will lead to growth in membership in the Lifestyle sites and improve their profitability.

"These are well invested gyms in strong locations with an established membership. The acquisition strengthens The Gym Group's position in the Midlands and North in areas where we are currently under-represented and accelerates our expansion plan."

John Treharne
Chief Executive Officer

Principal Risk and Uncertainties

Our robust risk management process ensures risks are identified, evaluated, monitored and controlled by our management team with oversight by the Board.

Risk management
In order to gain an understanding of the risk exposure of the Group, we review each area of our business annually and use a methodology that will assist the Group in measuring, evaluating, documenting and monitoring its risks within all areas of its operations.

We use our risk management process as described to identify, monitor, evaluate and escalate risks as they emerge, enabling management to take appropriate action wherever possible in order to control them and also enabling the Board to keep risk management under review.

Principal risks
The risk factors addressed below are those which we believe to be the most material to our business model, which could adversely affect the operations, revenue, profit, cash flow or assets of the Group and which may prevent us from achieving the Group's strategic objectives. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse effect on the Group.

Responsibility for risk
The Board is ultimately responsible for ensuring that a robust risk management process is in place and effectively operated. The relevant roles and responsibilities in monitoring and operating the system of risk management are as follows:

The Board

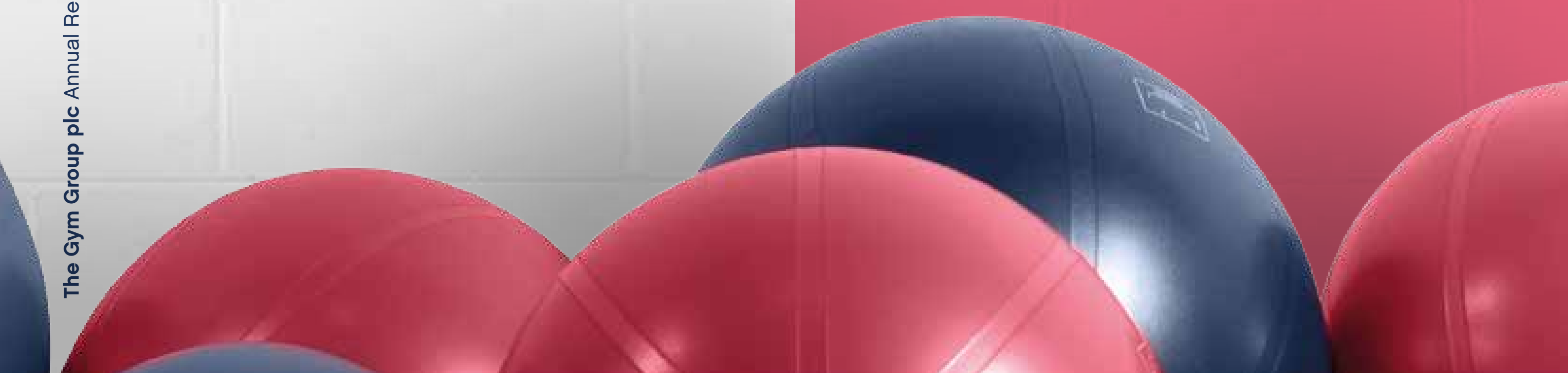
- Provides strategic direction on the appropriate balance between risk and reward.
- Sets the 'tone' and culture for managing risk and embedding risk management.
- Ensures the most significant risks facing the organisation are properly managed.
- Evaluates the risk implications of planned investments.
- Plans for how the business would manage a crisis.

The Audit and Risk Committee

- Monitors and reviews the Group's system of internal control and risk management.
- Makes recommendations to the Board for improvements or developments.
- Reviews the Group's risk appetite.
- Reviews the Group's risk management framework.

Executive Committee

- Promotes and supports the embedding of risk management throughout the business.
- Ensures there is active management of identified and emerging risks.
- Formally reviews the risk register on a regular basis.
- Reports to the Audit and Risk Committee on the internal control environment.



Principal risk	Definition	Impact	Mitigation
Competition	The Group may face increased competition and pressure from competitor pricing decisions.	The ability of the Group to hold or increase prices and therefore achieve performance targets could be affected.	• Maintain price discipline and leadership. • Maintain focus on choosing the best sites in a geographical area. • Continue to invest in the member proposition.
Organic rollout	Site scarcity may affect the delivery of our rollout plan.	Delays to our rollout plan may have adverse impact on growth targets and operational returns.	• Our highly experienced property team are focused on site selection and sourcing the best deals.
Member experience	Failure to provide members with a high quality product and service would damage the Group's reputation.	Reductions in actual or perceived customer service could result in a decrease in membership numbers and revenue generation.	• Monitor utilisation, NPS and FEEFO scores. • Enhance monitoring and feedback processes. • Ongoing review of equipment usage to ensure we meet member requirements. • Explore further innovations to improve the member experience.
Staff retention	Loss of key staff through retention policy and failure to manage succession.	A lack of experienced and motivated staff will have a detrimental impact on all areas of the business, from operations to central functions.	The Group uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include: • competitive remuneration packages; • opportunities to own shares in the company; • opportunities for training and progression; • short, clear reporting lines; and • succession planning.
Project implementation (New)	As the business increases in scale, it has engaged or is contemplating a number of wide-ranging and significant projects. Risk inherent in such projects relate to integration, culture and execution.	Failure to address any of these risks could cause impact from minor inconvenience to major business interruption.	The risk will be mitigated by having appropriate project governance procedures in place, to include: • project sponsor; • project steering group; • project plan; • appropriate level of due diligence; and • integration plan.
Information technology dependency	Our ability to enrol members, carry out online marketing activity, process payments and control gym access is dependent on the performance of our IT systems.	Disruption in critical IT systems could have a negative impact on our reputation and our ability to collect revenue.	• Our primary data systems are hosted by fully qualified organisations in suitable data centres. • Our primary IT infrastructure is fully managed by specialist IT companies who provide best-practice architecture and support. • All membership and business information is backed up using third party locations. • Robust disaster recovery and business continuity plans are in place.
Data protection	The Group holds business critical and confidential information electronically. A breach of security or data protection rules is a key risk.	Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	• The Group's networks and systems are protected by firewalls, security software and secure passwords. • A full GDPR compliance programme is being delivered with support from external legal and cyber security specialists. • All sensitive data is captured and presented using SSL encryption. Our transactional website is scanned quarterly to ensure PCI compliance. • Access to central member data systems requires 2-Factor authentication. • All customer payment data is stored externally on systems that are PCI-DSS and/or BACS certified.

Principal risk	Definition	Impact	Mitigation
Outsourcing model	The Group operates a largely outsourced model, including areas such as information technology systems, payment processing and marketing. It risks overdependence on third party operational delivery.	As the Group grows, there is risk that delivery from service providers is either unreliable or of unsatisfactory quality.	• Ensure quality suppliers are chosen through well-run tender processes. • Understand and seek to mitigate supplier key-man risks. • Service level agreements for all key suppliers. • Members of management monitor service levels and hold suppliers to account. • Ongoing assessment of whether any services should be moved to an insourced resource.
Operational gearing	High operational gearing from the fixed cost base.	A limited number of corrective options in the cost base could be made to correct any underperformance in membership numbers, which could have an adverse impact on profitability.	• Monthly monitoring and re-forecasting of business performance at site level. • Active yield management on a gym-by-gym basis. • Regular financial management by senior management team and Board.
Regulatory	Failure to adhere to regulatory requirements such as the Listing Rules, taxation, the Data Protection Act, Employment law, Health and Safety requirements, planning regulations, noise abatement and advertising and marketing regulations.	Potential reputational damage and penalties.	• The Board has oversight over the management of regulatory risk and compliance, and delegates specific responsibilities to senior management. • Expert opinion sought where relevant. • Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act. • Third party health and safety risks assessments and audits carried out. Staff conduct periodic health and safety assessments. • Employment and continuous training and development of appropriately qualified staff.

Going Concern

In assessing the going concern position of the Group, the Directors have considered the Group's cash flows, liquidity and business activities. At 31 December 2017, the Group had cash balances of £0.5 million and undrawn financing facilities of £12.0 million which are available to fund new sites, working capital and capital expenditure.

Based on the Group's forecasts, the Directors have adopted the going concern basis in preparing the Financial Statements. The Directors have made this assessment after consideration of the Group's budgeted cash flows and related assumptions and in accordance with the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting 2014 published by the UK Financial Reporting Council.

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group taking into account the Group's current position and the potential impact of the principal risks documented above that would threaten its business model, future performance, solvency or liquidity. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2020.

The Directors have determined that the three year period to 31 December 2020 is an appropriate period over which to assess its viability statement as this aligns with the period covered by the Group's Board-approved strategic plan and covers the maturity period of sites opened in 2017 and those planned to be opened in 2018. The strategic planning process occurs annually on a rolling basis. The strategic plan includes the 128 sites open at the end of 2017, as well as the expansion of the Group through its rollout strategy.

The Board also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its growth drivers, future performance, solvency or liquidity. The outputs from these reviews are then used to perform liquidity and debt covenant headroom analysis on the strategic plan, including the downside sensitivity review based on principal risks.

While the review has considered all the principal risks identified by the Group, severe but plausible events were focused on for enhanced stress testing. These included membership numbers, pricing, transitioning the new Personal Trainer model, changes to the cost base and changes to the rollout programme. Both individual and aggregated scenarios were tested, as well as a reverse stress testing exercise. Scenarios with mitigating actions were then modelled. Mitigating actions included modifications to the rollout plan and cost control measures.

The principal risks detailed above which have the greatest effect on financial results are considered to be competition, operational gearing and project implementation.

Corporate Social Responsibility Statement

Our vision is to provide affordable access to exercise facilities and expert help to every person who wants to improve their wellbeing, whatever their starting point, whatever their destination. In delivering our vision, we focus on five key areas.

Our members
We are helping to remove barriers to better health and actively seek to establish gyms where there may previously have been no affordable alternative. According to statistics from Public Health England and the Department of Communities and Local Government (English indices of deprivation 2015), we currently have 36 gyms situated in the top 20% 'most inactive' local authority areas and 41 gyms (a quarter of all our gyms) situated in the top 20% 'most deprived' local authority areas.

Our membership grew to 607,000 in 2017 and our affordable and flexible memberships continue to encourage people to take up exercise and become more active with one-third of first time members. With the average age of our membership standing at 31, part of our philosophy is that if they can get into fitness and staying healthy while relatively young, the benefits for them and for society are clear. Equally, 9% of our membership is over the age of 50 and with continued focus on physical activity again the benefits to society are clear.

Improving the wellbeing of our members is at the heart what we do, and so in November we partnered with Movember as too many men in the UK are dying too young from cancer and suicide; we know physical activity can help physical and mental wellbeing, so our mission was to get men (and women) moving to help reduce the number of male suicides across the UK. The plan was simple, we challenged our members to take on personal movement challenges in The Gym, all linked to feats of physical endurance, such as trek the Inca Trail, ride from London to Paris or Climb Mount Everest. We also had a Group-wide challenge to 'Row To The Home of the Mo' (Australia) 34 million metres. We achieved our goals; we raised over £50,000 for Movember, motivated members with the challenges and we reached the group goal of rowing from London to Australia!

During the year, we've worked hard to ensure our customers receive the best service possible, and being able to listen, understand and respond to their needs has enabled us to improve our offering in 2017. In recognition of this, we were awarded the prestigious FEEFO Trusted Service Award in February 2018, an independent seal of excellence that recognises businesses for delivering exceptional experiences, as rated by our members. We look forward to continuing these improvements in the year ahead.

Our people
At The Gym we have always believed in empowering people to be happy and healthy – whether that's our members or our employees. Our ethos is to 'let the managers manage'. That's why we give General Managers full responsibility over their gym, including margins, membership numbers and local marketing spend. To support managers we have developed two in-house training programmes, Emerging Talent and Heads Up customer service, which teach a range of leadership and customer service skills.

The Emerging Talent programme, which was developed in-house, provides Assistant General Managers with the right skills and ensure we have a pipeline of managers-in-waiting when new roles emerge. The Emerging Talent programme helps us to build a strong leadership base at the Assistant General Manager level. The programme teaches them how to support their General Managers and also helps to teach them the relevant skills to manage a gym in the future. The programme consists of six one-day modules over the course of half a year. Each module contains an assignment and an online assessment with ten questions at the end of it and one-on-one telephone feedback after the results have been calculated. We also ask the students to provide us with feedback so we can continue to improve our educational resources for future students. This is managed by a blend of classroom and online learning. The programme began in July 2017, and of the 14 Assistant General Managers on the initial programme five have graduated to General Managers.

With increased competition in the low cost market, we understood the need to move to a more service-focused way of working. The Heads Up programme is designed to ensure fantastic customer service is well maintained throughout the business. General Managers know that great customer service delivers optimal results for the member and for the gym itself. The programme allows them to learn how to talk to and treat members to deliver the best customer experience possible. This behaviour-led programme, which is delivered by a specialist external customer training provider has now

9%

of membership over 50 years of age

41

Gyms situated in top 20% of 'most deprived' local authority areas

36

Gyms situated in top 20% 'most inactive' local authority areas

Eddie Turner is a 67 year-old retired policeman. He was with the police for 20 years and wants to keep up his fitness levels so that he can continue to make the most out of life. His wife Judith Turner is 66, and having spent 30 years working as a community nurse for the NHS understands how important it is to keep healthy by being active.

Q: When did you start using gyms?
A: We've been using gyms for 40 years. I used to drag Judith along to the gym until she got used to it, now we've been working out together for over 20 years.

Q: Why is going to the gym important to you both?
A: We love our quality of life, going walking in the Lake District and want to maintain that. We both want to stay active!

Q: What is it about our Gym in Newcastle Gosforth that kept you coming back for four years?
A: The Gym in Gosforth is a pleasant place to go, it's very convenient, it's a good size and the price is just right. We also love the range of equipment, there's something for everyone. Also, the staff are always helpful and professional. Oh, and it's always clean and tidy!

Q: Other than keeping fit, what is The Gym good for? (meeting people etc.)
A: Going to the gym is a functional thing for us, but we've been going together for 20 years.

Eddie likes to use his experience to help give tips to young people starting in weight lifting, "I like to help people correct their technique".

Q: Speaking from personal experience, how has gym training for 40 years impacted your health and wellbeing?
A: We've stayed healthy and are really mobile in our retirement, I've seen many people in their 30s and 40s who can't walk upstairs! It's essential for young people to start training early.

Q: How do you think young people's perceptions of exercise has changed?
A: Young people still don't fully understand the importance of exercise – it's very important and healthy living should be a bigger part of schools. We can both see the difference in school kids now. When we were back at school, there were fewer overweight kids around.

Q: How have your perceptions of exercise changed over the years?
A: It's not changed, I've been steady with the idea to maintain a quality of life and maintaining your muscles and fitness is vital to that.

been rolled out across the business and continues for each new gym opening.

We believe that this investment in employee wellbeing has a direct correlation to our high staff retention rates of 82.7% (2016: 82.3%). This is what has enabled us to become the only fitness operator to have been awarded the Gold accreditation from Investors in People. As a business, we're constantly keeping development opportunities in line with the growth of the business. Simply – as we get bigger and better as a business, the bigger and better the opportunities get for our team.

We believe that no individual should be discriminated against on the grounds of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability. Our aspiration is of a diverse and inclusive business and this is integral to our future success. Our ambition is that our workforce reflects the diversity of our members. A breakdown of our Board, senior managers and all employees by gender is below.

Community engagement

Each month The Gym Group supports a different charity. These charities are selected by employees and advertised on www.thegymgroup.com. When members join The Gym they have the option to donate a chosen amount as part of their sign-up process. It is a fully automated process and requires the member to do nothing more than tick a box, as their details are already recorded on the system as part of the sign-up process. On average, the process raises £8,500 per month.

We also focus on supporting small charities local to our gyms, as an amount such as this can make a big difference. An example of this was our partnership with Singlegate Primary School in celebrating National Fitness Day. The Singlegate Primary School Community embraced National Fitness Day in true championship style. Children, staff, families and the staff from The Gym in Tooting were encouraged to celebrate the fun of fitness and physical activity while raising money for the Evelina children's ward at Guys Hospital and Phase 2 of the development of their playground.

The older children, staff and families were invited to start the day by taking part in a 'run a mile' event to firmly prepare them for the day. Whilst the children were running, some staff took part in a yoga session. Every child and member of staff were invited to donate £1.00 to start the big fundraiser.

The National Fitness Day then progressed to enable the children to complete four physical/wellbeing activities to meet the National Fitness Day Challenge. Activities planned involved the children learning about how to eat a healthy, balanced diet with a focus on reducing the amount of sugar that is consumed and learning experiences to support emotional wellbeing. As part of the learning about reducing the amount of sugar in our diets, some of the classes made 'healthier snacks' with either small amounts of sugar in them or even no sugar. These snacks were sold to families at the end of the day to support our fundraising mission.

As each activity was completed, the children had to record what the activity was on their National Fitness Day Pass. These lovely passes were displayed in all classrooms to celebrate wellbeing. At Singlegate Primary School they promote the vision 'Healthy Body, Healthy Mind'.

In 2017, we have also been proud to support St Wilfrid's Hospice, Eastbourne; Spinal Injuries Association; Saints Foundation, Southampton and Sebastian's Action Trust to mention a few.

Health and safety

From the design of our gyms to the expert guidance of our gym teams, safety sits at the heart of our operations. All of our gym staff receive comprehensive health and safety training before taking on their roles. Our Health and Safety consultants carry out a full review and induction for all new sites that we open. Defibrillators are installed in all of our gyms.

Our gym staff carry out regular health and safety checks. Each week checks are performed around the entire gym, including inspections of every piece of gym equipment. A full health and safety inspection is performed annually, including first aid, employee and member safety, waste management and electrical safety.

Each of our gyms undergoes an annual fire risk assessment and a six-monthly fire procedure review, fire drill and full evacuation.

Environmental responsibility

Our joining process and all member correspondence is completely paperless. Waste collected is monitored to minimise landfill waste and maximise recycling. Intensive maintenance regimes ensure the most efficient operation of heating and cooling plants, and planned maintenance visits allow tasks to be consolidated into planned events, reducing vehicle mileage by the maintenance team. In 2017, we have stacked in excess of 2,500 work orders to our Monthly Contractors.

Lighting at new sites is 100% LED and time clocks, motion detectors and daylight linking controls minimise energy consumption. Upgrading older sites to LED will be explored in 2018. Water heating systems use high efficiency condensing boilers and concussive or electronic taps and shower controllers minimise water wastage. Older boilers are being replaced on an eight year capital replacement programme. Floor cleaning equipment uses 70% less water than conventional machines and all of our cleaning products are chemical free.

Our high efficiency air conditioning systems incorporate motion sensors to automatically adjust during periods of low activity. Ventilation systems incorporate heat recovery wheels to transfer energy between outgoing stale and incoming fresh air, reducing the energy used. Fresh air ventilation rates lower during low occupancy periods, reducing energy consumption. Site energy consumption is monitored and continuously compared to previous consumption profiles. If energy usage increases above set parameters, an automatic warning is issued.

Over 70% of gym equipment is user powered, requiring no mains electricity. The Gym encourages its colleagues to travel by public transport and operates green travel plans at numerous sites.

Greenhouse gas information

Greenhouse gas ('GHG') emissions for the year ended 31 December 2017 have been measured as required under the Large and Medium-Sized Companies and Groups (Account and Reports) Regulations 2008 as amended in 2013. The main activities which release GHG include usage of purchased gas and electricity to power our gyms. We have used the GHG Protocol Corporate Accounting and Reporting Standards (revised edition) and data gathered to fulfil the requirements under the CRC Energy Efficiency scheme to calculate the disclosures.

The table on GHG emissions excludes the three months of GHG data relating the Lifestyle acquisition as the data was not available at the date of reporting. In future years, these sites will be included in as part of our Group disclosure.

This Strategic Report is signed on behalf of the Board

John Treharne
Chief Executive Officer
20 March 2018

Number of employees at 31 December 2017	Female	Male
Board	2 (33.3%)	4 (66.7%)
Senior managers	8 (22.9%)	27 (77.1%)
All staff	111 (30.2%)	257 (69.8%)

Greenhouse gas emissions tCO_2e	2017	2016
Emissions from operations (scope 1)	**–**	–
Emissions from energy usage (scope 2)	**12,563**	11,803
Total	**12,563**	11,803
Intensity ratio (tCO_2e per gym)	**98.5**	132.6

Board of Directors

Penny Hughes

Independent
Non-Executive Chairwoman

Committees

Nomination Committee
Audit and Risk Committee
Remuneration Committee

Skills and experience

Penny has served on the boards of directors of firms across the consumer, media, technology and finance sectors.

The majority of Penny's executive career was spent at Coca-Cola, where she was appointed President of Coca-Cola Great Britain & Ireland in 1992.

Other appointments

The Royal Bank of Scotland – chairwoman of the remuneration committee, leads the sustainable banking committee
SuperDry plc – Non-Executive Director
iQSA – Chairwoman

John Treharne

Chief Executive Officer

Committees

Nomination Committee

Skills and experience

John founded The Gym in 2007 and has over 20 years' experience in the health and fitness industry.

John launched Dragons Health Club plc in 1991, before its flotation on AIM in 1997 and sale to Crown Sports plc in 2000.

Other appointments

Ukactive – Board Member

Richard Darwin

Chief Financial Officer

Committees

Skills and experience

Richard possesses extensive experience working for leisure and FMCG companies in the UK and internationally, including The Rank Group and Diageo. He qualified as a chartered accountant with Coopers & Lybrand.

He has previously held the positions of Chief Financial Officer of Essenden plc from 2009 to 2015 and Chief Financial Officer of Paramount Restaurants from 2003 to 2008.

Other appointments

None

Paul Gilbert

Senior Independent Non-Executive Director

Committees

Nomination Committee
Audit and Risk Committee
Remuneration Committee

Skills and experience

Paul is an economics graduate from the University of Cambridge and a Chartered Accountant.

He has previously held the positions of Chief Financial Officer of TJ Hughes, National Car Parks and Matalan, and Non-Executive Chairman of Betterbathrooms (UK) and Clothingsites.co.uk

Paul was the Non-Executive Chairman of The Gym from February 2012 until September 2015.

Other appointments

Hiring Hub – Non-Executive Chairman
Sykes Cottages – Non-Executive Chairman

David Kelly

Non-Executive Director

Committees

Nomination Committee
Audit and Risk Committee
Remuneration Committee

Skills and experience

David is an experienced digital operating executive.

David was previously the Operations Director at Amazon in the UK from 1998 to 2000, the Chief Operating Officer at Lastminute.com from 2000 to 2003, the Vice President, Operations/Chief Operating Officer at eBay from 2003 to 2007 and Senior Vice President of International at Rackspace from 2010 to 2012.

Other appointments

Camelot Lotteries, Trinity Mirror plc, On the Beach plc, Holiday Extras, Simply Business – Non-Executive Director
Pure 360, MBA and Company, Atcore, Prezola – Chairman

Emma Woods

Non-Executive Director

Committees

Nomination Committee
Audit and Risk Committee
Remuneration Committee

Skills and experience

Emma has wide-ranging marketing experience within the FMCG and leisure sector.

Emma is currently the Customer Director at Wagamama and previously has held Marketing Director roles at Merlin Entertainments plc, Pizza Express and Unilever.

Other appointments

Customer Director at Wagamama

Corporate Governance Report

Dear Shareholders,

I am pleased to introduce the 2017 Corporate Governance Report on behalf of the Board.

The Board continues to be committed to ensuring that the Group operates with high standards of corporate governance and I am pleased to confirm we operate in full compliance with all the provisions set out in the UK Corporate Governance Code 2016. Good governance is fundamental to good decision making, bringing good judgement and clear accountability for implementation. Whilst processes and procedures are important, so too is a commitment to robust discussion and full transparency. I am satisfied these qualities describe the way business is conducted at The Gym Group. This approach to governance supports the success of the Company's strategy and aims to create long term value for all stakeholders, thereby delivering consistently for shareholders.

During 2017, together with routine operating matters, site approvals and performance management the Board has focused on the acquisition and successful integration of Lifestyle Fitness sites and staff, the change in operating model relating to our use of Personal Trainers, the development and execution of our Member Management System and related technology topics such as data protection and cyber security, a strengthening of our focus on Health & Safety, consideration of our talent pipeline and discussion of our long term strategy.

Our CEO John Treharne and CFO Richard Darwin have conducted a significant programme of shareholder engagements, including a Capital Markets Day held at our Lewisham gym and other site visits; it really is the best way to see first-hand how we operate and how we create value. Reports from these engagements are provided by our brokers as part of our listening to shareholders. Although we have no changes to our Remuneration Policy we have consulted with our leading shareholders to ensure their support for our decisions. As Chairwoman I am available to shareholders should the need arise.

The remainder of this report explains in more detail the corporate governance structure in place, including our Board and Committee structure and policies and protocols on internal controls.

Penny Hughes
Chairwoman
20 March 2018

Board governance

Overview

This report explains the key features of the Company's governance structure and how it complies with the UK Corporate Governance Code 2016 ('the Governance Code'[1]). It also explains how our Board Committees function and the effectiveness of the Group's risk management and internal control systems.

Compliance with the Governance Code

The Board complies with all the provisions set out in the Governance Code.

The Board and Sub-Committees

As at the date of this report, the Board comprises six members, namely the Chairwoman, three Independent Non-Executive Directors and two Executive Directors. A full list of the Directors and their biographies can be found on pages 36 and 37.

Board and Committee composition has been a focus during the year, along with succession planning. The Board is satisfied that there is a sufficient balance between Executive and Non-Executive Directors on the Board to ensure that no one individual has unfettered decision making powers, and that the Board has the appropriate balance of skills, experience, independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively.

The primary responsibility of the Board is to promote the long term success of the Company and sustainably grow shareholder value. The Board has responsibility for the management, direction and performance of the Group and for ensuring that appropriate resources are in place to achieve its strategy. The Board directs and reviews the Group's operations within an agreed framework of controls, allowing risk to be assessed and managed within agreed parameters.

The Board has established a formal schedule of matters reserved for its approval, and has delegated other specific responsibilities to its principal Sub-Committees: the Audit and Risk Committee, Remuneration Committee and Nomination Committee. Each Committee's roles and responsibilities are set out in formal terms of reference, which are determined by the Board. These are available for review on the Company's website. Reports from each of these Committees are provided on pages 41 to 55.

All Board and Committee meetings are minuted and these minutes are formally approved at the following meeting. Board minutes contain details of the Directors' decision making processes and any concerns raised by the Directors. During the year, the matters reserved for the Board were reviewed and, where necessary, amended. The schedule of matters reserved for the Board includes the consideration and approval of:

- the Group's strategic aims, objectives and commercial strategy;
- review of performance relative to the Group's business plans and budgets;
- major changes to the Group's corporate structure, including acquisitions and disposals;
- material capital expenditure;
- Financial Statements and Group dividend policy, including recommendation of the interim and final dividends;
- major changes to the capital structure, including tax and treasury management;
- major changes to accounting policies or practices;
- the system of internal control and risk management policy;
- the Group's risk appetite statements; and
- the Group's corporate governance and compliance arrangements.

The Executive Committee are responsible for executing the strategy determined by the Board.

1 The Governance Code is available on the Financial Reporting Council website at www.frc.org.uk.

Chairwoman and Chief Executive Officer

There is a clear separation of responsibilities between the Chairwoman and the Chief Executive Officer. Penny Hughes, as Non-Executive Chairwoman, sets the Board agenda and leads discussion and decision making. She uses her experience of chairing at her previous non-executive roles to promote effective debate and contribution from both Executive and Non-Executive Board members. John Treharne, as Chief Executive Officer, leads the Executive Committee, which supports him in the operational and day-to-day management of the Company.

Senior Independent Director ('SID')

Paul Gilbert fills the role of SID on the Board. Paul is available to shareholders if they have concerns that the normal channels of Chairwoman, Chief Executive Officer or Chief Financial Officer have failed to resolve; or for which such channels of communication are inappropriate. He will also act as intermediary for the other Directors and the Chairwoman as necessary.

Relationship Agreement

On 6 November 2015, the Company entered into a Relationship Agreement with various funds managed by Phoenix Equity Partners 2010 LP ('the Phoenix Advised Funds'). The principal purpose of the Relationship Agreement was to ensure that the Company was capable of carrying on its business independently of the Phoenix Advised Funds. The Relationship Agreement only continued for so long as the Phoenix Advised Funds and any of their associates together were entitled to exercise or to control, directly or indirectly, the exercise of 10% or more of the rights to vote at general meetings of the Company. On 16 March 2017, the Phoenix Advised Funds sold their entire shareholding in the Company, as expected, and the Relationship Agreement has therefore ceased.

Board meetings

There were eight scheduled Board meetings held in 2017 and there are eight Board meetings scheduled for 2018. Seven additional ad-hoc Board meetings were held during the year to discuss specific business matters, including the Lifestyle Fitness acquisition and to approve Financial Statements and dividend payments. One additional Remuneration Committee meeting was held to consider the grant of awards of shares under the Performance Share Plan, further details of which can be found in the Remuneration Committee Report on page 44. The scheduled Board and Committee meetings have standing agenda items, which ensures that all aspects of the business are given due consideration as appropriate. The Board regularly reviews strategic matters as part of the standing agenda items. In addition, the Board held specific strategy meetings in April and October 2017 with the Executive Committee to review, consider and discuss the ongoing strategic development of the Group and the key strategic focuses for 2017, 2018 and beyond.

Directors' attendance at the scheduled Board and Committee meetings during the year was as follows:

	Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee
Penny Hughes	8/8	3/3	4/4	4/4
Richard Darwin	8/8	–	–	–
Paul Gilbert	7/8	2/3	4/4	3/4
David Kelly	8/8	3/3	4/4	4/4
John Treharne	8/8	3/3	–	–
Emma Woods	7/8	3/3	3/4	4/4

Executive Committee

Barney Harrison – Commercial and Marketing Director
Barney is an experienced marketing and eCommerce professional. He has held a number of senior marketing positions at Sky, including the Head of Multi-Channel Acquisition, Head of Direct Marketing and eCommerce (ROI) and Head of Media and Acquisition (Sky Betting and Gaming). Barney's depth of experience across a diverse mix of Sky's businesses has given him experience in some of the UK's most competitive industries.

Nick Henwood – Operations Director
A skilled operator, Nick has a strong track record in delivering improvements in customer satisfaction, driving profitable growth and developing strategic initiatives. Nick has previously held Operations Director roles at Autoglass, Mothercare and David Lloyd Leisure.

Jasper McIntosh – IT and Digital Director
In his 15 year technology career Jasper has co-founded two digital technology consultancies and served as a Director for three digital agencies. His key achievements include implementing GlaxoSmithKline's first B2C eCommerce operation, managing a platform carve out for Channel 4 and delivering a substantial pan-European awareness campaign for the Global Fund and French Presidential Palace.

Jonathan Spaven – Property Director
A Chartered Surveyor, Jonathan has over 35 years' experience in the real estate business. Formerly the Director of Property at Matalan, he oversaw the expansion from c. 70 to over 200 sites. Having also worked as an acquisition agent and a developer, Jonathan has a wide and varied insight into all aspects of the acquisition process.

Appointment and Induction of New Directors

No new Directors were appointed during the year.

In the event of Directors joining the Company, there is an induction programme in place to provide new Directors with a formal, tailored induction that includes visiting the sites. The Board and Committee standing agenda items include the briefing of Directors on a wide range of topics, which include corporate governance and regulatory requirements. Additionally, Directors have access to the advice and services of the Company Secretary and independent and professional advice at the Company's expense should they determine that this is necessary to discharge their duties.

As part of the Board evaluation and induction processes, the Chairwoman reviewed training and development needs with each Director.

Election and re-election of Directors

The Board considers all Directors to be effective, committed to their roles and have sufficient time to perform their duties. In accordance with the Articles of Association, all members of the Board, being Penny Hughes, Paul Gilbert, John Treharne, Richard Darwin, David Kelly and Emma Woods will be offering themselves for re-election at the Company's AGM to be held on 4 June 2018.

All of the Directors have service agreements or letters of appointment and the details of their terms are set out in the Report of the Remuneration Committee. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours. No other contract with the Company or any subsidiary undertaking of the Company in which any Director was materially interested existed at the end of the financial year. The Relationship Agreement with Phoenix Advised Funds was in place at the beginning of the year and ceased on 16 March 2017.

Board evaluation and effectiveness

The Directors are aware of the need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluations, which provide a valuable feedback mechanism for improving Board effectiveness. In addition to regular discussions in the course of Board meetings, a formal internal performance evaluation of the Board, its Committees and the Chairwoman was carried out during the year.

As part of the 2017 evaluation, detailed questionnaires specifically designed to assess the strengths and independence of the Board and the Chairwoman, and the performance of each of its Committees, were circulated and completed by all Directors. The results were combined in a paper which was discussed in detail by the Nomination Committee and a list of action points were compiled which will be regularly monitored by the Nomination Committee to ensure all outcomes are tracked and monitored.

The results of the evaluation exercise demonstrated that the Board, its Committees and the Chairwoman continue to operate effectively. A number of specific actions were agreed, including ensuring there is diverse talent throughout the senior management of the Company, more site visits outside of the London area as a Board (rather than individually, which continues to take place on a regular basis), and a continued focus to ensure Board reporting provides the right level of detail and encourages discussion.

The performance of each Director was also assessed and discussed and, accordingly, the Board believe that each Director should be re-elected at the AGM, as they have the requisite skills and experience, and demonstrate the necessary commitment to contribute effectively to the deliberations of the Board. Additionally, the Chairwoman has confirmed that the performance of each other Director continues to be effective and demonstrates commitment to the role.

Directors' conflicts of interest

Closewall Limited ('Closewall') is a building firm owned by the brother and sister-in-law of John Treharne. Closewall is one of several contractors that tender for contracts for the design and construction of the Group's gyms with which the Group has long term relationships. The Group paid £3.7 million (2016: £3.8 million) to Closewall in connection with the fit-out of new gyms during the year ended 31 December 2017. John Treharne has never been involved in decision making in relation to the fit-out contractors that the Group engages and the Group operates a robust purchasing process overseen by a number of senior employees. In the opinion of the Directors, such decision making is subject to appropriate governance procedures.

Information and support

An agenda and detailed papers are circulated digitally to the Board well in advance of each Board meeting. These include reports from Executive Directors, other members of senior management and external advisers. Members of senior management may be invited to present relevant matters to the Board. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. The Board and the Audit and Risk Committee also receive further regular and specific reports to allow the monitoring of the adequacy of the Company's systems of internal controls.

The information supplied to the Board and its Committees is kept under review and is formally assessed on an annual basis as part of the Board evaluation exercise to ensure it is fit for purpose and that it enables sound decision making.

Relationship with shareholders

The Board is committed to maintaining good communications with existing and potential shareholders based on the mutual understanding of objectives. The Group has regular dialogue with institutional shareholders in order to develop an understanding of their views which is communicated back to, and discussed with, the Board. Management also conduct meetings and site visits with institutions that focus on private clients as a way of extending the Company shareholder base. In addition, the Company's Broker and Remuneration Consultants provide updates to the Board on institutional shareholder views. As discussed in the Remuneration Report on page 44, the Company undertook an investor consultation exercise in December 2017 to inform investors of the proposed remuneration changes in 2018. The Directors were kept informed of all responses and comments received from investors as part of this exercise.

Presentations given to analysts and investors covering the annual and interim results, along with results and further information for investors, are included in the investors section of the Company's website at www.tggplc.com.

Ensuring a satisfactory dialogue with shareholders and receiving reports on the views of shareholders is a matter reserved for the Board under its terms of reference.

Report of the Nomination Committee

Committee members

	Number of meetings held
Penny Hughes (Chairwoman)	3/3
Paul Gilbert	2/3
David Kelly	3/3
John Treharne	3/3
Emma Woods	3/3

Objectives

- To ensure the Board has an appropriate balance of skills, diversity, experience, knowledge and independence;
- To ensure that the most suitable candidates are identified and nominated to fill vacancies as and when they arise;
- To ensure that appropriate succession plans are in place for Directors and senior executives of the Company; and
- To undertake a Board evaluation process to identify developmental processes that can enhance Board practices and Director performance.

Achievements in 2017

- Increased focus on succession planning; and
- Continue to review the skills and experience of the Board and senior management team.

Roles and responsibilities

The role of the Committee is to develop and maintain a formal, rigorous and transparent procedure for making recommendations on appointments and re-appointments to the Board. In addition, it is responsible for reviewing the succession plans for the Executive Directors and the Non-Executive Directors.

This involves:

- keeping under review the leadership needs of the Group, both Executive and Non-Executive, with a view to ensuring the continued ability of the Group to compete effectively in the marketplace;
- regularly reviewing the structure, size and composition of the Board to ensure it has an appropriate balance of skills, diversity, experience, knowledge and independence, and reporting and making recommendations to the Board with regard to any changes; and
- regularly assessing the knowledge, skills and experience of individual members of the Board and reporting the results to the Board.

Diversity

Our policy is that no individual should be discriminated against on the grounds of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability. Whilst we have not currently established diversity targets, this policy is reflected in our approach to recruitment at all levels, including Board level. As at 31 December 2017, the Board comprised 33.3% (two) female and 66.7% (four) male Board members. The Company has also set up a steering committee to assist in reviewing the Company's diversity and equality disclosures, which will include its report on gender pay gaps, which the Company will publish before the deadline of 4 April 2018.

Governance processes

The Committee meets at least twice a year and at such other times as the Committee Chair or any member of the Committee may request. In 2017, the Committee met three times and attendance at the meetings is shown in the table on page 39.

The Committee has formal terms of reference which can be viewed on the Company's website, www.tggplc.com.

Main activities

During the year, the Committee considered succession planning for the Executive Directors and the senior management of the Company. The Company's policy is to develop the talent pipeline and promote from within, wherever possible. Due to the nature of the Company's operations and size, it is not practicable for the Company to have an internal successor for all senior management roles. Where there is no obvious successor, the Committee will engage external recruitment consultants to assist in identifying suitable candidates. Senior management succession planning will continue to be a focus for 2018.

The Committee also reviewed the size, composition and skill set of the Board during the year and concluded that there was an appropriate mix of experience, skills and knowledge to provide strong and effective leadership.

Annual evaluation of the Nomination Committee's performance

As part of the evaluation process, the performance and effectiveness of the Nomination Committee was considered and it was agreed that the Committee continued to work effectively. The key focus for 2018 will continue to be ensuring there is a diverse talent pipeline in place throughout all levels of the business.

Penny Hughes
Chairwoman of the Nomination Committee
20 March 2018

Report of the Audit and Risk Committee

Committee members

	Number of meetings held
Paul Gilbert (Chairman)	4/4
Penny Hughes	4/4
David Kelly	4/4
Emma Woods	3/4

Objectives

- To monitor the integrity of the Financial Statements and related announcements of the Company and its subsidiaries;
- To review and, where appropriate, make recommendations to the Board on the adequacy and effectiveness of the Group's internal control and risk management systems;
- To monitor the effectiveness and objectivity of the Company's external auditor;
- To monitor the effectiveness of the Group's whistleblowing procedures;
- To review the Group's risk appetite; and
- To review the Group's risk management framework, including principles, policies, methodologies, systems, processes, procedures and people.

Achievements in 2017

- Reviewed the suitability of the current core accounting system of the Group and initiated a project to replace it with a system that has greater capabilities whilst providing scope to accommodate the Group's anticipated growth;
- Reviewed and updated the policy in respect of the provision of non-audit services by the Group's auditor;
- Considered the plans and outcome of the Group's half year results announcement and full year Annual Report; and
- Reviewed the Corporate Risk Assessment and methodology.

Roles and responsibilities

The Audit and Risk Committee's role is to assist the Board with the discharge of its responsibilities in relation to financial reporting, including reviewing the Group's annual and half year Financial Statements and accounting policies, internal and external audits and controls, reviewing and monitoring the scope of the annual audit and the extent of the non-audit work undertaken by external auditors, advising on the appointment of external auditors and reviewing the effectiveness of the internal audit, internal controls, risk management, whistleblowing and fraud systems in place within the Group.

Governance processes

The Audit and Risk Committee meets at least four times a year and as requested by the external auditor. During 2017, the Committee held a private session with the external auditor without members of management being present.

The Committee is made up solely of the Independent Non-Executive Directors who have relevant experience of our market, with the Chairman being a chartered accountant. The Committee has formal terms of reference which can be viewed on the Company's website www.tggplc.com.

Significant issues

Prior to each meeting of the Committee at which they are to be considered, management produces a paper providing details of any significant accounting tax, compliance and legal issues. Management are also invited to attend these meetings where further guidance is required. The significant issues considered by the Committee in respect of the 2017 Annual Report are as follows:

Accounting for the acquisition of Lifestyle Fitness gyms

Following the Lifestyle acquisition the Audit and Risk Committee reviewed management's assessment of the following matters in relation to the acquisition:

- valuation of gym equipment and building improvements;
- valuation of intangible assets related to customer relationships and goodwill; and
- status of acquisition as business combination or acquisition of assets.

To complete the assessment, management engaged external consultants to assess the value of the customer relationships and gym equipment. Management carried out the valuation of the building improvements using the 'replacement cost' method advocated by IFRS 13 'Fair value'. The value of goodwill then being derived on a residual value basis.

Deferral of membership fee income

The Audit and Risk Committee places reliance on management controls over revenue recognition. The deferral of membership fee income is derived by a procedural calculation which has been automated to the greatest extent possible to lower the risk of human error. The outcome is reviewed by senior finance team members each month. In addition, as part of the Lifestyle Fitness acquisition during the year, management put the following additional controls in place pending full integration of functions.

- Detailed review of Revenue as part of the due diligence and integration process by management to identify any differences in approach.
- Accounting data provided during the transition services agreement is reviewed and appropriately adjusted to recognise revenue on the same basis.

With these additional measures in place, controls over the deferral of membership income have functioned robustly throughout the year.

Annual goodwill impairment testing

Impairment reviews have been performed by management on the Group's cash generating units to which goodwill and other intangible assets have been allocated. The cash flow forecasts used were based on the budgets approved by the Board together with assumed growth rates thereafter. The key assumptions around future growth rates and discount rates used were reviewed and considered by the Audit

Committee. Following the Lifestyle acquisition, management had to carry out two impairment reviews due to the structure of the acquisition. The Committee is satisfied that there was no impairment of goodwill and other intangible assets as at 31 December 2017. Please refer to note 13 to the Financial Statements for further information.

External auditor

The external auditor, Ernst & Young LLP, was appointed on 28 July 2015. This appointment was made having considered the capabilities and experience of Ernst & Young LLP in comparison to the incumbent audit firm. Michael Kidd became the Audit Partner for the Group during the year following the retirement of Keith Jess the previous Audit Partner. We reviewed the effectiveness of the auditor through:

- reviewing the 2017 audit plan;
- discussing the results of the audit including their views on material accounting issues and key judgements and estimates;
- considering the robustness of the audit process;
- reviewing the quality of people and service provided by Ernst & Young; and
- confirming their independence and objectivity.

We were satisfied with the performance and independence of Ernst & Young LLP and recommend their reappointment at the AGM.

In line with EU requirements, it is intended that the external audit will be put to tender every ten years.

Risk management

Our risk management process and the risks which are considered to be the principal risks of the Group are detailed on pages 30 to 32.

During the year, the Committee has reviewed the Group's risk assessment and methodology, including the mitigating actions put in place to reduce each risk.

Internal control

The Group operates its system of internal control by using the following key elements:

- regular review meetings of various groups, including business functions, senior management, Sub-Committees and the Board to discuss key issues;
- a detailed business planning process, combining top-down and bottom-up approaches, with outputs reviewed by the Board;
- a robust system of financial controls, including preventative controls and a thorough review process; and
- circulation of monthly reports to the Board containing detailed information regarding financial performance, rolling forecasts, actual and forecast covenant compliance and financial and non-financial KPIs.

The above risk management and internal control systems have been in place during 2017 and up to at least 20 March 2018. The Audit and Risk Committee, on behalf of the Board, has reviewed the effectiveness of the internal control systems and risk management processes in place during the year, taking account of any material developments since the year end and has also reviewed the mitigation controls in place for each risk to ensure these are sufficient. Other than the payment of dividends during 2017 in technical infringement of the Companies Act 2006 the Committee has not identified, nor been advised of, any failings or weaknesses that it has determined to be significant. The Committee has reviewed the effectiveness of the planned remediation of internal controls in respect of the payment of future dividends, which includes procedures to ensure that when interim accounts are required these are filed prior to the payment of dividends. As part of their review, the Audit and Risk Committee has considered the FRC's 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

The Group did not have an internal audit function during the year. The Committee discussed the requirement for an internal audit function and concluded that, given the relatively straightforward nature of the Group's operations and the low levels of portable assets such as cash in hand and inventory, an internal audit function is not necessary at this time. The necessity of an internal audit function will be kept under review.

Whistleblowing

The Group encourages staff to report any concerns which they believe need to be brought to management's attention concerning any financial or other impropriety. All staff receive a copy of the employee handbook, which includes whistleblowing arrangements and sets out the procedures which apply for a member of staff to raise concerns in respect of suspicions of wrongdoing or unethical conduct. The Audit and Risk Committee reviewed the effectiveness of the Group's whistleblowing procedures at the March 2017 and March 2018 meetings.

Non-audit services

In addition to their audit services, in 2017 the auditors provided a review of the half year results announcement and conducted financial due diligence in relation to the acquisition of the Lifestyle Fitness sites. Total non-audit services provided by Ernst & Young LLP for the year ended 31 December 2017 were £47,000 (2016: £18,000) (note 5 on page 76). Audit fees for the year totalled £106,000 (2016: £99,000). A one-off fee of £34,000 will also be charged this year for the additional audit work undertaken by Ernst & Young LLP in relation to the acquisition of the Lifestyle Fitness sites.

Ernst & Young LLP were considered best placed to carry out this work given their knowledge of the Company and its operations. The Board was satisfied that this work would not compromise the independence of Ernst & Young LLP given the exceptional nature of the majority of services provided.

In line with EU regulations, the Committee is responsible for approving all non-audit services provided by the auditor. During the year, the Committee reviewed and where appropriate updated the Company's policy relating to the provision of non-audit services by the Company's auditors, with particular consideration given to ensure this policy was aligned with the requirements of the UK Financial Reporting Council's Ethical Standards 2016. This policy is available on the Group's website.

Annual evaluation of the Audit and Risk Committee's performance

As part of the evaluation process, the performance and effectiveness of the Audit and Risk Committee was considered and it was agreed that the Committee continued to work effectively. In light of the Company's growth during 2017, the Committee will ensure that regular reviews of the controls framework are carried out to ensure it expands in line with the Company.

Fair, balanced and understandable

The Board recognises its duty to ensure that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, strategy and business model of the Company.

The Board has placed reliance on the following to form this opinion:

- the process by which the Annual Report and Accounts were prepared, including detailed project planning and a comprehensive review process;
- the review of the Annual Report and Accounts by the Audit and Risk Committee, placing reliance on the experience of the Committee members;
- reports prepared by senior management regarding critical accounting judgements and key financial areas;
- discussions with and reports prepared by the external auditor; and
- ongoing financial information, including KPIs, received on a monthly basis.

As detailed in the Directors' Responsibility Statement on page 59, each of the Directors has confirmed that, to the best of each person's knowledge and belief, the Annual Report is fair, balanced and understandable.

Paul Gilbert
Chairman of the Audit and Risk Committee
20 March 2018

Report of the Remuneration Committee

Committee members

	Number of meetings held
David Kelly (Chairman)	4/4
Penny Hughes	4/4
Paul Gilbert	3/4
Emma Woods	4/4

Dear Shareholder

I am pleased to welcome you to the Report of the Remuneration Committee.

This Report contains details of the remuneration received by our Directors during 2017.

Our performance in 2017

2017 was a year of continued strong growth. As noted earlier in this report:

- Revenue grew by 24.3% to £91.4 million;
- Group Adjusted EBITDA grew by 23.2% to £28.0 million; and
- The total number of gyms grew by 43.8% to 128 gyms.

The 2017 Directors' annual bonus plan was based around strong financial performance reflecting growth in profits, as well as strategic development and customer focused objectives.

The outturn of the 2017 annual bonus is confirmed at 74.3% of the maximum level, representing 55.7% of base salary In line with best practice. We are committed to transparency in remuneration reporting and have therefore provided details of the performance targets for the annual bonus financial and strategic metrics on page 53.

The Remuneration Committee considered that these outcomes for annual bonus represented a fair reflection of the performance of the Company and its management team and accordingly the Remuneration Committee concluded that the outcomes for the annual bonus are appropriate.

Summary of changes for 2018 remuneration

For 2018, we have introduced a number of changes to the remuneration arrangements for our Executive Directors. All of these changes are, however, within the scope of our existing shareholder approved remuneration policy.

The changes which we have made for 2018 can be summarised as follows:

John Treharne

Base salary

- £254,600 (4% increase from £244,800 for 2017)

Annual bonus

- Maximum annual bonus for 2018 – 100% of base salary (2017 maximum 75% of base salary)

Performance Share Plan

- Award over shares worth 175% of base salary (unchanged from 2017)
- 2 year holding period to apply for new awards from 2018 onwards

Richard Darwin

Base salary

£191,000 (4% increase from £183,600 for 2017)

Annual bonus

Maximum annual bonus for 2018 – 100% of base salary
(2017 maximum 75% of base salary)

Performance Share Plan

- Award over shares worth 175% of base salary (2017 award at 150% of base salary)
- 2 year holding period to apply for new awards from 2018 onwards

The background to these changes is as follows:

- The Company's size and scale has increased materially since our IPO in 2015, and the Company has performed strongly. The number of our gym sites, gym members and employees have all seen material growth in this period. The changes in pay which we have made are primarily to recognise these developments and the crucial contribution which our Executive Directors continue to make to the Company.

	IPO	31 December 2017	Percentage Growth
Number of sites	66	**128**	94%
Number of members (k)	363	**607**	67%
Number of employees	181	**368**	103%

- Our approach from IPO has been to pay modestly, although within the scope of our shareholder approved policy we specifically reserved flexibility to:
  - make salary increases, so that fixed pay would move closer to the levels at more mature businesses; and/or
  - increase incentive pay opportunities, should it become appropriate to do so.
- We now believe that it is appropriate to move towards a more market level of remuneration for our Executive Directors, whilst remaining within the scope of our shareholder approved policy and while still maintaining an appropriately modest and balanced outlook.
- The increases in remuneration for our Executive Directors are in the most part achieved through variable pay and will only be granted if future performance warrants it. The weightings towards profits-based measures within our incentive plans also ensures that any additional incentive pay earned will be appropriately 'self-funded'. The targets for incentive pay at TGG are stretching, and set at levels consistent with our outlook as a fast growing company.
- The proposed 4% base salary increase for 2018 for our Executive Directors is at similar levels to the increases being made for some strongly performing staff, and the resultant base salaries for the Executive Directors will still remain considerably below the market rate. While our changes are not 'data driven', we understand that the salaries which we pay to our Executive Directors remain below the lower quartile levels of salaries within the lower half of FTSE SmallCap companies.

Stepping back from the detail, we believe that our CEO and CFO are very important to the continued development of TGG, particularly to the fulfilment of our ongoing growth plans. Accordingly, we believe that the revised packages for our Executive Directors will have a materially retentive impact and that the path which we are taking is clearly in shareholders' best interests.

Before confirming these changes, we consulted with our leading shareholders and with leading shareholder agencies; we received good support for the direction we are taking on pay from those shareholders and bodies who provided us with feedback. As a committee, we will continue to ensure that our pay structures support our overall strategy, and where it is appropriate to do so, we will seek to have a direct read-across from our business KPIs to our remuneration arrangements.

Format of the report and matters to be approved at our AGM

The regulations governing the Directors' remuneration reports of listed companies require that we split our report into two sections: the Policy Report (part A of this report) sets out the Company's forward-looking Directors' Remuneration Policy and the separate Implementation Report (part B) gives details of the payments made to Directors in 2017, as well as other required disclosures. As noted above, any changes for remuneration in 2018 which are proposed are within the scope of existing policy, and thus we will not be holding a separate vote on the Directors' Remuneration Policy at the 2018 AGM. Therefore, we will be holding only one vote on remuneration matters at the 2018 AGM, namely a vote on the Implementation Report sections of the Directors' Remuneration Report.

I hope you are supportive of our approach to executive pay at The Gym Group and that you will vote in favour of the resolution to be tabled at the 2018 AGM.

David Kelly
Chairman of the Remuneration Committee
20 March 2018

At a glance

Remuneration Policy and implementation

	Overview of policy	Remuneration in 2017	Implementation for 2018
Base salary	Reviewed annually Consideration given to performance of the Company and the individual, responsibilities or scope of the role, as well as pay practices in relevant comparator companies See page 47	• John Treharne: £244,800 • Richard Darwin: £183,600 See page 52	The Executive Directors' base salaries for 2018 will be as follows: • John Treharne: £254,600 • Richard Darwin: £191,000 See page 51
Pension and Benefits	Pension – maximum contribution of 15% of salary Benefits consist of travel allowance, life insurance, private medical cover, a car parking space (in the case of the CFO) and additional mobile telephone contracts (in the case of the CEO) See page 48	In line with policy See page 52	• John Treharne: 15% of salary • Richard Darwin: 10% of salary See page 51
Annual bonus	Maximum of 100% of salary Paid in cash Subject to achievement of relevant performance conditions Subject to malus and clawback provisions See page 48	Maximum bonus potential of 75% of salary Outcomes: • Group Adjusted EBITDA (70%): 63.2% attainment • Site openings (15%): 100% attainment • Net Promoter Score (15%): 100% attainment Pay-outs of 55.7% of salary (74.3% attainment) See page 53	Maximum will be 100% of salary 70% Group Adjusted EBITDA 30% Strategic targets such as site openings and Net Promoter Score See page 51
Long term incentives	Performance share award, subject to service and performance over a three year period Maximum award of 200% of salary (300% in exceptional circumstances) Subject to malus and clawback provisions See page 49	No PSP awards vested in 2017 Awards granted in 2017: • John Treharne: 175% of salary • Richard Darwin: 150% of salary 50% Adjusted Earnings per Share 50% Relative TSR targets See page 53	PSP award over shares worth 175% of salary to both Executive Directors 50% Adjusted Earnings per Share 50% Relative TSR targets Two year hold period introduced for new awards See page 52
Share ownership guidelines	300% for Executive Directors (200% for new Executive Directors) See page 49	Guideline met by both Executive Directors See page 54	No change

2017 single total figure

£	Salary/fees	Taxable benefits	Bonus	Long term incentives	Pension	Total remuneration
John Treharne	244,800	21,393	136,305	–	36,720	**439,218**
Richard Darwin	183,600	8,838	102,228	–	18,360	**313,026**

See page 52

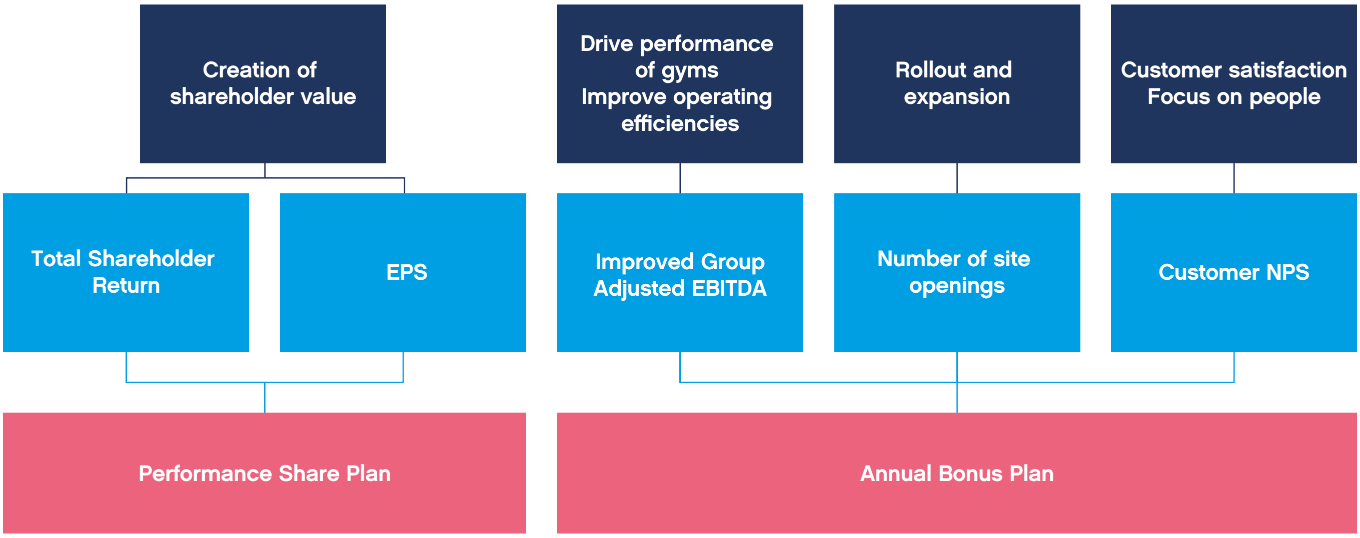
2017 annual bonus outcomes

	Weighting	Threshold	Target	Maximum	Actual[1]	Outcome	Bonus payout (% of salary)
Group Adjusted EBITDA	70%	£26.7m	£27.5m	£30.3m	£27.7m	63.2%	
Site Openings	15%	17	–	21	21	100%	**55.7%**
NPS	15%	–	50%	55%	63%	100%	

See page 53

1 Excluding Lifestyle Fitness.

How remuneration supports strategy



Introduction

This report contains the material required to be set out as the Directors' Remuneration Report for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which amended The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the DRR regulations'). Shareholder approval was obtained at the 2016 AGM for our Directors' Remuneration Policy, which has been developed with regard to the UK Corporate Governance Code and is felt to be appropriate to support the long term success of the Company while ensuring that it does not promote inappropriate risk taking.

For ease of reference, we have set out the policy in full in Part A below. The information in Part A is not subject to the advisory vote on the Directors' Remuneration Report at the 2018 AGM. No changes are being made to this policy, which will continue to apply for the forthcoming year. For completeness, the scenario charts within the policy have been updated to reflect the changes for Executive Directors' remuneration in 2018 which are described in the Remuneration Committee Chairman's letter introducing the Remuneration Report.

Part B constitutes the implementation sections of the Remuneration Report (the 'Implementation Report'). The Auditors have reported on certain parts of the Implementation Report and stated whether, in their opinion, those parts have been properly prepared in accordance with the Companies Act 2006. Those parts of the Implementation Report which have been subject to audit are clearly indicated.

Part A: Directors' Remuneration Policy

The following table summarises The Gym Group's policies in respect of the key elements of our Directors' remuneration:

Element and purpose	Policy and operation	Maximum	Performance measures
Base salary This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution.	Base salaries will typically be reviewed annually, with consideration given to the performance of the Company and the individual, any changes in responsibilities or scope of the role, as well as pay practices in relevant comparator companies of a broadly similar size and complexity with due account taken of both market capitalisation and turnover. The Committee does not strictly follow benchmark pay data but instead uses it as one of a number of reference points when considering, in its judgement, the appropriate level of salary. Base salary is paid monthly in cash.	It is anticipated that salary increases will generally be in line with those awarded to salaried staff. That said, in certain circumstances (including, but not limited to, changes in role and responsibilities, market levels, individual and Company performance and to reflect the conservative salary positioning at IPO), the Committee may make larger salary increases to ensure they are market competitive. The rationale for any such increase will be disclosed in the relevant Annual Report. However, an overriding cap applies, the effect of which is that no Executive Director's base salary will be increased if the result of such increase is that their base salary would be higher than the median CEO salary in the FTSE All-Share Travel & Leisure sector from time to time.	n/a

Element and purpose	Policy and operation	Maximum	Performance measures
Benefits To provide benefits valued by recipients.	The Executive Directors currently receive private medical cover, a car parking space (in the case of the CFO) and additional mobile telephone contracts (in the case of the CEO). The Committee reserves the discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice. Where appropriate, the Company will meet certain costs relating to Executive Director relocations.	It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year, but the provision of benefits is currently intended to be limited in value to £10,000 (or such higher amount as the Committee determines), plus a further 100% of base salary in the case of relocations. The Committee will monitor the costs of benefits in practice and will ensure that the overall costs do not increase by more than the Committee considers appropriate in all the circumstances.	n/a
Pension To provide retirement benefits.	Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance (or all) can be paid as a cash supplement.	The maximum employer's contribution is limited to up to 15% of base salary.	n/a
Annual bonus plan To motivate executives and incentivise delivery of performance over a one year operating cycle, focusing on the short to medium term elements of our strategic aims.	Annual bonus plan levels and the appropriateness of measures are reviewed annually at the commencement of each financial year to ensure they continue to support our strategy. Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions where the Committee considers it to be necessary in its opinion to make appropriate adjustments. Annual bonus plan outcomes are currently paid in cash following the determination of achievement against performance measures and targets, although the flexibility is reserved to pay a portion in deferred shares which may also allow for a dividend accrual feature. Clawback provisions apply to the annual bonus plan.	The maximum level of annual bonus plan outcomes is 100% of base salary for the duration of this policy.	The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. Where a sliding scale of targets is used, attaining the threshold level of performance for any measure will not typically produce a pay-out of more than 20% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full pay-out for maximum performance. However, the annual bonus plan remains a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust the outcome of the annual bonus plan for any performance measure (from zero to any cap) should it consider that to be appropriate.

Element and purpose	Policy and operation	Maximum	Performance measures
Long term incentives To motivate and incentivise delivery of sustained performance over the long term, and to promote alignment with shareholders' interests, the Company operates the PSP.	Awards under the PSP may be granted as nil/nominal cost options or conditional awards which vest to the extent performance conditions are satisfied over a period of at least three years. Vested awards may also be settled in cash. The PSP rules allow that the number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any record dates falling between the grant of awards and the expiry of any vesting period. Clawback and malus provisions apply to PSP awards.	The PSP allows for awards over shares with a maximum value of 200% of base salary per financial year (300% in exceptional circumstances). Actual participation levels will be kept under regular review, and the Committee expressly reserves discretion to make such awards as it considers appropriate within the plan limit.	The Committee may set such performance conditions on PSP awards as it considers appropriate, whether financial or non-financial and whether corporate, divisional or individual. Performance periods may be over such periods as the Committee selects at grant, which will not be less than, but may be longer than, three years. No more than 20% of awards vest for attaining the threshold level of performance conditions.
Share ownership guidelines To further align the interests of Executive Directors with those of shareholders.	Executive Directors are expected to build up a prescribed level of shareholding. To the extent that the prescribed level has not been reached, Executive Directors will be expected to retain a proportion of the shares vesting under the Company's PSP until the guideline is met.	300% of base salary for the current Executive Directors, 200% of salary for any future Executive Director. The Committee reserves the power to amend, but not reduce, these levels in future years.	n/a
All-staff share plans To encourage share ownership by staff, thereby allowing them to share in the long term success of the Group and align their interests with those of the shareholders.	The Company operates an all-staff Share Incentive Plan (under which an award of 'free shares' can be made, as well as 'partnership shares' and 'matching shares'). The Company also has the facility to operate a Sharesave scheme. These all-staff share plans are established under HMRC tax-advantaged regimes and follow the usual form for such plans. Executive Directors would be able to participate in all-employee share plans on the same terms as other Group staff.	The maximum participation levels for all-staff share plans will be the limits for such plans set by HMRC from time to time.	Consistent with normal practice, such awards would not be subject to performance conditions.

Chairwoman and Non-Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures
Chairwoman and Non-Executive Director fees To enable the Company to recruit and retain Company Chairs and Non-Executive Directors of the highest calibre, at the appropriate cost.	The fees paid to the Chairwoman and Non-Executive Directors aim to be competitive with other fully listed companies of equivalent size and complexity. The fees payable to the Non-Executive Directors are determined by the Board, with the Chairwoman's fees determined by the Committee. Directors do not participate in decisions regarding their own fees. The Chairwoman and Non-Executive Directors will not participate in any new cash or share incentive arrangements from the time of Admission. No benefits are envisaged for the Chairwoman and Non-Executive Directors but the Company reserves the right to provide benefits including travel and office support.	Fees are paid monthly in cash. The aggregate fees and any benefits of the Chairwoman and Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees (currently £500,000 p.a. in aggregate). Any increases actually made will be appropriately disclosed.	n/a

Other elements of our policy include:

Service contracts
Each of the Executive Directors entered into a service agreement with the Company which were effective upon Admission and dated 6 November 2015. The policy is that each Executive Director's service agreement should be of indefinite duration, subject to termination by the Company or the individual on six months' notice. The service agreements of all Executive Directors comply with that policy. The contracts, which are available for inspection at the Company's registered office, contain a payment in lieu of notice clause which is limited to base salary only.

The Committee reserves flexibility to alter these principles if necessary to secure the recruitment of an appropriate candidate and if appropriate introduce a longer initial notice period of up to two years reducing over time to one year or less as soon as reasonably practicable. It is anticipated that this flexibility will only be used in exceptional circumstances.

The independent Non-Executive Directors are appointed by letters of appointment, all dated 6 November 2015, apart from David Kelly whose letter is dated 25 July 2016 and Emma Woods whose letter is dated 11 November 2016. The appointments of the Chairwoman, Paul Gilbert, David Kelly and Emma Woods are for initial periods of three years, are subject to re-election at each AGM of the Company and are terminable on one months' notice given by either party.

Recruitment remuneration policy
The Company's recruitment remuneration policy aims to give the Committee sufficient flexibility to secure the appointment and promotion of high-calibre executives to strengthen the management team and secure the skill sets to deliver our strategic aims.

In terms of the principles for setting a package for a new Executive Director, the starting point for the Committee will be to apply the general policy for Executive Directors as applicable from time to time and structure a package in accordance with that policy. Consistent with the DRR Regulations, any caps contained within the policy for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice.

The annual bonus plan and PSP, including the maximum award levels, will operate as detailed in the general policy in relation to any newly appointed Executive Director. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate. For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate. For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy out awards forfeited by the individual on leaving a previous employer.

For the avoidance of doubt, buy-out awards are not subject to a formal cap. Any recruitment-related awards which are not buy-outs will be subject to the limits for the annual bonus plan and PSP as stated in the general policy. Details of any recruitment-related awards will be appropriately disclosed.

For any buy-outs the Company will not pay more than is necessary in the view of the Committee, and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing annual bonus plan and PSP. It may, however, be necessary in some cases to make buy-out awards on terms that are more bespoke than the existing annual bonus plan and PSP.

All buy-outs, whether under the annual bonus plan, PSP or otherwise, will take due account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Committee will seek, where it is practicable to do so, to make buy-outs subject to what are, in its opinion, comparable requirements in respect of service and performance. However, the Committee may choose to relax this requirement in certain cases, such as where the service and/or performance requirements are materially completed, or where such factors are, in the view of the Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited, and where the Committee considers it to be in the interests of shareholders. The Committee's objective is that, having considered all the above matters, the value of any buy-out award be limited to a fair estimate of the value of the awards foregone by the relevant individual.

A new Non-Executive Director would be recruited on the terms explained above in respect of the main policy for such Directors.

Termination policy summary
The Remuneration Committee will consider treatments on a termination having regard to all of the relevant facts and circumstances available at that time. This policy applies both to any negotiations linked to notice periods on a termination and any treatments that the Committee may choose to apply under the discretions available to it under the terms of the annual bonus plan and PSP. The potential treatments on termination under these plans are as follows:

Annual Bonus Plan
If an Executive Director resigns or is dismissed for cause before the bonus payment date, the right to receive any bonus normally lapses. If an Executive Director ceases employment before such date by reason of death, injury, ill health, disability or any other reason determined by the Committee, such bonus will be payable as the Committee in its absolute discretion determines. Similar treatment will apply in the event of a change in control of the Company.

Performance Share Plan
If, during the performance or vesting period, a participant:
- resigns or is dismissed for cause, awards lapse in full;
- dies, awards vest in full; and
- ceases to be employed due to injury, ill health, disability, redundancy, the participant's employing company or employing part of a business being sold out of the Group or for any other reason the Committee determines, awards are retained and vest in the normal course subject to the performance conditions, or, if the Committee so decides, immediately on the participant ceasing to be in employment. Awards will be pro-rated by reference to the proportion of the performance period for which the participant remained employed, unless the Committee determines otherwise.

If there is a change of control or winding up of the Company, awards typically vest to the extent that the relevant performance conditions have been satisfied at that time and subject also to pro-rating, unless the Committee determines a different basis of vesting.

The Company has the power to enter into settlement agreements with Directors and to pay compensation to settle potential legal claims. In addition, and consistent with market practice, in the event of the termination of an Executive Director, the Company may make a contribution towards that individual's legal fees and fees for outplacement services as part of a negotiated settlement. Any such fees will be disclosed as part of the detail of termination arrangements. For the avoidance of doubt, the policy does not include an explicit cap on the cost of termination payments.

Consideration of shareholder views
The Committee considers shareholder views received during the year and at each AGM, as well as guidance from shareholder representative bodies more broadly, when determining the remuneration policy and its implementation. The Committee will consult with major shareholders in advance of any material change to the structure and/or operation of the policy and will seek formal shareholder approval for any such change if required.

Other policy matters

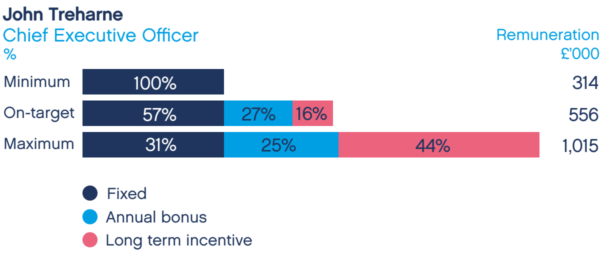
Previous years' Reports also set out formal details of our approach to:

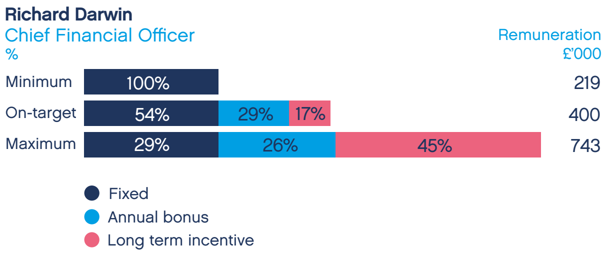
- Travel and hospitality.
- The differences between the policy on remuneration for Directors from the policy on remuneration of other staff.
- Committee discretions.
- External appointments.
- Consideration of employment conditions elsewhere in the Group.
- The operation of malus and clawback in relation to the PSP and annual bonus.

Illustrations of application of remuneration policy

The following charts show how the remuneration policy for Executive Directors will be applied in 2018 using the following assumptions and is based on the revised annual bonus opportunity and PSP awards provided to the Executive Directors described elsewhere in this Report:

<table>
<tr><td>Minimum</td><td>
• Consists of base salary, benefits and pension.
• Base salary is the salary to be paid in 2018.
• Benefits measured as benefits paid in the year ended 31 December 2017.
• Pension measured as the defined contribution or cash allowance in lieu of Company contributions of 10% to 15% of salary.
<table>
<tr><th></th><th>Base salary</th><th>Benefits</th><th>Pension</th><th>Total fixed</th></tr>
<tr><td>John Treharne</td><td>£254,600</td><td>£21,393</td><td>£38,190</td><td>£314,183</td></tr>
<tr><td>Richard Darwin</td><td>£191,000</td><td>£8,838</td><td>£19,100</td><td>£218,938</td></tr>
</table>
</td></tr>
<tr><td>Target</td><td>Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends):
• Annual bonus: consists of the on-target bonus (60% of maximum opportunity used for illustrative purposes).
• LTI: consists of the threshold level of vesting (20% vesting) of PSP awards (at 175% of salary for John Treharne and 175% of salary for Richard Darwin).</td></tr>
<tr><td>Maximum</td><td>Based on the maximum remuneration receivable (excluding share price appreciation and dividends):
• Annual bonus: consists of maximum bonus of 100% of base salary.
• LTI: consists of full vesting of PSP awards (at 175% of salary for John Treharne and 175% of salary for Richard Darwin) under the PSP.</td></tr>
</table>





Part B: Implementation report

Implementation of Policy for 2018 (unaudited information)

Base salary

The Executive Directors' base salaries for 2018 will be as follows:

- John Treharne: £254,600
- Richard Darwin: £191,000

Pension

Contributions rates for John Treharne for 2018 will be 15% of salary and 10% for Richard Darwin. Contributions may be made as cash supplements in full or in part.

Benefits

Details of the benefits received by Executive Directors are set out in note 1 to the single figure table on page 52. There is no current intention to introduce additional benefits in 2018.

Annual bonus

The overall bonus plan maximum will be 100% of salary, for 2018, 70% of the bonus will be based on financial targets (namely Group Adjusted EBITDA), with the remaining 30% based on strategic targets such as site openings and Net Promoter Score. These targets are either specific KPIs (Group Adjusted EBITDA) or are lead indicators (site openings; customer NPS) towards a number of our non-financial KPIs (total number of gyms; total number of members; average revenue per member per month).

Due to issues of commercial sensitivity, we do not believe it is in shareholders' interests to disclose any further details of these targets on a prospective basis. However, the Committee is committed to adhering to principles of transparency in terms of retrospective annual bonus target disclosure and will, therefore, provide appropriate and relevant levels of disclosure of the bonus targets applied for (and performance against) the 2018 bonus in next year's Report. Bonuses are payable in full in cash.

Long term incentives

Awards will be made in 2018 under the PSP to John Treharne and Richard Darwin over shares worth 175% of salary.

These awards will vest three years after grant, and performance vested shares will also be subject to a further two year holding period after the initial three year period to vesting. The performance conditions will be an equally weighted mix of Adjusted Earnings Per Share and relative TSR targets as described below: These measures continue to encourage the generation of sustainable long term returns to shareholders:

Adjusted EPS (50% of total award)

2020 Adjusted EPS[1]	% of that part of the award that vests
Below 10.8p	0%
10.8p	20%
16.2p	100%
Between 10.8p and 16.2p	Pro-rata straight-line between 20% and 100%

1 Adjusted EPS is calculated as the Group's profit for the year before amortisation, exceptional items and the related tax effect, divided by the diluted weighted average number of shares, unless the Committee determines otherwise.

Relative TSR vs FTSE Small Cap (excluding investment trusts) as at 1 January 2018 (50% of total award)

Gym Group ranking	% of that part of the award that vests
Below median	0%
Median	20%
Upper quintile	100%
Median to upper quintile	Pro-rata straight-line between 20% and 100%

Non-Executive Directors' fees

Penny Hughes will receive an annual fee of £130,000 as Chairwoman. Paul Gilbert, David Kelly and Emma Woods will each receive a fee of £50,000. Fees reviewed and left unchanged. Further review of fees anticipated in 2019.

Single total figure table (audited)

The remuneration for the Executive and Non-Executive Directors of the Company who performed qualifying services during the year is detailed below. The Non-Executive Directors received no remuneration other than their annual fee.

For the year ended 31 December 2017:

£	Salary/fees	Taxable benefits[1]	Bonus[2]	Long term incentives	Pension[3]	Other	Total remuneration
John Treharne	**244,800**	**21,393**	**136,305**	**–**	**36,720**	**–**	**439,218**
Richard Darwin	**183,600**	**8,838**	**102,228**	**–**	**18,360**	**–**	**313,026**
Paul Gilbert	**50,000**	**2,551**	**–**	**–**	**–**	**–**	**52,551**
Penny Hughes	**130,000**	**–**	**–**	**–**	**–**	**–**	**130,000**
David Kelly	**50,000**	**–**	**–**	**–**	**–**	**–**	**50,000**
Emma Woods	**50,000**	**–**	**–**	**–**	**–**	**–**	**50,000**

1 Taxable benefits comprise private medical cover travel and life assurance allowances, a car parking space (in the case of the CFO) and additional mobile telephone contracts (in the case of the CEO).
2 Further details of the bonus outturn for 2017 can be found on page 53.
3 Pensions are provided via a defined contribution and/or cash supplement.

For the year ended 31 December 2016:

£	Salary/fees	Taxable benefits[1]	Bonus	Long term incentives	Pension[2]	Other	Total remuneration
John Treharne	240,000	6,668	30,960	–	36,000	–	313,628
Richard Darwin	180,000	2,850	23,220	–	18,000	–	224,070
Paul Gilbert	50,000	2,402	–	–	–	–	52,402
Penny Hughes	130,000	–	–	–	–	–	130,000
David Kelly[3]	24,463	–	–	–	–	–	24,463
Emma Woods[4]	6,528	–	–	–	–	–	6,528
Jim Graham[5]	165,154	2,725	23,220	–	14,148	–	205,247
David Burns[5]	20,000	–	–	–	–	–	20,000
Philip Newborough[5]	20,000	–	–	–	–	–	20,000

1 Taxable benefits comprise private medical cover, a car parking space (in the case of the CFO) and additional mobile telephone contracts (in the case of the CEO).
2 Pensions are provided via a defined contribution and/or cash supplement.
3 David Kelly was appointed as a Director on 25 July 2016.
4 Emma Woods was appointed as a Director on 14 November 2016.
5 David Burns and Philip Newborough resigned as Directors on 31 August 2016. Jim Graham resigned as Director on the 22 November 2016.

The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2017 was £1,034,795 (2016: £996,338).

Further information on the 2017 annual bonus (audited)
While the overall bonus plan maximum was 100% of salary, for 2017 the Executive Directors' bonus cap was 75% of salary. 70% of the bonus was based on financial targets, (subject to a minimum number of new sites being opened) and with the remaining 30% based on personal/strategic targets.

The financial targets were as follows:

	Threshold	Target	Maximum
EBITDA	£26.7m	£27.5m	£30.3m
% of this element of bonus payable	20%	60%	100%

The actual Group Adjusted EBITDA for the year of £28.0m resulted in 63.2% of the financial targets elements being payable (33.2% of salary).

The personal/strategic targets related to the number of site openings, and Net Promoter Score. A summary of overall performance against these metrics is as follows:
- Site openings – the threshold number of site openings was 17, with the stretch set at 21. In total, 21 sites were opened during the year.
- NPS– stretch targets for NPS was 55% (target 50%). Actual performance was 63% for NPS.

Based on overall performance against these metrics, the Executive Directors each earned a bonus of 100% of the maximum available under this element, amounting to 22.5% of salary.

Therefore, in total, the Executive Directors each earned a bonus of 55.7% of salary.

In calculating the outcomes against all annual bonus metrics for 2017, the Committee has used its judgement to exclude the impacts of the Lifestyle Fitness acquisition which occurred towards the end of the year. The adjustments removed both the positive and negative impacts so as to ensure the integrity of measuring performance against the initially set targets, within which the acquisition was not envisaged.

Performance Share Plan awards
As reported in last year's Report, awards were made to the Executive Directors under the PSP:

Executive	Awards held at 1 Jan 2017	Awards granted during the year[1]	Awards vested during the year	Awards lapsed during the year	Interests held at 31 Dec 2017
John Treharne	86,776	231,567	–	–	318,343
Richard Darwin	55,785	148,864	–	–	204,649

1 The above PSP awards were granted at the average market price of 185p from the last trading day prior to grant on 15 March 2017. The awards thus represented awards to John Treharne over shares worth 175% of salary, and awards to Richard Darwin over shares worth 150% of salary.
2 The exercise price is 0.01p.
3 The minimum share price in 2017 was 169p and the maximum share price was 225p. The closing share price on 31 December 2017 was 220p.

These awards vest based on performance against the following targets which encourage the generation of sustainable long term returns to shareholders:

Performance measure	2016 award (50% growth in adjusted EPS and 50% TSR)	2017 award (50% growth in adjusted EPS and 50% TSR)
Adjusted EPS growth 20% of this part vests at threshold performance rising on a pro-rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range between 9p and 13.6p for FY2018.	Target range between 9p and 13.6p for FY2019.
TSR 20% of this part vests at threshold performance rising on a pro-rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range between median performance against the constituents of the FTSE SmallCap (excluding Investment Trusts) rising on a pro-rata basis until full vesting for upper quintile performance.	Target range as for 2016.

Detail:
The EPS condition applies to the EPS achieved in the final year only of the three financial year performance period, based on the Adjusted EPS (calculated as the Group's profit for the year before amortisation, exceptional items and the related tax effect, divided by the diluted weighted average number of shares, unless the Committee determines otherwise).

The TSR condition compares the TSR over the three months prior to the start of the financial year in which the grant is made with the three months prior to the end of the third financial year. The comparator group is the constituents of the FTSE SmallCap (excluding Investment Trusts) as at the start of the relevant performance period.

Participation in the Share Incentive Plan

The Executive Directors participate in the SIP on the same terms as all other employees. Details of the Executive Directors' participation in the SIP are as follows:

Executive	Total SIP shares at 1 Jan 2017	Partnership shares purchased	Matching shares awarded	Free shares awarded	Total SIP shares at 31 Dec 2017
John Treharne	2,002	954	954	–	3,910
Richard Darwin	2,002	937	937	–	3,876

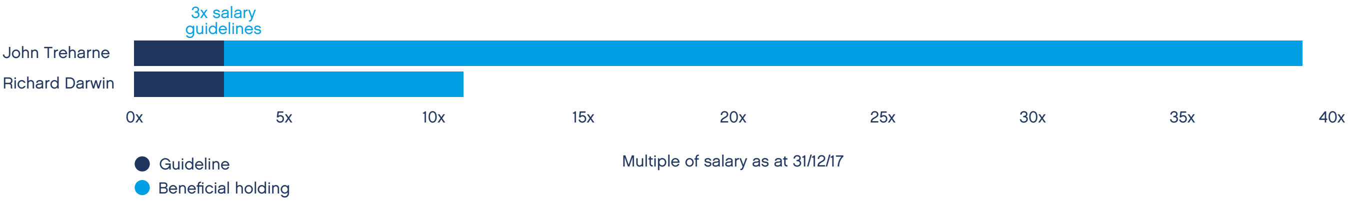
Statement of Directors' shareholding and share interests (audited)

The table below details, for each Director, the total number of Directors' interests in shares at 31 December 2017:

Director	Penny Hughes	John Treharne	Richard Darwin[1]	Paul Gilbert	David Kelly	Emma Woods[3]
Ordinary shares	26,089	4,532,702	973,569	387,776	5,000	8,930
Shares awarded under SIP	–	2,146	2,129	–	–	–
Maximum awards receivable under PSP		318,343	204,649			
Total Interests	26,089	4,853,191	1,180,347	387,776	5,000	8,930

1 The total number of Ordinary shares in which Richard Darwin or persons connected with him is or are interested includes 35,758 Ordinary shares owned by Charlotte Darwin.
2 The shareholdings and awards set out above include those held by Directors and their respective connected persons.
3 The total number of Ordinary shares in which Emma Woods or persons connected with her is or are interested includes 8,930 Ordinary shares owned by Lorean Woods.

Progress towards share ownership guidelines



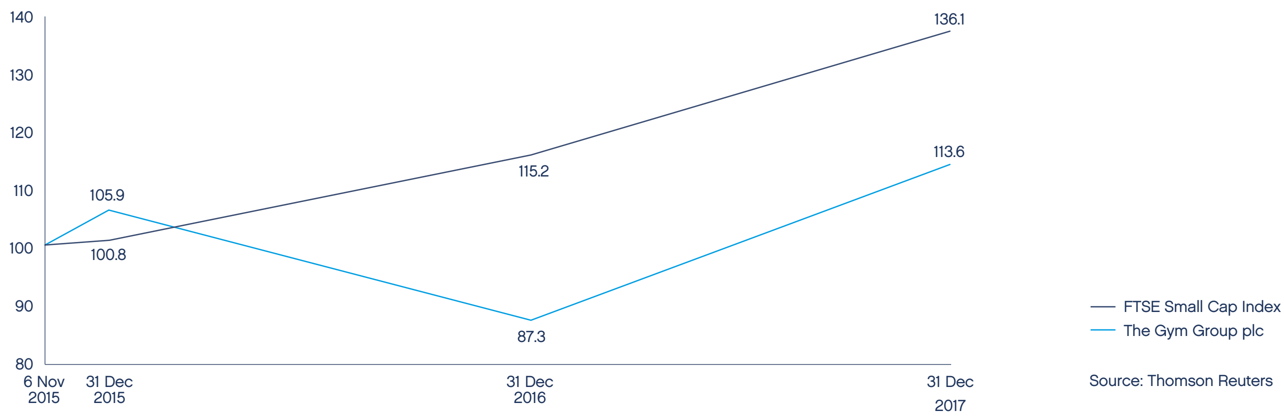
Payments to past Directors (audited)

No payments were made to past Directors during the year.

Performance graph and CEO remuneration table (unaudited)

The graph below shows the total shareholder return ('TSR') performance of an investment of £100 in The Gym Group plc's shares from its listing in November 2015 to the end of the period, compared with a £100 investment in the FTSE Small Cap Index over the same period. The FTSE Small Cap Index was chosen as a comparator because it represents a broad equity market index of which the Company is a constituent. The TSR was calculated in accordance with the DRR Regulations.

Total Shareholder Return Index



The table below details certain elements of John Treharne's remuneration over the same period as presented in the TSR graph:

	Single figure of total remuneration	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2015	£287,793	£60,000[1]	n/a
2016	£313,628	27.2%	n/a
2017	£439,218	74.3%	n/a

1 The actual bonus paid has been inserted for 2015 as this related to the year of Admission when an uncapped discretionary bonus plan was in operation. No long term incentive awards have vested in 2015 or 2016.
2 The maximum bonus for 2016 was 47.5% of base salary and so the outcome of 27.2% of maximum bonus was 12.9% of base salary.

Percentage change in remuneration of Director undertaking the role of CEO (unaudited)
The below table presents the year on year percentage change in remuneration received by the CEO, compared with the change in remuneration received by all UK staff:

	CEO %	All staff %
Salary and fees	2.0	3.7
Short term incentives	340.2	15.4
Taxable benefits	220.8	22.6

Relative importance of spend on pay (unaudited)
The table below details the change in total staff pay between 2016 and 2017 as detailed in note 8 of the Financial Statements, compared with distributions to shareholders by way of dividend, share buy backs on any other significant distributions or payments. These figures have been calculated in line with those in the audited Financial Statements:

	% change	**2017 £'000**	2016 £'000
Total gross staff pay	33.1	**11,988**	9,004
Dividends/share buy backs	319.6	**1,347**	321

Summary of shareholder voting
The following table shows the results of the advisory vote on the 2016 Directors' remuneration report at the 2017 AGM and the binding vote on the Directors' remuneration policy at the 2016 AGM:

	Approval of the 2016 Directors' Remuneration Report (2017 AGM)		Approval of the Remuneration Policy (2016 AGM)	
	Total number of votes	**% of votes cast**	Total number of votes	% of votes cast
For (including discretionary)	**56,034,318**	**92.5%**	105,025,422	97.5%
Against	**4,523,137**	**7.5%**	2,691,982	2.5%
Votes withheld	**0**	**0%**	0%	0%

The Committee (unaudited information)
The Committee's principal responsibilities are to recommend the Group's policy on executive remuneration, determine the levels of remuneration for Executive Directors and the Chairman and prepare an annual remuneration report for approval by the shareholders at the AGM.

The Chief Executive Officer and other Executive Directors as necessary are invited to attend meetings of the Committee, except when their own remuneration is being directly discussed. Penny Hughes takes no part in any discussions relating to her own remuneration. The Committee met three times during the year and the table on page 39 details attendance of members at these meetings.

As part of the evaluation process, the performance and effectiveness of the Remuneration Committee was considered and it was agreed that the Committee continued to work effectively. In light of the Company's growth during 2017 the Committee will ensure that regular reviews of the controls framework are carried out to ensure it expands in line with the Company.

The Committee has formal terms of reference which can be viewed on the Company's website.

FIT Remuneration Consultants LLP ('FIT'), signatories to the Remuneration Consultants Group's Code of Conduct, were appointed by the Committee and provide advice to the Committee on all matters relating to remuneration, including best practice. FIT provided no other services to the Group and, accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2017 were £49,017. FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

The Committee's oversight of company-wide pay (unaudited information)
Pay and employment conditions generally in the Group are taken into account by the Committee.

The Committee receives regular updates on overall pay and conditions in the Group, including (but not limited to) changes in employee base pay and any staff bonus pools in operation. There is also oversight of the all-employee share schemes which Executive Directors and all other Group employees can participate in on the same terms and conditions. The Committee approves all discretionary share awards for any employees; such awards can operate with different performance conditions to the performance conditions which apply to the PSP awards made to the Executive Directors and the most senior employees.

For the most senior executives beneath Board level, the Committee exercises direct oversight of their pay and considers and approves recommendations on base salaries for this group which are put forward by the Chief Executive Officer. The Committee also has direct oversight of annual bonuses and PSP awards for these executives.

Reflecting standard practice, the Company did not consult with employees in preparing this Remuneration Report. The Remuneration Committee is cognisant of requests from, amongst others, the Investment Association, for companies to publish ratios comparing CEO to employee pay. The Remuneration Committee has not, however, published this data in the Directors' Remuneration Report given the absence of a common methodology for these comparisons; the Company's expectation is that it will publish ratios showing comparisons in future years when, as can be expected, UK regulations or guidance develop a common methodology.

On behalf of the Board

David Kelly
Chairman of the Remuneration Committee
20 March 2018

Directors' Report

As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report as noted below (pages 6 to 35) as the Board considers them to be of strategic importance.

Corporate structure

The Gym Group plc is a public company limited by shares, incorporated in England and Wales and its shares are traded on the Main Market of the London Stock Exchange. The Company number is 08528493.

The Board

The Directors who served during the year were:

- Penny Hughes
- John Treharne
- Richard Darwin
- Paul Gilbert
- David Kelly
- Emma Woods

The roles and biographies of the Directors as at the date of this Report are on pages 36 and 37.

The general powers of the Directors are set out in Articles 64 to 68 of the Company's Articles of Association ('the Articles'). These provide that the Board may exercise all the powers of the Company, subject to applicable legislation, the Articles and any special resolution of the Company, applicable on the date that any power is exercised.

Appointment and replacement of Directors

The appointment and replacement of Directors is governed by the Company's Articles. These state that the number of Directors shall not be less than two nor exceed 12 and that:

- the shareholders may by ordinary resolution elect any person willing to act as a Director;
- the Board may by ordinary resolution elect any person who is willing to be a Director;
- every Director shall retire at each AGM and be eligible for re-election;
- the Company may by special resolution, or ordinary resolution of which special notice has been given according to applicable legislation, remove any Director before the expiration of his or her period of office; and
- there are a number of other grounds on which a Director's office may cease, namely: voluntary resignation, if they are absent without special leave of absence for a period of more than six months, they are physically or mentally incapable of acting as a Director, they become bankrupt or prohibited by law from being a Director.

Directors' indemnity

The Company has granted a third party indemnity to each of its Directors against any liability which attaches to them in defending proceedings brought against them, to the extent permitted by English law. In addition, Directors and Officers of the Company and its subsidiaries are covered by Directors' & Officers' liability insurance.

Compensation for loss of office

The Company does not have arrangements with any Director which would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

Dividend

The Board recommends a final dividend of 0.90p per share in respect of the financial year ending 31 December 2017. Shareholders will be asked to approve the dividend at the AGM on 4 June 2018, for payment on 14 June 2018 to shareholders whose names are on the register on 25 May 2018.

The Company has a Dividend Reinvestment Plan that allows shareholders to reinvest dividends to purchase additional shares in the Company. For shareholders to apply the proceeds of this and future dividends to the plan, application forms must be received by the Company's Registrars by no later than Friday 25 May 2018. Existing participants in the Plan will automatically have the interim dividend reinvested. Details on the Plan can be obtained from Link Asset Services on 0371 664 0381 or at www.signalshares.com. Calls are charged at the standard geographic rate and will vary by provider. If you are outside the United Kingdom, please call +44 371 664 0381. Calls outside the United Kingdom will be charged at the applicable international rate. The lines are open from 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Future developments in the business of the Company

The likely future developments in respect of the business of the Company can be found in the Strategic Report on pages 6 to 35 and forms part of this report by reference.

Corporate governance

A report on corporate governance and compliance with the UK Corporate Governance Code is set out on pages 38 to 40, and forms part of this report by reference.

Health and safety

An overview of health and safety is provided in the Corporate Social Responsibility Statement on page 35 and forms part of this report by reference.

Greenhouse gas emissions

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility Statement on page 35 and forms part of this report by reference.

Anti-bribery and anti-corruption

We conduct our business in an honest and ethical manner wherever we operate. We take a zero tolerance approach to bribery and corruption and are committed to implementing and enforcing effective systems to prevent and detect bribery and corruption.

Political donations

The Company made no political donations in 2017 (2016: £nil).

Employee involvement and policy regarding disabled persons

The Gym operates an equal opportunities policy which aims to treat individuals fairly and not to discriminate on the basis of sex, race, ethnic origin, disability or on any other basis. The Company's policy and procedures are designed to provide for full and fair consideration and selection of disabled applicants, to ensure they are properly trained to perform safely and effectively and to provide career opportunities which allow them to fulfil their potential. Where an employee becomes disabled in the course of their employment, the Company will actively seek to retain them wherever possible by making adjustments to their work content and environment or by retraining them to undertake new roles. The Group updates staff with information on the Group's performance and on matters concerning them on a regular basis. Considerable value is placed on: the involvement of its staff; regular, open, fair and respectful communication; zero tolerance for human rights violations; fair remuneration; and, above all, a safe working environment.

Gender pay gap

We will shortly be publishing our Gender Pay Gap Report on the government and Company's website. Whilst our gender pay gap compares favourably with other organisations across both the UK economy and the low cost retail and fitness sector, we are committed to reporting on an annual basis the actions we are taking to reduce the gap and on our progress made against these actions.

Directors' interests

The beneficial interests of the Directors of the Company at 31 December 2017, and their connected persons, in the issued Ordinary shares are provided on page 54 within the Report of the Remuneration Committee.

Major interests in shares

As at 31 December 2017, the Company was aware of the following interests, representing 3% or more of the issued share capital of the Company, correct as at the date of notification. It should be noted that these holdings may have changed since notified to the Company, however, notification of any change is not required until the next applicable threshold is crossed.

Institution	Number of shares	Percentage
Barralina Asset Management GmbH	10,971,430	8.56%
SFM UK Management LLP	8,998,097	7.01%
Legal & General Investment Management Limited	8,907,236	6.94%
Threadneedle Asset Management Limited	7,499,632	5.85%
Quantum Partners LLP	7,400,000	5.8%
FIL Investments International	6,921,322	5.4%
Hargreave Hale Limited	6,607,036	5.15%
Liontrust Investments Limited	6,530,858	5.09%
River and Mercantile Asset Management LLP	6,147,500	4.7931%
Legal & General Group Plc	5,150,182	4.01%
John Treharne	4,531,748	3.5%

Between 31 December 2017 and 20 March 2018 the Company received further notifications under DTR 5:

Institution	Number of shares	Percentage
Barralina Asset Management GmbH	6,000,000	4.68%

Share capital

The details of the issued share capital can be found in note 23 to the Consolidated Financial Statements. The rights attached to the Company's Ordinary shares, being the only share class of the Company with voting rights, are set out in the Articles of Association.

The Ordinary shares rank pari passu in all respects with the other Ordinary shares in issue, including for voting purposes, and will rank in full for all dividends and other distributions thereafter declared, made or paid on the Ordinary share capital of the Company. Each Ordinary share ranks equally in the right to receive a relative proportion of shares in case of a capitalisation of reserves.

Subject to the provisions of the Act, any equity securities issued by the Company for cash must first be offered to shareholders in proportion to their holdings of Ordinary shares. The Act and Listing Rules allow for the disapplication of pre-emption rights which may be carried out by a special resolution of the shareholders, whether generally or specifically, for a maximum period not exceeding five years.

Except in relation to dividends which have been declared and rights on a liquidation of the Company, the shareholders have no rights to share in the profits of the Company.

The Ordinary shares are not redeemable. However, the Company may purchase or contract to purchase any of the Ordinary shares on or off market, subject to the Act and the requirements of the Listing Rules.

There are no restrictions on transfers of Ordinary shares other than:

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the Company's Share Dealing Code whereby the Directors and designated employees require approval to deal in the Company's shares; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any arrangements between shareholders which may result in restrictions on the transfer of securities or voting rights.

Amendment to the Company's Articles of Association

The Company may alter its Articles of Association by special resolution passed at a general meeting of shareholders.

Authority for the Company to purchase its own shares

At the 2017 AGM, the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Act) of its Ordinary shares on such terms and in such manner as the Directors of the Company may determine subject to the following conditions:

(i) the maximum number of Ordinary shares authorised to be purchased is 12,822,770, representing 10% of the Company's existing share capital;

(ii) the minimum price (exclusive of expenses) which may be paid for an Ordinary share is 0.01p (being the nominal value of the Ordinary shares);

(iii) the maximum price (exclusive of expenses) which may be paid for each Ordinary share purchased under this authority is the higher of:

   a. an amount equal to 105% of the average of the middle market price shown in the quotations for an Ordinary share as derived from the London Stock Exchange Daily Official List for the five trading days immediately preceding the date on which the Ordinary share is contracted to be purchased; and

   b. an amount equal to the higher of the price of the last independent trade of an Ordinary share and the highest current independent bid for an Ordinary share as derived from the London Stock Exchange Trading System;

(iv) the authority shall expire at the close of the next AGM of the Company after the passing of this resolution or, if earlier, on 30 June 2018.

The Company did not buy back any shares during the year.

Authority to allot shares

At the 2017 AGM, the Company was authorised to allot equity securities in connection with an offer or fresh issue to or, in favour of:

(i) holders of Ordinary shares in proportion (as nearly as practicable) to their existing holdings;

(ii) holders of equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, and so that the Directors may impose any limits, exclusions or restrictions or make other arrangements as they consider appropriate in relation to treasury shares, fractional entitlements, record dates, legal or practical problems under the laws in any territory or the requirements of any regulatory body or stock exchange or any other matter; the Company may allot equity securities for cash up to a maximum nominal amount of £4,274.25.

Significant agreements

The Company is not a party to any significant agreements which would take effect, alter or terminate upon a change of control of the Company.

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out in note 22 to the Consolidated Financial Statements.

Information presented in other sections

Certain information is required to be included in the Annual Financial Report by Listing Rule 9.8.4. The following table provides references to where this information can be found in this Annual Report. If a requirement is not shown, it is not applicable to the Company.

Section	Listing Rule requirement	Location
4	Details of long term incentive schemes	Report of the Remuneration Committee (page 49)

Auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

a) so far as the Director is aware, there is no relevant audit information of which the Company's Auditor is unaware; and
b) the Director has taken all the steps which he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's Auditor is aware of that information.

Ernst & Young LLP have expressed their willingness to continue in office as Auditors and a resolution to reappoint them will be proposed at the forthcoming AGM.

AGM

The Notice convening the 2018 AGM will be circulated to shareholders separately.

On behalf of the Board

Richard Darwin
Chief Financial Officer and Company Secretary
20 March 2018

Directors' Responsibility Statement

The Directors are responsible for preparing the Strategic Report, Directors' Report and the Financial Statements in accordance with applicable law and regulations.

As a listed company within the European Union, the Directors are required to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the EU. The Directors have elected to prepare the Parent Company Financial Statements in accordance with the Companies Act 2006 and UK Accounting Standard FRS 101 'Reduced Disclosure Framework'.

Under company law, the Directors must not approve the Financial Statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group for that period. In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- in respect of the Group Financial Statements, provide additional disclosures when compliance with the specific requirements of IFRS is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance;
- state that the Group has complied with IFRS, subject to any material departures disclosed and explained in the Financial Statements;
- in respect of the Parent Company Financial Statements, state whether applicable UK accounting standards have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis, unless they consider that to be inappropriate.

The Directors confirm that the Financial Statements comply with the above requirements.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and the Group and enable them to ensure that the Financial Statements comply with the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Responsibilities statement

We confirm that to the best of our knowledge:

- the Group Financial Statements, which have been prepared in accordance with IFRSs as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and results of the Group;
- the Strategic Report contained in this Annual Report includes a fair review of the development and performance of the business and the position of the Company and the Group, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Richard Darwin
Chief Financial Officer and Company Secretary
20 March 2018

Independent Auditor's Report to the Members of The Gym Group plc

For the year ended 31 December 2017

Opinion

In our opinion:

- The Gym Group plc's Group Financial Statements and Parent Company Financial Statements (the 'Financial Statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2017 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

We have audited the Financial Statements of The Gym Group plc which comprise:

Group	Parent Company
Consolidated Statement of Financial Position as at 31 December 2017	Company Statement of Financial Position as at 31 December 2017
Consolidated Statement of Comprehensive Income for the year then ended	Company Statement of Changes in Equity for the year then ended
Consolidated Statement of Changes in Equity for the year then ended	Related notes 1 to 8 to the Company Financial Statements including a summary of significant accounting policies
Consolidated Cash Flow Statement for the year then ended	
Related notes 1 to 28 to the Consolidated Financial Statements including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the Financial Statements' section of our report below. We are independent of the Group and Parent Company in accordance with the ethical requirements that are relevant to our audit of the Financial Statements in the UK, including the FRC's Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 30 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 32 in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 32 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Deferral of membership income. • Annual goodwill impairment testing cash flow and discount rate assumptions. • Accounting for the acquisition of Lifestyle Fitness and Aylesbury gyms.
Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further three components. • The components where we performed full or specific audit procedures accounted for 100% of profit before tax and exceptional items, 100% of revenue and 100% of total assets.
Materiality	• Overall Group materiality of £542,750 which represents 5% of profit before tax and exceptional items.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the Financial Statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Deferral of membership income – total revenue for the year ended 31 December 2017: £91.4 million (31 December 2016: £73.5 million), of which £5.3 million was deferred at 31 December 2017 (31 December 2016: £3.8 million). *Refer to the Report of the Audit and Risk Committee (page 42); accounting policies (page 72); and notes 4 and 18 of the Consolidated Financial Statements (pages 76 and 81).* Member's monthly subscription payments are collected each month on various dates during each calendar month. The Group also collects non-monthly subscriptions at the commencement of the relevant subscription period. Consequently, in preparing the annual accounts, management need to calculate the amount of payments collected for all gyms which relate to membership after the year end date and for which the related revenue should be deferred. Although the calculation of deferred membership fees does not involve judgements and estimates, it is non-routine in its performance and given the number of members, varying subscription rates, the reliance on outsourced processes, manual general ledger postings and the first year of accounting for Lifestyle Fitness memberships, there is an increased risk of material error and management override in making this calculation. The risk has increased in the current year due to the acquisition of Lifestyle Fitness which operates using gym membership arrangements that differ from the Group's existing arrangements.	We obtained an understanding of the Group's revenue recognition process, in particular in respect of the membership subscription process associated with the Lifestyle Fitness gyms. We also obtained an understanding of the deferred membership fee income calculation process and related controls, including in respect of the gyms acquired from Lifestyle Fitness. We re-performed management's deferred membership fee income calculation. We tested the completeness of the members included in the deferred membership fee income calculation by using the December 2017 membership data in the income reports used to post revenue and cash within our re-performance of the deferred membership fee income calculation. We agreed a sample of the data used in management's deferred revenue calculation (for example, the membership ID, joining/direct debit date and subscription rate) to the members database and the December 2017 membership income reports used to post revenue and cash. We tested the appropriateness of journal entries recorded in the general ledger in relation to revenue, and in particular those related to deferred income. We considered the risk of management override in the revenue process, including the deferred membership income calculation. The Group audit team performed full and specific scope audit procedures over this risk area in all locations, which covered 100% of the risk amount.	Based on our procedures, we did not identify any material errors in the deferral of membership income in the year ended 31 December 2017.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Annual goodwill impairment testing including cash flow and discount rate assumptions – 31 December 2017: £55.6 million (31 December 2016: £45.2 million). *Refer to the Report of the Audit and Risk Committee (page 42); accounting policies (pages 72 and 73); and note 13 of the Consolidated Financial Statements (pages 79 and 80).* As disclosed in note 13 to the Consolidated Financial Statements, goodwill recognised in the Group Statement of Financial Position of £55.6 million (arising on the acquisition of the Gym Limited in 2013, the acquisition of the trade and assets of 18 gyms from Lifestyle Fitness and the acquisition of the trade and assets of one gym in Aylesbury) has been allocated to two groups of cash generating units ('CGUs') comprising The Gym chain of health and fitness facilities and Lifestyle Fitness chain of health and fitness facilities. As required, management have undertaken an annual impairment review in respect of the goodwill allocated to each group of CGUs in accordance with the requirements of IAS 36 'Impairment of Assets' and concluded that no impairment arises at 31 December 2017. We focused on this area due to both the significance of the carrying value of goodwill, the acquisitions in 2017 and the inherent uncertainty involved in an impairment review, which requires management to make significant judgements and estimations as to future outcomes and assumptions of cash flows (for example, customer acquisition and retention, changes in subscription rates, operating costs etc), along with the discount rate to be applied to those cash flows. In addition, such judgements and estimates could be influenced by management bias. The significant assumptions are disclosed in note 13 to the Consolidated Financial Statements . The risk has increased in the current year due to the increase in goodwill of £10.3 million resulting from the acquisitions made in 2017.	We obtained and challenged management's updated CGU assessment in light of the Lifestyle Fitness and Aylesbury gym acquisitions. We obtained management's impairment testing models, considered the calculation methodology, sources for key assumptions and sensitivities applied and tested the integrity of the models. We discussed with management the basis of the key assumptions used in the impairment models, being the discount rate, revenue growth and cost inflation over the next three years and the long term growth from 2021 onwards, as disclosed in note 13 to the Consolidated Financial Statements. We then challenged the reasonableness of these assumptions by reference to historical data, external benchmarks and the risk of management bias. We also assessed the historical accuracy of management's forecasting by comparing actual financial performance to management's previous forecasts/budgets. We considered management's sensitivity analysis showing the impact of a reasonable change in impairment assumptions to determine whether an impairment charge was required. This consideration included performing our own sensitivity analysis by reference to the results of our assessment of assumptions referred to above. We ensured that the Financial Statement disclosures, particularly those in note 13 to the Consolidated Financial Statements, met the requirements of IAS 36 and IAS 1 'Presentation of Financial Statements' ('IAS 1'), particularly those related to judgements, estimation uncertainty and sensitivities. The Group audit team performed the full scope audit procedures on the impairment models prepared for The Gym Group plc. As part of our work, we utilised EY valuations specialists to assist in our assessment of the discount rate and long term growth rate cash flow assumptions used in the impairment models and the methodology of the models.	Based on our procedures, we believe that the combined effect of the cash flow and discount rate assumptions used by management in each of The Gym and Lifestyle Fitness group of CGUs impairment models are within acceptable ranges. However, while reasonably possible changes in the key assumptions would not cause an impairment to arise in respect of the goodwill allocated to the The Gym group of CGUs, reasonably possible changes in the growth rate assumption could result in an impairment in the goodwill allocated to the Lifestyle Fitness group of CGUs. We consider that management's impairment model methodology is acceptable. The Financial Statement disclosures, particularly those in note 13 to the Consolidated Financial Statements, materially comply with the applicable requirements of IAS 36 and IAS 1.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the acquisition of Lifestyle Fitness and Aylesbury gyms – consideration payable of £21.5 million (of which £21.3 million has been paid to date and £0.2 million relates to contingent consideration) and acquisition costs of £0.5 million, with assets acquired being goodwill of £10.3 million, other intangible assets of £1.9 million, property, plant and equipment of £10.8 million and liabilities assumed of £0.3 million. *Refer to the Report of the Audit and Risk Committee (page 42); accounting policies (pages 71 and 72); and notes 6, 12, 13, 18 and 24 of the Consolidated Financial Statements (pages 76, 79, 80, 81 and 85).* On 29 September 2017, the Group acquired the trade and assets of a portfolio of 18 gyms operated by Lifestyle Fitness. On 24 November 2017, the Group also acquired the trade and assets of a single gym based in Aylesbury. Management have concluded that the acquisitions of the gyms from Lifestyle Fitness and that of the single gym in Aylesbury should be accounted for as business combinations under IFRS 3 'Business Combinations' ('IFRS 3'). As required by IFRS 3, management have assessed the recognition and measurement of the identifiable assets acquired and liabilities assumed in both acquisitions. Management have also considered the measurement and accounting of a number of other elements of these acquisitions, including the concession arrangements, option fee, the consideration paid or payable, and the costs of each acquisitions. We focused on this area due to the significance of the fair value of both the consideration transferred and assets acquired, and the inherent uncertainty involved in identifying and measuring the assets acquired and liabilities assumed, including allocating those assets and liabilities between gyms to be operated under The Gym brand and those that would continue to be operated under the Lifestyle Fitness brand. In particular, we focused on significant judgements and estimations required by management regarding the identification of intangible assets acquired, the future cash flows and discount rates related to those intangible assets (in particular in relation to members lists), and the valuation of leasehold improvements and gym equipment assets acquired. Such judgements and estimates could be influenced by management bias. This is a new risk in the current year due to the acquisitions which have taken place.	We obtained management's written assessment of the accounting treatment of these transactions and reviewed this, together with the underlying transaction documentation, in light of the requirements of IFRS 3 to assess the appropriateness of management's concluded accounting treatment. We ensured that the accounting treatment of this transaction adopted in the 2017 annual accounts was in accordance with IFRS 3 (and any other relevant standards) and the transaction documents. We considered the reasonableness of management's assessment of the recognition and measurement of the assets acquired and any liabilities assumed (including assessing the work of any specialists used by management as part of their assessment) in view of the requirements of IFRS 3 and IFRS 13 'Fair value measurement'. We involved EY valuation specialists to assist us in this regard. We tested the reasonableness of the measurement of the consideration transferred to each vendor by comparing to the underlying transaction documents and payment records. In respect of the acquisition costs of £0.5 million we tested a sample of these costs to supporting documentation to ensure their inclusion as acquisition costs was appropriate and that these costs were correctly measured. We assessed the reasonableness of the accounting for the Lifestyle Fitness concession agreement arrangements, particularly the treatment of the option fee against the requirements of relevant IFRS, notably IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. We considered the adequacy and appropriateness of the disclosures included in the 2017 annual accounts in respect of these transactions against the disclosure requirements of IFRS 3. The Group audit team performed full and specific scope audit procedures over this risk area in all locations, which covered 100% of the risk amount.	Based on our procedures, we did not identify any material errors in relation to the accounting for the acquisition of the 18 gyms from Lifestyle Fitness and the single gym in Aylesbury in the year ended 31 December 2017.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the Consolidated Financial Statements. We take into account size, risk profile, the organisation of the Group and effectiveness of group-wide controls, changes in the business environment and other factors when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group Financial Statements, and to ensure we had adequate quantitative coverage of significant accounts in the Financial Statements, of the seven reporting components of the Group, we selected five components covering entities which represent the principal business units within the Group. All reporting components within the Group are located in the United Kingdom.

Of the five components selected, we performed an audit of the complete financial information of two components ('full scope components') which were selected based on their size or risk characteristics. These full scope components comprise the Parent Company and the main trading entity within the Group. For the remaining three components ('specific scope components'), we performed audit procedures on specific accounts within those components that we considered had the potential for the greatest impact on the significant accounts in the Financial Statements either because of the size of these accounts or their risk profile. These specific scope components include an intermediate holding company performing certain Group management functions and two trading subsidiaries newly incorporated as a result of the Lifestyle Fitness gym acquisition.

The reporting components where we performed audit procedures accounted for 100% (2016: 100%) of the Group's Revenues, Profit before tax and exceptional items, Profit before tax, and Total Assets.

The table below illustrates the coverage obtained from the work performed by us:

	2017			2016		
	Full scope	Specific scope	Remaining components	Full scope	Specific scope	Remaining components
Number of components	2	3	2	2	1	2
Revenue	98.9%	1.1%	–	100%	–	–
Profit/(loss) before tax and exceptional items	104.6%	(4.6%)	–	133%	(33%)	–
Profit/(loss) before tax	105.7%	(5.7%)	–	135%	(35%)	–
Total assets	98.1%	1.9%	–	99.4%	0.06%	–

The audit scope of the specific scope components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

The remaining two components are intermediate holding companies. In respect of these components, we performed other procedures, including enquiries of management, analytical review, testing of related consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group Financial Statements.

Changes from the prior year

Our 2017 audit scope is consistent with our 2016 audit scope with the exception of the addition of two specific scope components reflecting the two trading subsidiaries newly incorporated as a result of the Lifestyle Fitness gym acquisition.

Involvement with component teams

All audit work performed for the purposes of the audit was undertaken by the Group audit team.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the Financial Statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £542,750 (2016: £363,000), which is 5% (2016: 5%) of profit before tax and exceptional items. We believe that profit before tax and exceptional items provides a consistent measure of underlying performance as it excludes non-recurring exceptional items. This adjusted measure is used by the market and analysts as a key metric and therefore is a focus for shareholders. The Group's profit before tax and exceptional items in the current year of £10,855,000 (2016: £7,261,000) has been arrived at by adding back £1,664,000 (2016: £321,000) of exceptional items (as disclosed in note 6 to the Consolidated Financial Statements) to the Group's profit before tax of £9,191,000 (2016: £6,940,000).

During the course of our audit, we reassessed our initial assessment of materiality from an amount of £535,000 based on pre year end forecasts, to the amount indicated above once actual results were available.

We determined materiality for the Parent Company to be £1,615,200 (2016: £1,473,400), which is 1% (2016: 1%) of total assets.

Given the nature of the Parent Company's activities we believe total assets is a key metric of the shareholders. While materiality for the Parent Company exceeds that of the Group, as noted below our performance materiality for the Parent Company's audit was based upon an allocation of the performance materiality used in the audit of the Group's financial statements.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2016: 75%) of our materiality, namely £407,000 (2016: £272,250). We have set performance materiality at this percentage due to experience with the Group since our appointment in 2015, demonstrating an effective control environment and low incidence of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £81,400 to £407,000 (2016: £136,125 to £272,250).

We determined performance materiality for the Parent Company's own financial statements to be £407,000 (2016: £272,250), reflecting the performance materiality allocated to that full scope component as part of our audit of the Group's financial statements.

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £27,000 (2016: £18,000), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The increased amount from the prior year reflects the increase in materiality indicated above.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 58, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, 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 other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable set out on page 43** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit committee reporting set out on page 42** – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 38** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
- the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the Directors' Responsibility Statement set out on page 59, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine 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, the Directors are responsible for assessing the Group and Parent 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 unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

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 (UK) 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the Financial Statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are: Companies Act 2006; UK Listing Rules; UK Listing Authority – Disclosure and Transparency Rules; The Large and Medium-sized Companies and Groups (Accounts and Reports (Amendment)) Regulations 2013, in particular in respect of the Directors' Remuneration Report; UK Tax Legislation; Financial Services Act 2012 and UK Corporate Governance Code 2016.
- We understood how The Gym Group plc is complying with those frameworks by: making enquiries of senior management and those charged with governance; obtaining an understanding of entity-level controls and considering the influence of the control environment; obtaining an understanding of policies and procedures in place regarding compliance with laws and regulations, including how compliance with such policies is monitored and enforced; obtaining an understanding of management's process for identifying and responding to fraud risks, including programmes and controls established to address risks identified, or otherwise prevent, deter and detect fraud, and how senior management monitors those programmes and controls; and reviewing correspondence with relevant regulatory authorities.
- We assessed the susceptibility of the Group's Financial Statements to material misstatement, including how fraud might occur by: discussing within the audit team; performing client acceptance/continuance procedures; reviewing interim financial information; identifying related parties, including circumstances related to the existence of a related party with dominant influence; obtaining an understanding of entity-level controls and considering the influence of the control environment; and considering the nature of the account and our assessment of inherent risk for relevant assertions of significant accounts.
- Based on this understanding, we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved: enquiring of members of senior management and those charged with governance regarding their knowledge of any non-compliance or potential non-compliance with laws and regulations that could affect the financial statements; enquiring about the policies that have been established to prevent non-compliance with laws and regulations by officers and employees, and whether such policies are formalised in a code of conduct, conflict-of-interests statement or similar standard; enquiring about the entity's methods of enforcing and monitoring compliance with such policies, if any; and inspecting correspondence, if any, with the relevant licensing or regulatory authorities.

A further description of our responsibilities for the audit of the Financial Statements is located on the Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Other matters we are required to address

- We were appointed by the Company on 28 July 2015 to audit the Financial Statements for the year ending 31 December 2015 and subsequent financial periods.
- The period of total uninterrupted engagement, including previous renewals and reappointments is three years, covering the years ending 31 December 2015 to 31 December 2017.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the audit committee.

Michael Kidd (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast
20 March 2018

Notes:

1. The maintenance and integrity of The Gym Group plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the Financial Statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of Financial Statements may differ from legislation in other jurisdictions.

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
Revenue	4	**91,377**	73,539
Cost of sales		**(982)**	(830)
Gross profit		**90,395**	72,709
Administration expenses		**(80,453)**	(64,993)
Operating profit	5	**9,942**	7,716
Being:			
– Group Adjusted EBITDA[1]		**27,963**	22,691
– Depreciation	12	**(14,408)**	(12,693)
– Amortisation	13	**(1,175)**	(1,442)
– Exceptional items	6	**(1,664)**	(321)
– Long term employee incentive costs	25	**(774)**	(519)
Finance income	9	**12**	19
Finance costs	10	**(763)**	(795)
Profit before tax		**9,191**	6,940
Tax charge	11	**(2,020)**	(1,237)
Profit for the year attributable to equity shareholders		**7,171**	5,703
Other comprehensive income for the year		**–**	–
Total comprehensive income attributable to equity shareholders		**7,171**	5,703
Earnings per share	7	**pence**	pence
Basic		**5.6**	4.5
Diluted		**5.6**	4.4

1 Group EBITDA is a non-GAAP metric used internally by management and externally by investors.

The notes on pages 71 to 88 form an integral part of the Financial Statements.

Consolidated Statement of Financial Position

As at 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
Non-current assets			
Property, plant and equipment	12	**133,356**	99,037
Intangible assets	13	**62,066**	48,717
Trade and other receivables	16	**515**	403
Available-for-sale financial assets	14	**316**	–
Total non-current assets		**196,253**	148,157
Current assets			
Inventories	15	**197**	159
Trade and other receivables	16	**9,037**	5,814
Cash and cash equivalents	17	**457**	4,822
Total current assets		**9,691**	10,795
Total assets		**205,944**	158,952
Current liabilities			
Trade and other payables	18	**43,662**	34,123
Provisions	20	**487**	–
Income taxes payable		**822**	134
Total current liabilities		**44,971**	34,257
Non-current liabilities			
Borrowings	19	**37,113**	9,178
Other financial liabilities	24	**184**	–
Provisions	20	**700**	544
Deferred tax liabilities	11	**2,092**	683
Total non-current liabilities		**40,089**	10,405
Total liabilities		**85,060**	44,662
Net assets		**120,884**	114,290
Capital and reserves			
Issued capital	23	**12**	12
Own shares held	23	**48**	48
Capital redemption reserve	23	**4**	4
Share premium	23	**136,280**	136,280
Retained deficit	23	**(15,460)**	(22,054)
Total equity shareholders' funds		**120,884**	114,290

The notes on pages 71 to 88 form an integral part of the Financial Statements.

These Financial Statements were approved by the Board of Directors on 20 March 2018.

Signed on behalf of the Board of Directors

John Treharne
Chief Executive Officer

Richard Darwin
Chief Financial Officer

Company Registration Number 08528493

Consolidated Statement of Changes in Equity

For the year ended 31 December 2017

		Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Retained deficit £'000	Total £'000
At 1 January 2016		12	48	4	136,280	(27,901)	108,443
Profit for the year and total comprehensive income		–	–	–	–	5,703	5,703
Share based payments	25	–	–	–	–	465	465
Dividends paid	28	–	–	–	–	(321)	(321)
At 31 December 2016		12	48	4	136,280	(22,054)	114,290
Profit for the year and total comprehensive income		–	–	–	–	7,171	7,171
Share based payments	25	–	–	–	–	655	655
Deferred tax on share based payments	11	–	–	–	–	115	115
Dividends paid	28	–	–	–	–	(1,347)	(1,347)
At 31 December 2017		**12**	**48**	**4**	**136,280**	**(15,460)**	**120,884**

The notes on pages 71 to 88 form an integral part of the Financial Statements.

Consolidated Cash Flow Statement

For the year ended 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
Cash flows from operating activities			
Operating profit		**9,942**	7,716
Adjustments for:			
Exceptional items	6	**1,664**	321
Depreciation of property, plant and equipment	12	**14,408**	12,693
Amortisation of intangible assets	13	**1,175**	1,442
Long term employee incentive costs		**774**	519
(Profit)/loss on disposal of property, plant and equipment		**(5)**	30
Increase in inventories		**(38)**	(37)
Increase in trade and other receivables		**(3,334)**	(451)
Increase in trade and other payables		**6,358**	5,622
Cash generated from operations		**30,944**	27,855
Tax paid		**(1,050)**	(243)
Interest paid		**(771)**	(571)
Net cash flows from operating activities before exceptional items		**29,123**	27,041
Exceptional costs		**(1,147)**	(944)
Net cash flow from operating activities		**27,976**	26,097
Cash flows from investing activities			
Proceeds from disposals of property, plant and equipment		**–**	22
Purchase of available-for-sale financial assets		**(316)**	–
Business combinations		**(21,300)**	–
Purchase of property, plant and equipment		**(35,411)**	(22,833)
Purchase of intangible assets		**(1,693)**	(1,022)
Interest received		**12**	19
Net cash flows used in investing activities		**(58,708)**	(23,814)
Cash flows from financing activities			
Dividends paid		**(1,347)**	(321)
Drawdown of bank loans	19	**28,000**	–
Payment of financing fees		**(286)**	–
Net cash flows from/(used in) financing activities		**26,367**	(321)
Net (decrease)/increase in cash and cash equivalents		**(4,365)**	1,962
Cash and cash equivalents at 1 January		**4,822**	2,860
Cash and cash equivalents at 31 December		**457**	4,822

The notes on pages 71 to 88 form an integral part of the Financial Statements.

Notes to the Consolidated Financial Statements

For the year ended 31 December 2017

1. General information

The Gym Group plc ('the Company') and its subsidiaries ('the Group') provide low cost, high quality health and fitness facilities.

The Company is a public limited company whose shares are publicly traded on the London Stock Exchange and is incorporated and domiciled in the United Kingdom.

The registered address of the Company is 5th Floor, OneCroydon, 12-16 Addiscombe Road, Croydon, United Kingdom, CR0 0XT.

2. Summary of significant accounting policies

A summary of the significant accounting policies is set out below. These have been applied consistently in the Financial Statements.

Statement of compliance

The Consolidated Financial Statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as adopted for use in the EU, International Financial Reporting Interpretations Committee ('IFRIC') interpretations and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The functional currency of each entity in the Group is Pounds Sterling. The Consolidated Financial Statements are presented in Pounds Sterling and all values are rounded to the nearest thousand Pounds, except where otherwise indicated.

Basis of preparation

The Consolidated Financial Statements have been prepared on a going concern basis under the historical cost convention as modified by the recognition of derivative financial instruments and other financial liabilities at fair value through the profit and loss.

Standards issued not yet effective

At the date of authorisation of these Financial Statements, the following new standards and interpretations which have not been applied in these Financial Statements were in issue but not yet effective:

- IFRS 15 – Revenue from Contracts with Customers (effective 1 January 2018)
- IFRS 9 – Financial Instruments (effective 1 January 2018)
- IFRS 2 – Classification and Measurement of Share Based Payment Transactions – Amendments to IFRS 2 (effective 1 January 2018)
- IFRS 16 – Leases (effective 1 January 2019)

With the exception of IFRS 16, the adoption of these Standards and Interpretations is not expected to have a material impact on the financial statements of the Group in the period of initial application when the relevant standards come into effect.

IFRS 16 specifies the recognition, measurement, presentation and disclosure of leases and will be applied for the first time in the Group's Consolidated Financial Statements for the year ended 31 December 2019. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The Group continues to assess the exact financial impact of adopting IFRS 16 and the transition approach it intends to apply on adoption of the new standard. Given the significant leasing arrangements within the Group, the adoption of this standard is expected to have a material impact on the Group's Financial Statements as follows:

- the present value of the Group's operating lease commitments (some £293 million on an undiscounted basis at 31 December 2017 as disclosed in note 26) will be recognised on the balance sheet as a right-of-use asset together with a corresponding lease liability;
- operating lease rentals currently included within Administration expenses (see note 5) are expected to decrease to a negligible amount. However, depreciation included within administration expenses and finance costs will increase in respect of the depreciation of the right-of-use asset over the term of the lease with an associated finance cost applied annually to the lease liability.

There will be no impact on cash flows, although the presentation of the cash flow statement will change significantly. In addition to the recognition and measurement impacts above, there will also be significantly increased disclosures when the Group adopts IFRS 16.

New standards adopted

No new standards or amendments to standards had any impact on the Group's financial position or performance, nor the disclosures in these Financial Statements.

Going Concern

The Directors have made appropriate enquiries and formed a judgement at the time of approving the Financial Statements that there is a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. For this reason the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Consolidation

Subsidiaries

A subsidiary is an entity controlled, either directly or indirectly, by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- exposure, or rights, to variable returns from its involvement with the investee; and
- the ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- the contractual arrangement with the other vote holders of the investee;
- rights arising from other contractual arrangements; and
- the Group's voting rights and potential voting rights.

2. Summary of significant accounting policies continued

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the income statement from the date the Group gains control and until the date the Group ceases to control the subsidiary.

When necessary, adjustments are made to the Financial Statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The acquisition method of accounting is used to account for the acquisition of subsidiaries or business combinations where trade and assets are acquired by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of Directors. The Group's activities consist solely of the provision of high quality health and fitness facilities within the United Kingdom, presently traded through 120 sites operating under and being converted to The Gym brand and eight sites operating under the Lifestyle Fitness brand, with each considered as a separate operating segment under IFRS 8 'Operating Segments' (IFRS 8). However, the Directors have determined that both operating segments have similar economic characteristics, services, customer types, methods and regulatory environments. Consequently, as allowed by IFRS 8 both operating segments have been combined into one single reportable operating segment.

Segment results are measured using earnings before interest, tax, depreciation, amortisation, long term employee incentive costs, exceptional items and other income. Segment assets are measured at cost less any recognised impairment. All revenue arises in and all non-current assets are located in the United Kingdom. The accounting policies used for segment reporting reflect those used for the Group.

Revenue

Revenue, which is stated excluding value added tax and other sales-related taxes, is measured at the fair value of the consideration receivable for goods and services supplied and non-refundable joining fees.

Revenue from upfront longer term membership fees are recognised and spread over the appropriate period. Monthly membership fees paid upfront are recognised throughout the month the fee relates to. Non-refundable joining fees associated with monthly members are recognised immediately as revenue.

Rental income from Personal Trainers relating to the Lifestyle Fitness acquisition is recognised on a straight-line basis over the term of the agreement. Other income is recognised at the point of sale as this reflects the transfer of risks and rewards of ownership.

Cost of sales

Cost of sales comprise costs arising in connection with the generation of ancillary revenue, primarily vending machine costs and tanning bed costs, call centre costs, payment processing costs and costs arising from the operation of the Group's member management systems.

Exceptional items

Items that are material in size, unusual or infrequent in nature are included within profit or loss and disclosed separately as exceptional items in the income statement and the notes to the financial statements.

The separate reporting of exceptional items, which are presented as exceptional within the relevant category in the income statement, helps provide an indication of the Group's underlying business performance.

Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation and any recognised impairment loss.

Depreciation is calculated to write down the cost of the assets on a straight-line over the estimated useful lives on the following bases:

• Leasehold improvements	over term of lease
• Fixtures, fittings and equipment	between three and ten years
• Gym and other equipment	between five and eight years
• Computer equipment	three years

The estimated useful lives are reviewed at the end of each reporting period and adjusted if appropriate. The carrying values of property, plant and equipment are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Intangible assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary or the Group's share of trade and assets acquired in a business combination at the date of acquisition. Goodwill on acquisitions is included in intangible assets. Goodwill is tested annually for impairment and carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

2. Summary of significant accounting policies continued

Goodwill is allocated to cash generating units ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment.

Brands and customers lists

Brands and customers lists are shown at historical cost, or at fair value if acquired as part of a business combination. Brands and customers lists have finite useful lives and are carried at cost less accumulated amortisation and any recognised impairment. Amortisation is calculated using the straight-line method to allocate the cost of brands and customers lists over their estimated useful lives of five and three years respectively.

Contract related

Contract related intangibles relate to the lease premium associated with a portfolio of leases acquired in a business combination where the terms of the lease were favourable compared to market terms and prices. These assets have been amortised on a straight-line basis over the useful lives of the individual contracts ranging from 14.5 to 27 years respectively.

Technology related

Technology-related intangible assets are the intellectual property rights represented by the development costs associated with the development of the bespoke membership and customer related management systems that provide highly tailored functionality and integrate closely with website and online payment systems. This asset is amortised on a straight-line basis over its useful economic life of three years.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring to use the specific software.

Certain costs incurred in connection with the development of software to be used internally or for providing services to customers are capitalised once a project has progressed beyond a conceptual, preliminary stage to that of application development. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Costs that qualify for capitalisation include both internal and external costs, but are limited to those that are directly related to the specific project. Computer software costs are included at capitalised cost less accumulated amortisation and any recognised impairment loss.

Amortisation is calculated to write down the cost of the assets on a straight-line basis over their estimated useful lives, over three to five years. Useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

Impairment of non-financial assets

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGUs to which the asset belongs. For property, plant and equipment and intangible assets the allocation is made to those CGU units that are expected to benefit from the asset, that being each trading health and fitness facility. For goodwill, the CGU is deemed to be each chain of health and fitness facilities acquired.

Any impairment charge is recognised in the income statement in the period in which it occurs. Impairment losses relating to goodwill cannot be reversed in future periods. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Financial Instruments

The Group classifies its financial assets as loans and receivables and available-for-sale investments.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Investments in unquoted in equity securities are designated as available-for-sale financial assets if they do not have fixed maturities and fixed or determinable payments, and management intends to hold them for the medium to long term. These investments are carried at amortised cost on the basis that their fair value cannot be reliably measured and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired.

The financial assets are presented as current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets.

2. Summary of significant accounting policies continued

Financial liabilities
The Group's financial liabilities comprise trade and other payables, other financial liabilities (including contingent consideration), borrowings and derivative financial liabilities.

The Group initially recognises its financial liabilities at fair value net of transaction costs where applicable and, other than derivatives, and with the exception of contingent consideration are subsequently measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest method over the maturity of the loan. Contingent consideration is subsequently measured at its fair value.

Borrowing costs
General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on temporary investments of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs of eligible for capitalisation.

All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Derivative financial instruments
The Group's activities expose it to financial risks associated with movements in interest rates. The Group uses interest rate hedging contracts to hedge its interest rate exposure. The use of financial derivatives is governed by the Group's treasury policies, as approved by the Board. The Group does not use derivative financial instruments for speculative purposes.

All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates. Gains and losses in fair value are recognised in the income statement.

Pensions
The Group operates a defined contribution pension scheme and pays contributions to publicly or privately administered pension plans. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

Leases
Operating leases
Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

Lease incentives
Lease incentives primarily include upfront cash payments or rent-free periods. Lease incentives are capitalised and recognised over the period of the lease term.

Share based payments
Equity-settled share based payments are measured at the fair value of the equity instruments at the grant date, which excludes the effect of non-market-based vesting conditions. The fair value at the grant date is recognised as an expense on a straight-line basis over the vesting period, based on the Group's estimate of the number of equity instruments that will eventually vest. The estimate of the number of awards likely to vest is reviewed at each balance sheet date up to the vesting date at which point the estimate is adjusted to reflect the actual outcome of awards which have vested. No adjustment is made to the fair value after the vesting date even if the awards are forfeited or not exercised.

Inventories
Inventories are carried at the lower of cost and net realisable value.

Trade and other receivables
Trade and other receivables consist mainly of prepayments, accrued income and receivables relating to property leases.

Cash and cash equivalents
Cash and cash equivalents comprise cash at bank, short term deposits held on call with banks and other short term highly liquid investments with original maturities of three months or less.

Trade and other payables
Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Current taxation
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Income tax relating to items recognised in comprehensive income or directly in equity is recognised in comprehensive income or equity and not in the income statement.

2. Summary of significant accounting policies continued

Deferred taxation

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and amended to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

Dividends

Dividends payable by the Company are recognised on declaration.

3. Significant accounting judgements, estimates and assumptions

The preparation of the financial statements in accordance with IFRS requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the period. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Accounting estimates made by the Group's management are based on information available to management at the time each estimate is made. Accordingly, actual outcomes may differ materially from current expectations under different assumptions and conditions. The significant judgements that management has made in applying its accounting policies and the estimates and assumptions for which there is a significant risk of a material adjustment to the Financial Statements within the next financial year are set out below.

Critical judgements apart from those involving estimates in applying the Group's accounting policies

Business combinations

The Group acquired the trade and assets of a portfolio of gyms trading under the Lifestyle Fitness brand and a single site gym in Aylesbury during the year. The Directors have assessed the trade and assets acquired constituted businesses under IFRS 3 'Business combinations' (IFRS 3) on the basis that these transactions included the transfer of employees and members in addition to the transfer of property, plant and equipment. Consequently, the Directors have assessed that these acquisitions constituted a business combination under IFRS 3. In accounting for these business combinations, the Directors also made judgements in relation to identification of intangible assets acquired. As indicated in notes 13 and 24, the only material intangible asset identified related to members lists.

Source of estimation uncertainty

Depreciation and amortisation

The Group reviews the estimated useful lives and residual values of property, plant and equipment and intangible assets annually. The assets are depreciated or amortised over their estimated useful lives to their residual values. Given the significance of the carrying values of property, plant and equipment to the Group's financial position, relatively small changes in estimated useful lives could have a material effect on the Group's Consolidated Financial Statements. During the current year's assessment, a revision increasing the estimated useful lives of gym equipment was made resulting in a £1.3 million reduction in the depreciation charge in the current year. The increase in estimated useful life will reduce depreciation charge in future years but it is not practical to estimate the effect. Details of the useful lives assigned to the Group's property, plant and equipment and intangible assets is included in note 2. The carrying values of such assets are included in notes 12 and 13.

Goodwill impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its CGUs. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information, including key assumptions and carrying values, is included in note 13. While the Directors have currently assessed that reasonably possible changes in key assumptions are unlikely to cause an impairment, in the goodwill allocated to the The Gym chain of gyms estimates of future cash flows and the determination of discount rates applied to those cash flows could change in the longer term such that an impairment arises.

3. Significant accounting judgements, estimates and assumptions continued

Provisions

Provisions are made for dilapidations in respect of leased premises. The recognition and measurement of these provisions require estimates to be made in respect of uncertain events and amounts, with the key sources of estimation uncertainty relating to whether a restoration obligation will arise, the amount and timing of future cash flows required to settle any restoration obligation assessed as arising, and to a lesser extent the discount rate applied to those estimated cash flows. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. The judgement that has the most significant effect on the amounts recognised relates to management's determination that the likelihood of a liability arising is remote in relation to 112 of the Group's 128 gym sites as the Group enjoys security of tenure as tenant and therefore is unlikely to give up a site where it is trading profitably. However, if circumstances indicate otherwise the Group will recognise an appropriate provision. Details of dilapidation provisions recognised are set out in note 20.

4. Revenue

An analysis of revenue by service or product is as follows:

	2017 £'000	2016 £'000
Membership income	**90,358**	72,915
Other income	**1,019**	624
	91,377	73,539

5. Operating profit

Operating profit is stated after charging/(crediting)	2017 £'000	2016 £'000
Depreciation of property, plant and equipment	**14,408**	12,693
Amortisation of intangible assets (included in administration expenses)	**1,175**	1,442
Operating lease rentals	**17,251**	13,488
(Profit)/loss on disposal of property, plant and equipment	**(5)**	30
Cost of inventory recognised as an expense	**43**	68
Auditors' remuneration		
Fees payable for the audit of the Company's annual accounts	**85**	49
Audit of the Company's subsidiaries pursuant to legislation	**55**	53
Audit related assurance services	**2**	2
Other non-audit services	**–**	16
Corporate finance services	**45**	–
	187	120

6. Exceptional items

	2017 £'000	2016 £'000
Acquisition costs	**548**	–
Integration costs	**525**	–
Restructuring costs	**543**	–
Costs related to post IPO reorganisation	**–**	149
Costs associated with head office relocation	**48**	172
	1,664	321

Acquisition and integration costs relate to the acquisition of the trade and assets from Lifestyle Fitness (note 24) consisting of 18 sites located in the Midlands, North of England and Scotland on 29 September 2017. Restructuring costs relate to the cost associated with changing the operating model in relation to the use of Personal Trainers within the business.

7. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity shareholders by the weighted average number of Ordinary shares outstanding during the year, excluding unvested shares held pursuant to The Gym Group plc Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan and The Gym Group plc Long Service Award Plan (see note 25).

	2017	2016
Basic weighted average number of shares	**128,105,275**	128,105,275
Adjustment for share awards	**416,773**	172,130
Diluted weighted average number of shares	**128,522,048**	128,277,405
Basic earnings per share (p)	**5.6**	4.5
Diluted earnings per share (p)	**5.6**	4.4

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. During the year ended 31 December 2017, the Group had potentially dilutive shares in the form of share options and unvested shares issued pursuant to The Gym Group plc Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan and The Gym Group plc Long Service Award Plan (see note 25).

7. Earnings per share continued

Adjusted earnings per share is based on profit for the year before exceptional items, amortisation and their associated tax effect.

	2017 £'000	2016 £'000
Profit for the year	**7,171**	5,703
Amortisation of intangible assets	**1,175**	1,442
Exceptional administration expenses	**1,664**	321
Tax effect of above items	**(483)**	(313)
Adjusted earnings	**9,527**	7,153
Basic adjusted earnings per share (p)	**7.4**	5.6
Diluted adjusted earnings per share (p)	**7.4**	5.6

8. Employee information

	2017 £'000	2016 £'000
Wages and salaries	**11,674**	8,775
Social security costs	**1,165**	940
Employers' pension costs	**314**	229
Long term employee incentive costs (note 25)	**774**	519
	13,927	10,463

The average number of employees, including Directors, during the year was:

	2017 Number	2016 Number
Operational	**213**	173
Administration	**69**	62
	282	235

9. Finance income

	2017 £'000	2016 £'000
Bank interest receivable	**12**	19
	12	19

10. Finance costs

	2017 £'000	2016 £'000
Bank loans and overdrafts	**705**	566
Unwinding of discount	**12**	17
Amortisation of financing fees	**221**	212
	938	795
Capitalised interest	**(175)**	–
	763	795

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year. In this case 2.9% (2016: nil).

11. Taxation

The major components of taxation are:

(a) Tax on profit

	2017 £'000	2016 £'000
Current income tax		
Current tax on profits for the year	**1,712**	426
Adjustments in respect of prior years	**24**	(49)
Total current income tax	**1,736**	377
Deferred tax		
Origination and reversal of temporary differences	**534**	1,118
Change in tax rates	**(78)**	18
Adjustments in respect of prior years	**(172)**	(276)
Total deferred tax	**284**	860
Tax charge in the Consolidated Statement of Comprehensive Income	**2,020**	1,237

11. Taxation continued

(b) Reconciliation of tax charge

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average rate applicable to profits of the Group as follows:

	2017 £'000	2016 £'000
Profit before tax	**9,191**	6,940
Tax calculation at standard rate of corporation tax of 19.25% (2016: 20.00%)	**1,769**	1,388
Expenses not deductible for tax purposes	**329**	156
Exceptional costs not deductible	**148**	–
Change in tax rates	**(78)**	18
Adjustments in respect of prior years	**(148)**	(325)
	2,020	1,237

(c) Deferred tax

During the year the Group recognised the following deferred tax assets and liabilities:

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Share schemes £'000	Total £'000
At 1 January 2016	(187)	1,006	(642)	–	177
Prior year adjustment	276	–	–	–	276
Recognised in income statement	(564)	(796)	217	25	(1,118)
Change in deferred tax rate	–	(50)	32	–	(18)
At 31 December 2016	(475)	160	(393)	25	(683)
Prior year adjustment	171	–	–	1	172
Acquired in business combination	(921)	–	(319)	–	(1,240)
Recognised in equity	–	–	–	115	115
Recognised in income statement	(777)	(20)	137	126	(534)
Change in deferred tax rate	123	(15)	25	(55)	78
At 31 December 2017	**(1,879)**	**125**	**(550)**	**212**	**(2,092)**

(d) Unrecognised tax losses

The Group has tax losses of £nil (2016: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

(e) Change in tax rate

The Finance Act 2015 maintained the main rate of corporation tax at 20% for the financial year commencing on 1 April 2016 and confirmed a future rate reduction to 19% commencing on 1 April 2017. The 2016 Finance Bill announced a further rate reduction to 17% from 1 April 2020. Therefore, a blended tax rate of 19.25% (2016: 20.00%) has been applied in calculating the income tax charge. Deferred tax assets and liabilities have been measured at the rate expected to be in effect when the deferred tax asset or liability reverses.

(f) Uncertain tax positions

The Group had no material uncertain tax provisions as at 31 December 2017 (2016: £nil).

12. Property, plant and equipment

	Assets under construction £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Gym and other equipment £'000	Computer equipment £'000	Total £'000
Cost						
At 1 January 2016	–	74,027	5,569	34,787	924	115,307
Additions	–	16,729	1,178	8,257	381	26,545
Disposals	–	(100)	–	(244)	–	(344)
At 31 December 2016	–	90,656	6,747	42,800	1,305	141,508
Additions	2,368	21,875	2,505	10,608	647	38,003
Business combinations	–	5,724	208	4,827	–	10,759
Disposals	–	(180)	(8)	(522)	(2)	(712)
At 31 December 2017	**2,368**	**118,075**	**9,452**	**57,713**	**1,950**	**189,558**
Accumulated depreciation						
At 1 January 2016	–	12,309	2,321	14,948	492	30,070
Charge for the year	–	6,422	812	5,205	254	12,693
Disposals	–	(48)	–	(244)	–	(292)
At 31 December 2016	–	18,683	3,133	19,909	746	42,471
Charge for the year	–	7,429	1,034	5,575	370	14,408
Disposals	–	(168)	(4)	(503)	(2)	(677)
At 31 December 2017	**–**	**25,944**	**4,163**	**24,981**	**1,114**	**56,202**
Net book value						
At 31 December 2016	–	71,973	3,614	22,891	559	99,037
At 31 December 2017	**2,368**	**92,131**	**5,289**	**32,732**	**836**	**133,356**

13. Intangible assets

	Goodwill £'000	Brand £'000	Customer list £'000	Technology £'000	Contract £'000	Computer software £'000	Total £'000
Cost							
At 1 January 2016	45,188	2,219	3,550	776	1,709	1,450	54,892
Additions	–	–	–	–	–	1,022	1,022
At 31 December 2016	45,188	2,219	3,550	776	1,709	2,472	55,914
Business combinations	10,310	–	1,952	–	–	–	12,262
Additions	–	–	–	–	–	2,262	2,262
At 31 December 2017	**55,498**	**2,219**	**5,502**	**776**	**1,709**	**4,734**	**70,438**
Accumulated amortisation							
At 1 January 2016	–	1,136	3,043	666	198	712	5,755
Charge for the year	–	448	504	110	78	302	1,442
At 31 December 2016	–	1,584	3,547	776	276	1,014	7,197
Charge for the year	–	448	161	–	78	488	1,175
At 31 December 2017	**–**	**2,032**	**3,708**	**776**	**354**	**1,502**	**8,372**
Net book value							
At 31 December 2016	45,188	635	3	–	1,433	1,458	48,717
At 31 December 2017	**55,498**	**187**	**1,794**	**–**	**1,355**	**3,232**	**62,066**

Impairment test for goodwill

Each of the Group's individual gyms has been identified as a CGU. However, for the purposes of impairment testing goodwill has been allocated to the chain of gyms or group of CGUs expected to benefit from the business combination in which the goodwill arose. Presently the Group consists of two chains of gyms, The Gym and the Lifestyle Fitness chain. Goodwill acquired through business combinations has been allocated to these two CGUs respectively as follows:

	2017 £'000	2016 £'000
The Gym chain of gyms	**54,655**	45,188
Lifestyle Fitness chain of gyms	**843**	–
	55,498	45,188

13. Intangible assets continued

This represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board covering a three year period. Cash flows beyond this period are extrapolated using the estimated growth rates stated in the key assumptions. The key assumptions used in the value in use calculations are as follows:

	2017		2016	
	Discount rate	**Growth rate**	Discount rate	Growth rate
The Gym	**10.3%**	**3.0%**	9.4%	3.0%
Lifestyle Fitness	**9.8%**	**3.0%**	–	–

Discount rates reflect management's estimate of return on capital employed required in each business. This is the benchmark used by management to assess operating performance and to evaluate future capital investment proposals. These discount rates are derived from the Group's weighted average cost of capital. Changes in the discount rates over the years are calculated with reference to latest market assumptions for the risk free rate, equity market risk premium and the cost of debt.

Membership growth, growth rates in subscriptions rates and increases applied to costs have been modelled on a site by site basis.

Goodwill is tested for impairment on at least an annual basis, or more frequently if events or changes in circumstance indicate that the carrying value may be impaired. In the years under review, management's value in use calculations have indicated no requirement to impair.

Sensitivity to changes in assumptions

The estimates of the recoverable amounts associated with The Gym group of CGU affords significant headroom over the carrying value, consequently no reasonably possible changes in the underlying key assumptions would cause an impairment loss in respect of the goodwill allocated to that group of CGUs. As would be expected given the short time from their acquisition the recoverable amount associated with the Lifestyle Fitness group of CGUs does not provide much headroom over the related carrying values, with a reduction in the growth assumption to 2% and increase in pre-tax discount rate to 11.7% causing an impairment loss in the future of approximately £0.2 million in the goodwill allocated to that group of CGUs. However, given management intention to rebrand the gyms within this CGU in 2018, it is therefore envisaged an impairment loss is unlikely.

14. Available-for-sale financial assets

	2017 £'000	2016 £'000
Unlisted securities		
Equity	**316**	–
	316	–

On 6 November 2017, the Group acquired an unlisted equity investment in an operating company. The investment comprises of an equity holding of less than 20% of the Ordinary shares and is carried at amortised cost subject to impairment.

15. Inventories

	2017 £'000	2016 £'000
Goods for resale	**197**	159

16. Trade and other receivables

	2017 £'000	2016 £'000
Other receivables	**1,642**	926
Prepayments and accrued income	**7,910**	5,291
	9,552	6,217
Due in less than one year	**9,037**	5,814
Due in more than one year	**515**	403
	9,552	6,217

17. Cash and cash equivalents

Cash and cash equivalents earn interest at floating rates based on daily bank deposit rates. Short term deposits are made for varying periods of between one day and one month depending on the immediate cash requirements of the Group, and earn interest at the respective short term deposit rates.

18. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**6,845**	4,568
Social security and other taxes	**426**	314
Lease incentives and rental increases	**19,589**	16,804
Accruals	**11,525**	8,662
Deferred income	**5,277**	3,775
	43,662	34,123

Trade payables are non-interest bearing and are payable on average within 34 days (2016: 33 days).

19. Borrowings

	2017 £'000	2016 £'000
Non-current		
Facility A	**10,000**	10,000
Facility B	**28,000**	–
Loan arrangement fees	**(887)**	(822)
	37,113	9,178

The Group's bank borrowings are secured by way of fixed and floating charges over the Group's assets.

HSBC and Barclays bank facility
On 12 November 2015, the Group entered into a five year bullet repayment facility with HSBC and Barclays. The facility comprises a £10.0 million term loan ('facility A') for the purposes of refinancing the Group's previous finance leases, a £25.0 million term loan ('facility B') to fund acquisitions and capital expenditure, and a £5.0 million revolving credit facility. On 14 September 2017, the Group agreed a facility amendment increasing the facility B commitment from £25.0 million to £35.0 million to enable the acquisition of the Lifestyle Portfolio of Gyms (see note 24). Interest is charged at LIBOR plus a 2.5% margin.

Covenants
The Group is subject to financial covenants in relation to facility A, B and the revolving credit facility. The covenants relate to leverage and interest cover.

The Group has been in compliance with all of the covenants during the periods under review. Breach of the covenants following a cure period would render any outstanding borrowings subject to immediate settlement.

Available facilities
The total borrowing facilities available to the Group are:

	2017 £'000	2016 £'000
Facility A	**10,000**	10,000
Facility B	**35,000**	25,000
Revolving credit facility	**5,000**	5,000
	50,000	40,000

Facilities undrawn and available are:

	2017 £'000	2016 £'000
Facility B	**7,000**	25,000
Revolving credit facility	**5,000**	5,000
	12,000	30,000
Loan maturity:		
Between two and five years	**38,000**	10,000
	38,000	10,000

20. Provisions

	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2016	232	–	232
New provisions	295	–	295
Unwinding of discount	17	–	17
At 31 December 2016	544	–	544
New provisions	144	487	631
Unwinding of discount	12	–	12
At 31 December 2017	700	487	1,187
Due in more than one year	544	–	544
31 December 2016	544	–	544
Due in less than one year	–	487	487
Due in more than one year	700	–	700
31 December 2017	**700**	**487**	**1,187**

Other provisions comprise £200,000 in relation to remedial works associated with removal of asbestos from a site acquired as part of the Lifestyle Fitness acquisition and £287,000 in relation to estimated costs arising from the restructuring activities associated with changing the personal trainers operating model within the business.

21. Financial instruments

The Group interest rate contract expired during the year and has not been renewed. The terms of the expired contract were as follows:

Trade Date	Type	Fixed rate	Minimum notional amount	Maximum notional amount	Start date	End date
22 August 2013	CAP	1.81%	5,161,000	5,161,000	31.10.13	31.10.17

The fair value of a derivative financial instrument is split between current and non-current depending on the remaining maturity of the derivative contract and its contractual cash flows. The interest rate instruments are designated as fair value through profit or loss at initial recognition. The maximum exposure to credit risk is the fair value of the derivative as a financial asset.

Fair value hierarchy

IFRS 7 requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the value measurements:

Level 1: inputs are quoted prices in active markets
Level 2: a valuation that uses observable inputs for the asset or liability other than quoted prices in active markets
Level 3: a valuation using unobservable inputs i.e. a valuation technique

There were no transfers between levels throughout the periods under review.

Fair values

Set out below is a comparison of carrying amounts and fair values of the Group's financial instruments. The fair values of financial derivatives and borrowings has been calculated by discounting the future cash flows at prevailing market interest rates. The fair values of the other financial instruments closely approximate their carrying values. Other than the fair value of contingent consideration that is categorised as Level 3, the fair value of all other financial assets and liabilities are categorised as Level 2.

	2017		2016	
	Carrying value £'000	**Fair value £'000**	Carrying value £'000	Fair value £'000
Held at amortised cost				
Trade and other receivables	**1,642**	**1,642**	926	926
Cash and cash equivalents	**457**	**457**	4,822	4,822
Trade and other payables	**(18,370)**	**(18,370)**	(13,230)	(13,230)
Borrowings	**(38,000)**	**(38,000)**	(10,000)	(10,000)
Held at fair value				
Contingent consideration	**184**	**184**	–	–

The fair value of available-for-sale assets has not been disclosed as it cannot be reliably measured since the investment is unquoted and relates to a business in the early stages of its operations. Further details of the measurement of the fair value of the contingent consideration are given in note 24.

22. Capital and financial risk management

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust capital, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is calculated as equity as shown in the Consolidated Statement of Financial Position plus net debt. The gearing ratios for the periods under review are as follows:

	2017 **£'000**	2016 £'000
Total borrowings	**38,000**	10,000
Less: cash and cash equivalents	**(457)**	(4,822)
Net debt	**37,543**	5,178
Total equity	**136,292**	136,292
Total capital	**173,835**	141,470
Gearing ratio	**22%**	4%

Financial risk management

The Group has exposure to the following risks from its use of financial instruments:

- Market risk
- Liquidity risk
- Credit risk

This note presents information about the Group's exposure to each of the above risks, and the Group's objectives, policies and procedures for measuring and managing risk. The Board of Directors has overall responsibility for the establishment and oversight of the Group's risk management framework.

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. Key market risks affecting the Group include interest rate risk. Financial instruments affected by market risk include borrowings, deposits and derivative financial instruments.

The sensitivity analysis in the following sections relates to the position as at 31 December 2017 and 2016. The analysis has been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives are all constant.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long term debt obligations with floating interest rates.

The Group manages its interest rate risk by entering into interest rate derivatives when it is considered appropriate to do so by management.

At 31 December 2017 and 2016 all of the Group's borrowings were at floating rates of interest.

The Group is not expecting any reduction in interest rates over the next 12 months. The reduction in profit before tax of a reasonably possible increase in LIBOR is as follows:

	2017 **£'000**	2016 £'000
Increase in interest rates of 0.5%	**190**	50

22. Capital and financial risk management continued

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. Ultimate responsibility for liquidity risk management rests with the Board of Directors. The Group manages liquidity risk by continuously monitoring forecast and actual cash flows, matching the maturity profiles of financial assets and operational liabilities and by maintaining adequate cash reserves.

The table below summaries the maturity profile of the Group's financial liabilities:

	2017				
	Within 1 year £'000	**1 to 2 years £'000**	**2 to 5 years £'000**	**More than 5 years £'000**	**Total £'000**
Trade and other payables	**18,370**	**–**	**–**	**–**	**18,370**
Other financial liabilities	**–**	**184**	**–**	**–**	**184**
Borrowings	**1,148**	**1,148**	**40,200**	**–**	**42,496**
	19,518	**1,332**	**40,200**	**–**	**61,050**

	2016				
	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	13,230	–	–	–	13,230
Borrowings	288	288	10,552	–	11,128
	13,518	288	10,552	–	24,358

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and available-for-sale investments. The Group's other receivables largely comprise security deposit payments, on which the credit risk is not concentrated as it is spread over a number of counterparties. The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. The Group has no significant concentration of credit risk, with exposure spread over a large number of counterparties and customers.

23. Issued share capital and reserves

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.0001 each	**12**	12
Own shares held		
Deferred Ordinary shares of £1 each	**48**	48

The number of Ordinary shares in issue is as follows:

	2017	2016
Ordinary shares of £0.0001 each	**128,105,275**	128,105,275
Deferred Ordinary shares of £1 each	**48,050**	48,050

Throughout 2017, 151,667 (2016: 112,770) Ordinary shares of £0.0001 each were issued and held by an employee benefit trust.

The following describes the nature and purpose of each reserve in equity:

Own shares held and capital redemption reserve

These reserves represent 48,050 Deferred Ordinary shares of £1 each repurchased by the Company on 12 November 2015 and Ordinary shares held in an employee benefit trust. The Deferred Ordinary shares constitute separate classes of shares but carry the same rights as Ordinary shares.

Share premium

The amount subscribed for share capital in excess of nominal value.

Retained earnings/deficit

The accumulated net gains and losses of the Group since inception.

24. Business combinations

On 29 September 2017, the Group acquired the trade and assets of a portfolio of 18 gyms trading under the Lifestyle brand. The property lease agreements in respect of ten of these gyms were transferred to the Group and these gyms are being rebranded to operate under The Gym brand. In respect of the eight other gyms, the property leases were not transferred to the Group and these gyms continue to be operated using the Lifestyle Fitness brand under a concession agreement with the vendor whereby the Group will pay a royalty based upon a percentage of revenue together with a recharge equal to the vendor's lease rentals. The concession agreement also includes an option fee totalling £1.25 million for the Group to terminate the concession agreement in respect of each gym and transfer the leasehold. In early 2018, the Board has taken the decision to terminate the concession agreement and convert all eight gyms to The Gym brand during 2018.

Further, on 24 November 2017, the Group also acquired the trade and assets of a single gym based in Aylesbury. The consideration for the Aylesbury acquisition includes an element of contingent consideration which is payable upon the number of members at the site reaching a predetermined level. This has been recognised at fair value on initial recognition. The fair value has been derived using discounted cash flow ('DCF') techniques. The inputs into the DCF valuation were the undiscounted deferred consideration (£200,000), the discount rate (5.4%) and the payment date derived from an estimation of the date on which the membership target for the gym was achievable. Sensitivity in this valuation may arise from significant changes to either the payment date or discount rate, however neither of these factors are expected to have a material effect on the valuation.

The details of both transactions, the purchase consideration, the net assets acquired and goodwill are as follows:

	Fair value		
Net assets acquired	Lifestyle £'000	Aylesbury £'000	**Total £'000**
Intangibles	1,880	72	**1,952**
Property, plant and equipment	10,283	476	**10,759**
Provisions	(295)	–	**(295)**
Deferred tax	(1,242)	–	**(1,242)**
Net Assets	10,626	548	**11,174**
Goodwill	9,874	436	**10,310**
Total consideration	20,500	984	**21,484**
Satisfied by:			
Cash	20,500	800	**21,300**
Contingent consideration	–	184	**184**
Total consideration	20,500	984	**21,484**
Net cash outflow arising on acquisition			
Cash consideration	20,500	800	**21,300**
Net cash outflow	20,500	800	**21,300**

Goodwill represents the synergies and economies of scale expected from combining each gym within the Group's operations, the premium associated with advantageous site locations, potential growth opportunities offered by each gym and the assembled workforce. It will not be deductible for tax purposes.

The Lifestyle business contributed revenues of £2.7 million and net profit of £0.1 million to the Group for the period from 1 October 2017 to 31 December 2017. The revenues and net profit attributable to Aylesbury for the period from 24 November 2017 to 31 December 2017 were not material. The revenues and net profit associated with the Group had Lifestyle Fitness and Aylesbury been acquired on 1 January 2017 has not been disclosed as the relevant information is not available.

Acquisition-related costs of £0.5 million were incurred in respect of the Lifestyle acquisition and have been included in Exceptional items in note 6.

25. Share based payments

The Group had the following share based payment arrangements in operation during the year:

a) The Gym Group plc Performance Share Plan
b) The Gym Group plc Share Incentive Plan – Free shares
c) The Gym Group plc Share Incentive Plan – Matching shares
d) The Gym Group plc Restricted Stock Plan
e) The Gym Group plc Long Service Award Plan

In accordance with IFRS 2 Share Based Payments, the value of the awards are measured at fair value at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period, based on management's estimate of the number of shares that will eventually vest.

The Group recognised a total charge of £655,000 (2016: £465,000) in respect of the Group's share based payment arrangements and related employer's national insurance of £119,000 (2016: £54,000).

25. Share based payments continued

A summary of the movements in each scheme is outlined below:

Scheme name	Outstanding at 1 January 2017	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	Outstanding at 31 December 2017	Exercisable at 31 December 2017
Performance Share Plan	**479,695**	872,040	–	–	**1,351,735**	**134,297**
Share Incentive Plan – Free shares	**73,533**	–	(11,811)	–	**61,722**	**–**
Share Incentive Plan – Matching shares	**33,372**	41,665	(5,193)	–	**69,844**	**–**
Restricted stock	**–**	185,050	(5,759)	–	**179,291**	**–**
	586,600	1,098,755	(22,763)	–	**1,662,592**	**134,297**

The exercise price of all options under the schemes held during the year is £0.01. 134,297 options were exercisable under the PSP scheme as at 31 December 2017 (2016: 134,297). No other options were exercisable as at 31 December 2017.

(a) Performance Share Plan

The outstanding awards as at 31 December 2017 will all vest within three years, subject to continued employment and the achievement of earnings per share ('EPS') and total shareholder return ('TSR') targets with each target contributing to 50% of the vesting conditions. The vesting conditions of the Performance Share Plan awards are set out in part B of the Report to the Remuneration Committee. The maximum term of these awards is three years and settlement is in the form of shares. The fair value of the EPS element was determined using the share price at the date of grant. The fair value of the TSR element of the award was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share price performance.

The shares are potentially dilutive for the purposes of calculating diluted earnings per share.

The following assumptions were used for options granted during the year:

Financial year options granted	2017	2016
Weighted average share price at date of grant	**£1.85**	£2.46
Exercise price	**£0.01**	£0.01
Expected volatility	**29.0%**	22.6%
Expected term until exercised	**3 years**	3 years
Expected dividend yield	**0%**	0%
Risk-free interest rate	**0.11%**	0.78%

The weighted average fair value of each award issued under this scheme during the year was £1.41 (2016: £2.24). The weighted average remaining contractual life was 1.8 years (2016: 2.3 years) at 31 December 2017.

(b) Share Incentive Plan – Free shares

The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and are dilutive for the purposes of earnings per share.

The options vest in full at the end of the three year period. The weighted average fair value of each award issued under this scheme during the year was £nil (2016: £2.62) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.3 years (2016: 2.3 years) at 31 December 2017.

The shares are dilutive for the purposes of calculating diluted earnings per share.

(c) Share Incentive Plan – Matching shares

Under the Matching shares award, for every share purchased by an employee the Company will award one matching share, up to a maximum value. The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and are dilutive for the purposes of earnings per share.

The options vest in full at the end of the three year period. The weighted average fair value of each award issued under this scheme during the year was £1.98 (2016: £2.19) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 2.1 years (2016: 2.5 years) at 31 December 2017.

(d) Restricted stock

The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and are dilutive for the purposes of earnings per share.

The options vest in full at the end of the three year period. The weighted average fair value of each award issued under this scheme during the year was £1.85 (2016: £nil) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 2.3 years (2016: nil years) at 31 December 2017.

The shares are dilutive for the purposes of calculating diluted earnings per share.

25. Share based payments continued

(e) Long Service Awards

The awards are subject to continued employment requirements over a three year period and have no performance conditions. The shares are held by an employee benefit trust and are dilutive for the purposes of earnings per share.

The options vest in full at the end of the three year period. The weighted average fair value of each award issued under this scheme during the year was £1.85 (2016: £nil) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 2.3 years (2016: nil years) at 31 December 2017.

The shares are dilutive for the purposes of calculating diluted earnings per share.

26. Commitments and contingencies

Operating lease commitments

The Group has entered into leases on commercial real estate. These leases have an average outstanding life of 14.1 years (2016: 13.8 years) with no renewal option included in the contracts. There are no restrictions placed on the Group by entering into these leases.

Future minimum rentals payable under non-cancellable operating leases as at 31 December, analysed by the period in which they fall due are as follows:

	2017 £'000	2016 £'000
Within one year	**18,634**	13,222
Between one and two years	**20,225**	14,264
Between two and five years	**62,296**	44,720
Greater than five years	**191,906**	146,765
	293,061	218,971

Capital commitments

	2017 £'000	2016 £'000
Contracted for but not provided	**4,205**	1,804

27. Related party transactions

Identification of related parties

The ultimate holding company of the Group is The Gym Group plc, a company incorporated in The United Kingdom.

Closewall Limited is a company under the control of a family member of a Director, J Treharne, and provides services to the Group as disclosed in the Corporate Governance Report.

C Treharne is a relation of a Director, J Treharne, and provided services to the Group in the previous year.

The subsidiaries of the Group are as follows:

Company	Principal activity	Country of incorporation	Holding %
The Gym Group Midco1 Limited	Holding Company	United Kingdom	100%
The Gym Group Midco2 Limited	Holding Company	United Kingdom	100%
The Gym Group Operations Limited	Holding Company	United Kingdom	100%
The Gym Limited	Fitness Operator	United Kingdom	100%
Derwent Fitness North West Limited	Fitness Operator	United Kingdom	100%
Derwent Fitness Gym Services Limited	Fitness Operator	United Kingdom	100%

The registered office of the subsidiaries is 5th Floor, OneCroydon, 12-16 Addiscombe Road, Croydon, CR0 0XT.

The following table provides the total amounts owed to related parties for the relevant financial period:

	2017 £'000	2016 £'000
Closewall Limited	**36**	–
C Treharne	**–**	2
	36	2
Opening balance	**2**	49
Purchases	**3,748**	3,800
Repayments	**(3,714)**	(3,847)
	36	2
Representing:		
Trade and other payables	**36**	2
	36	2

The following table provides the total amounts of purchases from related parties for the relevant financial period:

27. Related party transactions continued

Transactions with related parties

	2017 £'000	2016 £'000
Closewall Limited	**3,748**	3,793
C Treharne	**–**	7
Total	**3,748**	3,800

As indicated in note 28 the entry into the deeds of release in favour of certain shareholders and Directors in respect of the waiver of certain rights of the Company constitutes a related party transaction.

Terms and conditions of transactions with related parties

The purchases from related parties are made at normal market prices. Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided for any related party payables. Payments to Closewall Limited and C Treharne are in respect of the provision of services and goods respectively.

Compensation of key management personnel

Key management includes the Directors as identified in the Directors' Report and members of the Group's Executive Committee. The compensation paid or payable to key management for employee services is shown below:

	2017 £'000	2016 £'000
Remuneration	**2,267**	1,893
Company contributions to defined contribution pension scheme	**106**	96
Share based payment charge	**403**	468
	2,776	2,457

At the year end, £nil (2016: £2,000) was owed by key management personnel in respect of season ticket loans.

At the year end, £599,000 (2016: £110,000) was owed to key management personnel in respect of year end bonus.

Information regarding the highest paid Director is shown in the Report of the Remuneration Committee.

28. Dividends made and proposed

	2017 £'000	2016 £'000
Interim dividend of 0.30p per Ordinary share paid and declared (2016: 0.25p)	**385**	321
Final dividend of 0.90p per Ordinary share proposed (2016: 0.75p)	**1,153**	962
	1,538	1,283

Due to an oversight, interim accounts were inadvertently not filed at Companies House prior to payment of dividends in 2017, totalling £1,347,000 and hence these distributions were paid in technical infringement of the Companies Act 2006 ('the Act').

We are undertaking a series of administrative steps in order to rectify this issue and put the Company's shareholders and the Directors, insofar as possible, in the position that was originally intended. At the AGM of the Company's shareholders to be held on 4 June 2018, a special resolution is proposed to authorise the appropriation of distributable profits to the payment of the relevant dividends, to waive any rights of the Company to pursue shareholders who received the distributions or past, present or future Directors in respect of payment of the distributions and to approve entering into deeds of release in favour of such shareholders and Directors. Entry into the deeds of release constitutes a smaller related party transaction under Listing Rule 11.1.10 and a related party transaction under IAS 24 'Related party disclosures'. The overall effect of the resolution being proposed is to return all parties to the position they would have been in had the relevant dividends been made in full compliance with the Act. The Directors consider it in the best interests of the Company to regularise the position since sufficient distributable reserves were available to make the payment and it was intended that shareholders should receive the dividends.

The Board recommends a final dividend of 0.90p per share in respect of the financial year ending 31 December 2017. Shareholders will be asked to approve the dividend at the AGM on 4 June 2018, for payment on 14 June 2018 to shareholders whose names are on the register on 25 May 2018. This final dividend will be paid by reference to interim accounts, which will demonstrate that the Company has adequate distributable reserves to pay the final dividend, to be filed with Companies House in compliance with the Act.

Company Statement of Financial Position

As at 31 December 2017

	Note	31 December 2017 £'000	31 December 2016 £'000
Non-current assets			
Investments in subsidiaries	4	**161,450**	132,795
Trade and other receivables	5	**14,793**	–
		176,243	132,795
Current assets			
Trade and other receivables	5	**70**	14,536
Cash and cash equivalents		**1**	12
Total current assets		**71**	14,548
Total assets		**176,314**	147,343
Current liabilities			
Trade and other payables	6	**427**	247
Non-current liabilities			
Borrowings	7	**37,113**	9,178
Total liabilities		**37,540**	9,425
Net assets		**138,774**	137,918
Capital and reserves			
Issued capital	8	**12**	12
Own shares held	8	**48**	48
Capital redemption reserve	8	**4**	4
Share premium	8	**136,280**	136,280
Retained earnings	8	**2,430**	1,574
Total equity shareholders' funds		**138,774**	137,918

The notes on pages 91 to 93 form an integral part of the Financial Statements.

As permitted by s408 of the Companies Act 2006, the Company's profit and loss account is not presented as part of these accounts. The Company's profit for the year amounted to £1,548,000 (2016: £1,558,000).

These Financial Statements were approved by the Board of Directors on 20 March 2018.

Signed on behalf of the Board of Directors

John Treharne
Chief Executive Officer

Richard Darwin
Chief Financial Officer

Company Registration Number 08528493

Company Statement of Changes in Equity

For the year ended 31 December 2017

	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2016	12	48	4	136,280	(128)	136,216
Profit for the year and total comprehensive income	–	–	–	–	1,558	1,558
Capital contribution to subsidiaries	–	–	–	–	465	465
Dividend paid	–	–	–	–	(321)	(321)
At 31 December 2016	12	48	4	136,280	1,574	137,918
Profit for the year and total comprehensive income	–	–	–	–	1,548	1,548
Capital contribution to subsidiaries	–	–	–	–	655	655
Dividends paid	–	–	–	–	(1,347)	(1,347)
At 31 December 2017	**12**	**48**	**4**	**136,280**	**2,430**	**138,774**

The notes on pages 91 to 93 form an integral part of the Financial Statements.

Notes to the Company Financial Statements

For the year ended 31 December 2017

1. General information

The Gym Group plc ('the Company') is incorporated and domiciled in the United Kingdom with company number 08528493. The registered address of the Company is 5th floor, No. 1 Croydon, 12-16 Addiscombe Road, Croydon, United Kingdom, CR0 0XT.

2. Summary of significant accounting policies

A summary of the significant accounting policies is set out below. These have been applied consistently in the Financial Statements.

Statement of compliance and basis of preparation

The Financial Statements of the Company have been prepared in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101') and with those parts of the Companies Act 2006 applicable to companies reporting under FRS 101. The Financial Statements of the Company are included in the Company's Consolidated Financial Statements which can be obtained from the Company's registered office.

The Company meets the definition of a qualifying entity under FRS 101 and has therefore taken advantage of the following disclosure exemptions available to it under FRS 101:

(a) the requirements of IFRS 7 Financial Instruments;
(b) the requirements of paragraph 97 of IFRS 13 Fair Value Measurement;
(c) the requirements of IAS 7 Statement of Cash Flows;
(d) the requirements of paragraphs 10(d), 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
(e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
(f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
(g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the financial statements are disclosed in note 3.

Going concern

The Directors have made appropriate enquiries and formed a judgement at the time of approving the Financial Statements that there is a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future. For this reason, the Directors continue to adopt the going concern basis in preparing the Financial Statements.

Investments

On initial recognition, investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid. Where consideration is paid by way of shares, the excess of fair value of the shares over nominal value of those shares is recorded in share premium. Investments in subsidiaries are reviewed for impairment at each balance sheet date with any impairment charged to the income statement.

Financial instruments

Financial assets

The Company classifies its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets. The Company's loans and receivables comprise trade and other receivables and cash and cash equivalents in the balance sheet. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Financial liabilities

The Company initially recognises its financial liabilities at fair value and subsequently they are measured at amortised cost using the effective interest method.

Current taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Income tax relating to items recognised in comprehensive income or directly in equity is recognised in comprehensive income or equity and not in the income statement.

2. Summary of significant accounting policies continued

Deferred taxation

Deferred income tax is provided using the liability method on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes, with the following exceptions:

- where the temporary difference arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss;
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future; and
- deferred income tax assets are recognised only to the extent that it is probable that taxable profit will be available against which deductible temporary differences, carried forward tax credits or tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and amended to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the balance sheet date.

3. Significant accounting judgements, estimates and assumptions

The preparation of the Financial Statements in accordance with FRS 101 requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the period. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

Critical accounting judgements and estimates

There are no critical accounting judgements or estimates within these Financial Statements.

4. Investments in subsidiaries

	£'000
At 1 January 2016	132,330
Capital contribution to subsidiaries	465
At 1 January 2017	132,795
Capitalisation of intercompany loans	28,000
Capital contribution to subsidiaries	655
At 31 December 2017	**161,450**

On 21 December 2017, The Gym Group Midco1 Limited issued share capital to the Company in consideration for the extinguishing of intercompany debt.

During the current and prior year, share options in the Company's shares were granted to employees of The Gym Group Operations Limited and The Gym Limited. Corresponding capital contributions have been recognised within investments in subsidiaries. Details of the Company's share based payment arrangements are shown in note 25 to the Consolidated Financial Statements.

The Company's subsidiary undertakings are shown in note 27 to the Consolidated Financial Statements.

5. Trade and other receivables

	2017 £'000	2016 £'000
Prepayments and accrued income	**37**	27
Social security and taxes	**33**	–
Amounts owed by Group undertakings	**14,793**	14,509
	14,863	14,536
Current	**70**	14,536
Non-current	**14,793**	–

6. Trade and other payables

	2017 £'000	2016 £'000
Trade payables	**80**	3
Social security and other taxes	**–**	6
Accruals	**347**	238
	427	247

7. Borrowings

The Company's bank borrowings are secured by way of fixed and floating charge over the Group's assets.

	2017 £'000	2016 £'000
Facility A	**10,000**	10,000
Facility B	**28,000**	–
Loan arrangement fees	**(887)**	(822)
	37,113	9,178

Bank facility A

On 12 November 2015, the Company entered into a five year bullet repayment facility with HSBC and Barclays. The facility comprises a £10.0 million term loan ('facility A') for the purposes of refinancing the Group's previous finance leases, a £25.0 million term loan ('facility B') to fund acquisitions and capital expenditure, and a £5.0 million revolving credit facility. On 14 September 2017, the Group agreed a facility amendment increasing the facility B commitment from £25.0 million to £35.0 million to enable the acquisition of the Lifestyle Portfolio of Gyms Interest is charged at LIBOR plus a 2.5% margin.

Total borrowing facilities available to the Company under the facility are £50.0 million.

At 31 December 2017, facility A was fully drawn, facility B had £7.0 million of undrawn commitments and the revolving credit facility remained undrawn, giving £12.0 million of undrawn and available facilities.

8. Issued capital and reserves

	2017 £'000	2016 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.0001 each	**12**	12
Own shares held		
Deferred Ordinary shares of £1 each	**48**	48

The number of Ordinary shares in issue is as follows:

	2017	2016
Ordinary shares of £0.0001 each	**128,105,275**	128,105,275
Deferred Ordinary shares of £1 each	**48,050**	48,050

Refer to note 23 of the Consolidated Financial Statements for details of movements in share capital.

The following describes the nature and purpose of each reserve in equity:

Own shares held and capital redemption reserve

These reserves represent 48,050 Deferred Ordinary shares of £1 each repurchased by the Company on 12 November 2015 and Ordinary shares held in an employee benefit trust. The Deferred Ordinary shares constitute separate classes of shares but carry the same rights as Ordinary shares.

Share premium

The amount subscribed for share capital in excess of nominal value.

Retained earnings/(deficit)

The accumulated net gains and losses of the Company since inception.

Five Year Record

For the year ended 31 December 2017

For definitions of these key performance indicators refer to page 22. The following table sets out a summary of selected key financial information and key performance indicators for the business.

	2017 £'000	2016 £'000	2015 £'000	2014 £'000	2013[1] £'000
Revenue	**91,377**	73,539	59,979	45,480	35,734
Group Adjusted EBITDA	**27,963**	22,691	17,016	14,688	11,752
Group Adjusted EBITDA before Pre-Opening Costs	**30,598**	24,888	19,681	16,668	12,886
Group Operating Cash Flow	**24,677**	24,944	18,616	16,514	14,751
Group Operating Cash Flow Conversion	**88.2%**	109.9%	109.4%	112.4%	125.5%
Expansionary Capital Expenditure	**52,453**	20,922	28,230	20,335	14,058
Net Debt	**37,543**	5,178	7,140	49,205	36,743
Net Debt to Group Adjusted EBITDA	**1.34x**	0.23x	0.42x	3.35x	3.11x
Adjusted Earnings	**9,527**	7,153	(1,107)	(4,452)	(3,551)
Adjusted earnings per share (p)	**7.4**	5.6	(1.8)	(9.1)	(13.3)
Total Number of Gyms (number)	**128**	89	74	55	40
Total Number of Members ('000)	**607**	448	376	293	225
Average Revenue per Member per Month (£)	**14.41**	14.31	14.08	13.98	14.06
Number of Mature Gyms in Operation (number)	**74**	55	40	32	16
Mature Gym Site EBITDA	**34,082**	26,161	18,828	16,244	9,505

1 The Gym Group plc acquired control of The Gym Limited on 13 June 2013. Before this date, the Group did not constitute a single legal group. Prior to the acquisition, combined financial information has been prepared on a basis that aggregates the results, cash flows, assets and liabilities of each the companies constituting the Group.

Corporate Information

For year ended 31 December 2017

Company Secretary
Richard Darwin

Company number
08528493

Registered office
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12-16 Addiscombe Road
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Website
www.tggplc.com

Corporate Advisers

Bankers
HSBC Bank plc

Solicitors
Allen & Overy LLP

Auditor
Ernst & Young LLP

Broker
Numis Securities Limited

Registrar
Link Market Services Limited

Notes

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