

THE GYM GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2019



PRESSING

AHEAD



OVERVIEW

2019 HIGHLIGHTS

REVENUE

+23.6%

2019: £153.1m | 2018: £123.9m

GROUP ADJUSTED EBITDA

+24.0%

2019: £48.5m | 2018: £39.1m

GROUP OPERATING CASH FLOW

+20.0%

2019: £40.8m | 2018: £34.0m

STATUTORY PROFIT BEFORE TAX

-10.6%

2019: £6.2m | 2018: £7.0m

¹ 20 new gyms opened in the year in addition to 3 site closures.
Note: Refer to page 12-13 for definitions of Key Performance Indicators.

STRATEGIC

In 2019 we continued to expand our network of gyms across the UK with 20 new gyms opened in the year¹. The new sites included our first two 'small box' gyms, a concept which will enable us to access smaller towns and bring affordable fitness to a greater proportion of the population.

OPERATIONAL

Average membership in the year has increased **14.9%** to **796,000**. The penetration of our LIVE IT premium membership has grown to 18.9% of our members (versus 11.7% in 2018) supporting revenue growth of **23.6%**. We also successfully delivered the rollout of our new operating model for personal trainers – New Gym Team – adding 1,500 new part-time employees to our business.

MAKING GAINS

NUMBER OF GYMS

175

TOTAL NUMBER OF MEMBERS

794,000

CONTENTS

Overview

- 02 Company Overview
- 03 Our Key Stakeholders
- 04 At a Glance
- 05 Investment Case

Strategic Report

- 06 Chairwoman's Statement
- 08 Chief Executive's Review
- 12 Key Performance Indicators
- 14 Market Opportunity
- 16 Business Model and Strategy
- 18 Strategic Framework
- 20 Strategy in Action
- 28 Sustainability
- 38 Financial Review
- 42 Principal Risks and Uncertainties
- 46 Non-Financial Information Statement
- 47 Section 172 Statement

Governance

- 49 Chairwoman's Introduction
- 50 Board of Directors
- 52 Executive Committee
- 53 Corporate Governance Report
- 56 Report of the Nomination Committee
- 58 Report of the Audit and Risk Committee
- 61 Report of the Remuneration Committee
- 80 Directors' Report
- 83 Directors' Responsibility Statement

Financial Statements

- 84 Independent Auditor's Report
- 91 Consolidated Statement of Comprehensive Income
- 92 Consolidated Statement of Financial Position
- 93 Consolidated Statement of Changes in Equity
- 94 Consolidated Cash Flow Statement
- 95 Notes to the Consolidated Financial Statements
- 122 Company Statement of Financial Position
- 123 Company Statement of Changes in Equity
- 124 Notes to the Company Financial Statements
- 128 Five-Year Record
- 129 Corporate Information

FOUNDED IN 2007, THE GYM IS THE ORIGINAL PROVIDER OF HIGH QUALITY, LOW COST GYM FACILITIES IN THE UK. WE OFFER 24/7, NO CONTRACT GYM MEMBERSHIPS DELIVERING GREAT VALUE-FOR-MONEY FOR ALL OUR MEMBERS.



OVERVIEW

COMPANY OVERVIEW

OUR PURPOSE

**THE GYM
BREAKS DOWN
BARRIERS
TO FITNESS
FOR ALL.**

OUR CULTURE AND VALUES

Helping us achieve our purpose

**THE FIRST STEP**

We rally around each other and our members – always ready to help someone take the first step.

**REALNESS**

We are fair and honest in everything we do. Quality over numbers. Integrity over image. What is right over what is easy.

**FRIENDLINESS**

We believe the gym should feel welcoming and inclusive, never intimidating. We don't take ourselves too seriously, and are always up for a bit of fun.

**CHALLENGING YOUR LIMITS**

We are passionate self-starters. We are proud of our high standards. We are constantly developing our knowledge and expertise – individually and as a company.

OUR BUSINESS MODEL

FIT FOR THE FUTURE

Our unique proposition and proven business model utilises technology and economies of scale to provide a great value member experience, whilst also delivering strong financial returns.

See pages 16 and 17

**OUR
MOTIVATION**

OUR KEY STAKEHOLDERS

WHY THEY MATTER

HOW WE ENGAGE

EMPLOYEES

Our employees are the driving force behind our purpose and growth.

- Employee engagement surveys
- Intranet and communications platform with rich content for employees
- Employee Assistance Programme
- Annual company conference for all gym managers and central staff
- Regular gym visits by Exco members

MEMBERS

Happy members are what makes our gyms successful, and they inspire us every day with their achievements. They are the best indicator that we are delivering fitness for all.

- Satisfaction surveys
- Health and wellness hints and tips
- User groups

COMMUNITIES

Being a valuable part of the communities in which we operate is hugely important to us; a strong relationship between our gyms and our communities is mutually beneficial.

- Partnerships, e.g. the Movember Foundation, local charities
- Outreach programmes: e.g. First Steps offer to 16-18 year-olds
- The planning application process: consideration of the local community

SHAREHOLDERS

Our investors provide capital for growth, whilst providing challenge and feedback on our business model and plans for the future.

- Trading updates and results announcements twice each year
- Investor engagement through one-to-one meetings and investor conferences throughout the year
- Responses to investor queries

SUPPLIERS

Our partnerships with suppliers ensure we source the best value goods and services for the benefit of our members.

- Landlord presentations
- Key supplier relationship management including visiting sites of key suppliers

LENDING BANKS

Our lending banks provide funds for growth and day to day working capital to enable us to operate and grow our business to its full potential.

- Regular updates on company performance
- Reporting on performance versus agreed debt covenants
- Completed a re-financing exercise in Oct 2019, which resulted in a new £70 million Revolving Credit Facility (RCF)

OVERVIEW

AT A GLANCE

We focus on operating high quality, low cost gyms that have wide appeal and therefore operate with strong levels of membership. The economies of scale in our business model enable us to offer a great service at a low cost for our members whilst also delivering a strong return on capital for our shareholders.

GYM NETWORK

We now operate 175 sites across all regions of the UK. There remains a significant opportunity for future growth and in 2020 we plan to expand the network further.

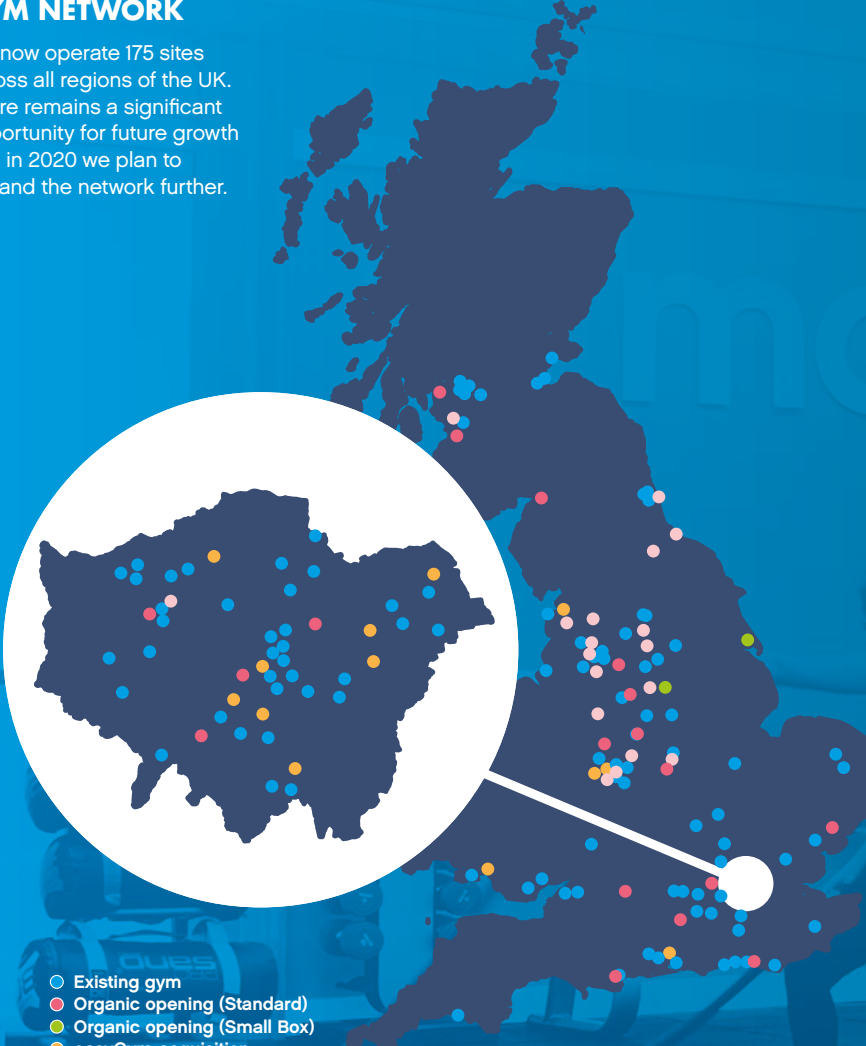
NUMBER OF MEMBERS

794,000

We are now the 4th largest gym operator in Europe in terms of number of members.

MEMBER PROPOSITION

- High quality gym equipment and exercise areas
- Market-leading low price monthly membership
- 24/7 access
- Convenient locations
- Free group exercise classes
- No contract
- Extra benefits with LIVE IT membership
- Online joining and member area
- Professional, helpful staff and access to personal trainers

- 
- Existing gym
 - Organic opening (Standard)
 - Organic opening (Small Box)
 - easyGym acquisition
 - Lifestyle acquisition

PUSHING FORWARD

INVESTMENT CASE

A GROWING MARKET FOR LOW COST GYMS

The UK health and fitness market continues to grow with 15.6% of the UK population now a member of a health and fitness club. This growth is being led by the low cost gym sector which is introducing new people to gym membership for the first time every year. There remains a significant opportunity for further growth with the number of low cost gyms in the UK forecast to almost double by 2026.

PROVEN BUSINESS MODEL ENABLED BY TECHNOLOGY AND ECONOMIES OF SCALE

Our technology-led business model has re-engineered the traditional gym operating model, removed costly underused facilities and enabled us to offer a high quality gym experience at a very low price.

STRONG RETURN ON CAPITAL

We continue to use the increasing scale of our Company to drive cost efficiencies across the entire business, enabling us to deliver great value to our members as well as a strong financial return to shareholders. We deliver a return on capital in our mature estate of more than 30%.

STRATEGIC REPORT

CHAIRWOMAN'S
STATEMENTOUR
GOALS

2019 was another year of significant progress at The Gym Group.

Our current position

During the first two months of 2020 the business traded well and guidance had been prepared to expect continued profitable growth with an acceleration of small box openings for the year. However, the Covid-19 pandemic has in March begun to impact our business with participation levels in gyms dropping and, on 20 March 2020, Her Majesty's Government announced a closure of leisure facilities including gyms, to which we promptly responded by closing all 179 sites. A period of disruption is under way and we will take all measures to protect our colleagues, members and business through this unprecedented event. This will include the reduction of cost and the protection of cash and liquidity until revised prospects can be ascertained. At this time it is not possible to guide with any accuracy what the impact will be, however appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty of Covid-19 and in support of viability.

Our 2019 results

The rapid development of the Group has continued with revenue growth of 23.6% and Group Adjusted EBITDA growth of 24.0%. Mature estate Return on Invested Capital was maintained above our 30% hurdle. During the year 18 standard gyms were opened and a further two small box gyms as we extend our attractive proposition to smaller sized towns and communities. Following three site closures, this takes

the number of gyms from 158 to 175 in the year with membership growing 9.7% to 794,000. Notably, this rate of growth is largely self-funded with net debt moving marginally from £46.0m to £47.4m. Our bank facilities were refinanced during the year increasing headroom and receiving more favourable rates. The strength of our listed company covenant continues to be attractive to landlords and is an important advantage in winning new sites.

Our shareholders

In addition to the many investor meetings held by executive directors during the year, I also offered to engage with our top ten shareholders, many of whom have been significant investors since our IPO in 2015. This allowed me to discuss the process undertaken to manage director succession and to listen to shareholder views on our business. Of particular note, I focused on telling our sustainability story, recognising the strength of our purpose – bringing affordable fitness to towns and communities across the UK.

I was pleased to kick off the work of a Sustainability Working Group drawn from across the business and it is encouraging to report significant progress. The team has identified four key areas of focus all of which are United Nations Sustainable Development Goals: (1) promoting Health & Well-being, (2) Good Jobs, Quality Education and Lifelong Learning, (3) Diversity & Inclusion, and (4) Responsibility to the Environment. You can read more about our work in this report.



**STRONG
PROGRESS**

Our team

Our business has been well led in their first full year by CEO, Richard Darwin and CFO, Mark George, together with a stable and talented team of executives. Significant work has been undertaken to embed our values and nurture our positive culture. We remain committed to lead an organisation that helps members and each other 'Take the First Steps', we are characterised by 'Realness', being fair and honest in all we do. We run gyms that accentuate 'Friendliness' being welcoming, inclusive and not intimidating. 'Challenging Your Limits' is a mindset we bring to members and to each other and to the Group as a whole. We were delighted to retain the Investors in People Gold award, a very significant accolade for a growing business.

Our People and Operations teams, led by Ann-marie Murphy and Nick Henwood respectively, managed a most significant change to our business model in the roll-out of New Gym Team (NGT). We

now have over 1,600 Fitness Trainers as part-time employees, bringing consistency across the estate and offering them support to further their self-employed businesses for which a rent is paid. Taking the business from 500 to over 2,000 employees was a major achievement and has required, and will continue to require, significant focus on the development and recruitment of well qualified trainers.

Our work

Your Board continues to work out in our gyms and visit sites individually and together as a Board. It continues to be the best way of satisfying ourselves of the standards being maintained and the progress being made. I was particularly pleased to visit Newark, our first small box gym, and see the innovations that have been developed to create an excellent gym on a smaller footprint at appropriately lower capital expenditure.

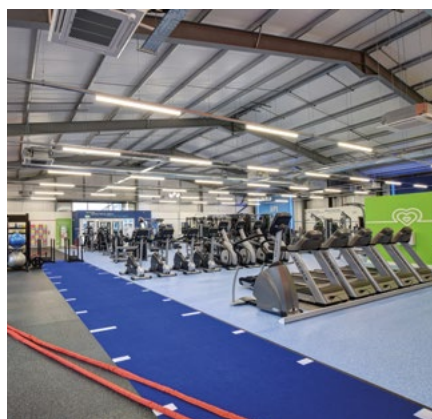
The Board retains close oversight of performance as the team execute our approved strategy. I am grateful to my

Board colleagues for their engagement and contribution, always given with a good heart when either challenging or supporting the executive team. The transparency and openness of our dialogue together with continued improvement of reporting to the Board were universally recognised as strengths in our Board performance review. We are also delighted to welcome Katy Tucker as our first dedicated Company Secretary; I know she will support us all to achieve greater effectiveness as we become a business of scale.

On behalf of the Board let me thank all our colleagues for their dedication to making our members' lives healthier and thank them for their support in facing into the new difficulties that Covid-19 poses to us all.

Penny Hughes

Chairwoman
31 March 2020



"OUR BUSINESS HAS BEEN WELL LED IN THEIR FIRST FULL YEAR BY CEO, RICHARD DARWIN AND CFO, MARK GEORGE, TOGETHER WITH A STABLE AND TALENTED TEAM OF EXECUTIVES."

PENNY HUGHES CBE, CHAIRWOMAN

STRATEGIC REPORT

CHIEF EXECUTIVE'S
REVIEWOUR CORE
PROPOSITION

2019 was another year of strong growth and rapid development for The Gym Group.

Covid-19

At this time our business is focused on mitigating the impact that Covid-19 is likely to have over the coming months. We go into this period of disruption with an established membership base, a cash generative model and a strong balance sheet following a successful 2019. Mitigating Covid-19 will require a period of slowdown in our expansion to preserve cash in order that we are well placed, when this period of uncertainty ends, to address the long-term growth opportunity for low cost gyms in the UK.

Review of 2019

2019 was another year of strong growth and rapid development for The Gym Group. We continued to grow our business by remaining focused on our strong and worthwhile purpose, bringing affordable fitness to towns and communities across the UK. Our growth has also been assisted by the investment in central infrastructure and systems made over the past 2-3 years and a stable, talented team that is focused on the profitable expansion of the business. We continue to believe that there is a substantial opportunity within the UK low cost gym market and we are intent on ensuring that the business is well positioned to take advantage of the potential for further expansion.

Our membership base continued to expand as we rolled out new sites and grew market share with total year end members up 9.7% to 794,000 (2018: 724,000) and average members up 14.9% to 796,000 (2018: 693,000). This is reflected in the growth of our financial metrics: revenue up 23.6% to £153.1 million (2018: £123.9 million) and Group Adjusted EBITDA up by 24.0% to £48.5 million (2018: £39.1 million). Adjusted Profit before Tax increased by 35.9% to £14.0 million (2018: £10.3 million) and Basic Adjusted Earnings per Share was up by 16.7% to 7.7p (2018: 5.9p). Our Statutory Profit before Tax decreased to £6.2 million (2018: £7.0 million).

These metrics are very much in line with our expectations for the business, demonstrating that as our estate matures and we concentrate on organic growth, this business is well positioned to generate strong profits and cashflow.

After two acquisitions in 2017 and 2018, our site growth this year has been concentrated on growing the Group organically. We expanded the estate by opening 18 sites of c.15,000 square feet each with the focus being on ensuring we open high quality sites in a variety of locations around the UK. Significantly we have created an additional avenue of growth with our small box format, with our first two openings late in the year. As we build on the opportunity to open small box sites our growth will enable us to offer affordable fitness to a greater proportion of the UK. Our market share currently stands at 24% of the low-cost market by number of sites (higher as a proportion of members) and we are well positioned with a strong future pipeline for this to increase further over the coming years.



**BREAKING DOWN
BARRIERS**

Note: Refer to page 41 for the definitions of key financial metrics under IFRS 16.

We continue to believe there is a substantial opportunity for the Group to expand in the UK. The PwC report¹ we commissioned last year noted the potential for the low-cost gym market to almost double from its base of 727 gyms as at December 2019. Around half of the future growth is forecast to come from catchments with a population of over 60,000 within a 15-minute drive time (standard catchments) and half in smaller catchments. Through 2019 we have continued to take advantage of opening standard gyms. The smaller catchment opportunity is also significant for the small box format where we opened our first two sites in Newark and Beverley during the year.

Strategic progress Delivering strong performance from gyms

At the end of 2019 we had 109 sites out of 175 sites which have been open and in our network for over two years (which we define as Mature). By the end of 2020 this number will grow to 155, therefore in 2020 we will continue to derive the benefits of a maturing estate. Mature Site EBITDA in 2019 was £48.1 million, up 23.3% (2018: £39.0 million) and Mature Site EBITDA per site remained strong at £437,000 (2018: £438,000), with the 2017 cohort of sites performing well. In 2019 we achieved a Return on Invested Capital in the mature estate of 31% (2018: 30%), once again achieving our target return on capital of 30% for organic openings. This measure continues to be achieved consistently both from sites reaching maturity more recently as well as from our older sites, which have maintained strong levels of performance.

During the year we have made good progress with the sites acquired from Lifestyle Fitness (in 2017) and easyGym

(in 2018). The two remaining easyGym branded sites (Oxford Street and Kings Heath) were converted to our brand and operating model during 2019. We intend to invest further in these sites once the lease extensions are confirmed.

The former Lifestyle sites have demonstrated strong member growth as we have brought the sites up to our specification and as a result have delivered significantly increased revenue in 2019 vs 2018. The easyGym sites are also making good progress, with particularly encouraging take up of LIVE IT; penetration is already higher for ex-easyGym sites than the Group average, even though they have been selling the product for a relatively short period of time. As a result, we have seen revenue in the former easyGym sites increase in 2019 vs 2018 on a like for like basis. We will continue to make some selective investments to ensure we take advantage of the significant potential of the sites.

Our marketing capability is a real source of competitive advantage and an important way of driving high levels of member acquisition. Our no-contract proposition is appealing to new members as they know they have the flexibility to cancel their membership at any time and as a result we have some members who join and cancel multiple times. It remains important therefore that we deliver strong rejoiner numbers from ex-members and that they have had a good experience whilst being a member to encourage them to return. Our ability to attract new and ex-members is enhanced by our capability in areas such as CRM and in different marketing channels (TV, Out of home, digital, SEO and social media). Our innovative First Steps campaign

TOTAL NUMBER OF GYMS

175

TOTAL NUMBER OF MEMBERS

794,000

"THERE IS SUBSTANTIAL OPPORTUNITY WITHIN THE UK LOW COST GYM MARKET."
RICHARD DARWIN, CEO

REVENUE

£153.1m

GROUP ADJUSTED EBITDA

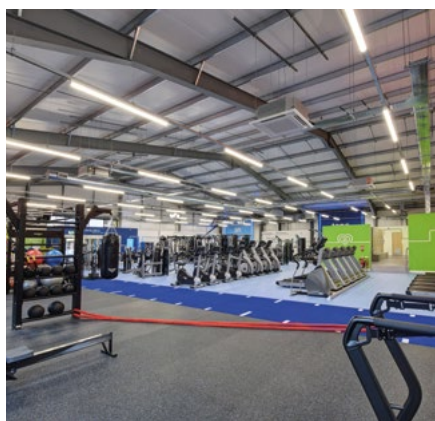
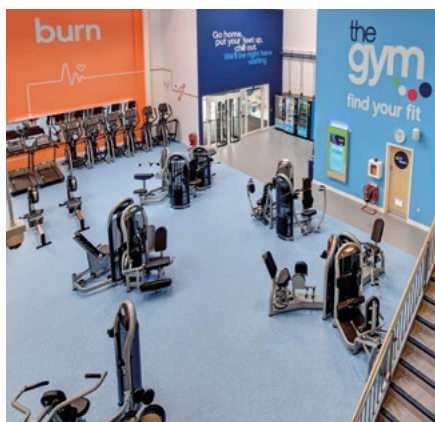
£48.5m

1. PricewaterhouseCoopers LLP UK low cost gym market headroom assessment Mar-19, commissioned by The Gym Group

STRATEGIC REPORT

CHIEF EXECUTIVE'S
REVIEW

CONTINUED

FITNESS TRAINERS
(PART-TIME EMPLOYEES)

1,600

launched in June offered 16 to 18-year olds their first taste of being in a gym with a 6-week off-peak free membership, helping them to manage their stress during the exam period and enabling us to reach this important group of potential members.

Developing the Business Model

Our premium membership package, LIVE IT, has benefited from being in operation for a full year across the entire estate. With the ability to access more than one site being a key feature of the premium membership, take-up of LIVE IT is assisted by the growth in our overall network of sites, demonstrated by strong levels of demand in the metropolitan areas such as London, Manchester and Birmingham where we have multiple sites. The other LIVE IT member benefits of "refer a friend" and use of the Fitquest machine are also proving popular and now are an integral part of our offer. At December 2019 150,000 members (18.9% of our total base; 2018: 85,000 members, 11.7% of our total base) had taken advantage of LIVE IT. We continue to be encouraged by the level of take-up.

Following a trial in 47 sites we rolled out Yanga Sports Water to the entire estate ahead of the peak Jan and Feb trading period. This is another great value product offered at £3.99 per month and also a sustainable product given it requires members to fill up using their own water bottles.

The roll-out of our new operating model for personal trainers, New Gym Team (NGT) went according to plan in 2019 with all gyms now on the common operating model. We now have 1,600 part-time employees who work for us 12 hours a week ("Fitness Trainers"). Outside of these hours they run their self-employed personal trainer business in our gyms for which they pay us a rent. In addition, we have around 300 full rental personal trainers who do not do any employed hours and are wholly self-employed – they also pay us a rent. We consider that this model is both market leading and also reflective of the flexible working economy that allows Fitness Trainers to be employees for part of their week, with the benefits that come from being employed, and self-employed for the rest of the time. The transition has gone smoothly and we are now focused on leveraging the benefits of this model. This means driving consistency of operational delivery across our whole estate along with the ability for Fitness Trainers to develop their skill set to further their self-employed businesses and provide high quality personal training services to our members. We hope that this will attract the best personal trainers who will then in turn provide even better member experience.

In addition to improving the overall member experience, these initiatives are also increasing Average Revenue Per Member Per Month (ARPM), which grew by 7.6% to £16.02 in the year. The increase in revenue from personal trainers under NGT (offset by a salary cost), accounted for about a third of this increase; excluding this factor ARPM increased by 5.2%. Increased LIVE IT penetration accounted for approximately a third of the growth in ARPM with the remainder coming from an increase in average headline price. We ended 2019 with an average headline price of £18.45 per month (2018: £17.14). Our philosophy remains to be a high-quality operator charging the lowest price in any given market. Where we can increase price, we will do so but we are also prepared to reduce price on occasion if the local market requires. Our capability around yield management has advanced in the last year with central support from our data and analytics team.

Achieving our rollout strategy

We opened 20 sites organically in 2019 of which two were our first small box gyms, which will bring our affordable fitness to smaller catchments across the UK. With three site closures in the year, this brings our total estate to 175 gyms. Our primary focus is selecting strong locations for the long term and we are encouraged by the quality of sites that are becoming available. Our strong, listed company covenant continues to be highly attractive to landlords, which supports us in securing high potential sites that come onto the market. Two trends are worth highlighting: increasingly we are successful in taking sites on retail parks at a time when there has been less demand from retailers for physical stores. Colliers Wood, Basingstoke and Northampton are good examples of sites we have opened in the last year on retail parks. In addition, we still see plenty of opportunities in residential areas in large towns and cities – during the year we have opened in Hove, Battersea and Glasgow West End as examples of this trend. The strength of our new openings is highlighted by the performance of the 2017 cohort (21 sites) which has now become mature and we are seeing a similar trend with the 2018 cohort that will mature this year. We continue to take a variety of sites, including new builds, which demonstrates the flexibility of our model.

Our small box format gives us the ability to take advantage of the opportunity highlighted by our market analysis. These sites have a smaller square footage than our standard model of 15,000 sq. ft and we expect to open sites of between 5000-9000 sq. ft. The development that we have made across both the operating model and capital model enables us to open at a capital cost of between £700k-£750k and we expect to continue to achieve the

"OUR GOAL IS TO DRIVE VALUE FOR MEMBERS, COLLEAGUES AND SHAREHOLDERS ALIKE AS THE BUSINESS CONTINUES ITS RAPID GROWTH TRAJECTORY."

RICHARD DARWIN, CEO

30% return on capital on a lower average member level. The average monthly price that we will charge is around £2 higher than in the rest of the estate but in these types of location the competitive environment (mainly from local authority or franchise operators), will enable us to charge at this price point and be very competitive. Members' response to the small box format at Newark and Beverley has been encouraging.

Developing the member proposition

Investment continued across our existing estate and our focus in 2019 has been to ensure the sites have the appropriate equipment mix. Particular investment has been in plate-loaded equipment and enhanced functional areas. We are also maintaining our very high maintenance standards ensuring that the sites continue to maintain high levels of fit-out even as they become more mature. We will focus the more substantial refurbishments on sites that need an enhanced product and a competitive boost in their local market. We have plans to enhance our Group Exercise capability in 2020 by trialling a combined real and virtual offering in some of our sites. This is part of a wider development of our Group Exercise proposition.

Our use of technology

We highlighted in 2019 that increasingly we think of our business as both an e-commerce leisure retailer and a multi-site operator. As part of this we have committed to invest into technology capex developments in the future. Our technology platforms deliver the online member experience and also serve finance, HR and commercial functions and are key to delivering sustainable scale advantages. Our focus is on making changes that deliver member improvements and operating efficiency. The initial spend will be in three areas: an upgraded website that will deliver improved opportunities for product sales and conversion; investment into efficiency gains within the gyms such as the upgrade of our digital camera systems; and a data function with enhanced models that support our team in decision making in areas such as pricing and retention. We are excited about the opportunities within this area and have been building the capability and strength of our technology team over the

past year under the leadership of our CIO, Jasper McIntosh. Technology will remain fundamental to the delivery of our business model and is key to facilitating the low-cost environment in which we operate.

Sustainability at the heart of our business

Sustainability is one of the foundations on which our business is built and continues to be a core focus as we grow. We are seeking to build on the strong credentials we already have and to enhance our work in this area. During the year we have established a Sustainability Working Group ('SWG') to oversee the management of sustainability across the Group. In addition, we are working with expert advisers to articulate our sustainability strategy. We have identified four key areas of focus: i) 'Promoting Health & Wellbeing'; ii) 'Good Jobs, Quality Education and Lifelong Learning'; iii) 'Diversity and Inclusion' and iv) 'Responsibility to the Environment.' As outlined further within the sustainability section of this report these help to deliver against the United Nations Sustainable Development Goals. In the coming year we plan to publish our first full Sustainability Report in accordance with the Global Reporting Initiative (GRI) Standards on sustainability reporting. In doing so we will be able to provide our stakeholders with information that helps demonstrate how we perform against our sustainability goals and how we are progressing with our material workstreams.

Our people

Our entire team across the business buy into the strong social purpose of The Gym Group. Our aim is to break down barriers to Health & Fitness and in doing so to spread affordable fitness across the UK. Our values that we launched to our colleagues in 2019 – *taking the first step, friendliness, realness, and challenging our limits* – have landed well and we are now looking at ways to boost engagement across the whole team through the use of improved communication tools. Optimising Fitness Trainer recruitment is an area of focus for us now that the NGT model has been rolled out. We recognise that there are multiple recruitment channels that we need to tap into.

The drive and passion of all our people across the whole business is what makes The Gym Group special. We retained our Gold Investors In People (IIP) status during the year and were shortlisted for Employer of the Year in the IIP awards. Rightly we celebrate these achievements with our teams. I would like to personally thank all our colleagues for their efforts in building this business. As we enter into a difficult period as a result of Covid-19, I am sure that our teams will respond to the challenges ahead.

Outlook

In the first two months of the year trading was in line with the Board's expectations. Membership numbers at the end of February show an increase to 891,000, another record level, with a 12.2% increase since December 2019.

In the last few weeks, we have been closely monitoring the impact on trading from Covid-19 and we have drawn up, and are carrying out, plans to react to an ever changing situation. On 20 March 2020, Her Majesty's Government announced the temporary closure of all leisure facilities including gyms, and we acted promptly to close all 179 sites the same evening. At 18 March our membership base was 870,000 members and our Net Debt £41.9m.

Our response involves slowing down the expansion to preserve cash and running the business as efficiently as possible with reductions in discretionary spend. We also intend to access all the relevant government schemes such as rates relief and support for pay for businesses like ours that are affected. Once we reopen we intend to get to a position of having positive cashflows even with lower revenues in the short term.

We remain confident in our business model and believe that when we are through this period we will be able to return to a growth trajectory.

Richard Darwin
Chief Executive Officer
31 March 2020

Note: Refer to page 41 for the definitions of key performance indicators under IFRS 16.

STRATEGIC REPORT

KEY PERFORMANCE
INDICATORSDELIVERING
A STRONG
PERFORMANCE

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

We select KPIs that demonstrate the financial and operational performance underpinning our strategic drivers.

NON-FINANCIAL

TOTAL NUMBER OF GYMS

+10.8%

2019	175
2018	158
2017	128
2016	89

2019 performance

The total number of sites grew by 10.8% during 2019, with 20 organic site openings, which included the first two of our new 'small box' gym sites.



NUMBER OF MATURE GYMS IN OPERATION

+22.5%

2019	109
2018	89
2017	74
2016	55

Definition

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

2019 performance

The Group's progressive rollout strategy means that gyms opened in 2017 are considered to be mature in 2019.

TOTAL NUMBER OF MEMBERS '000

+9.7%

2019	794
2018	724
2017	607
2016	448

Definition

Total Number of Members reflects gym memberships at the year end.

2019 performance

Total Number of Members has increased from 724,000 at 31 December 2018 to 794,000 in 2019, as a result of the opening of 20 sites in the year and the maturation of sites opened in recent years.

AVERAGE REVENUE PER MEMBER PER MONTH £

+7.6%

2019	16.02
2018	14.89
2017	14.41
2016	14.31

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.

2019 performance

Average Revenue per Member per Month increased by 7.6% due to the maturation of pricing, an increased take-up of LIVE IT and from personal trainer rental income.

FINANCIAL

REVENUE £m

+23.6%

2019	153.1
2018	123.9
2017	91.4
2016	73.5

Definition

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

2019 performance

The 23.6% increase in revenue was driven by a 14.9% increase in average member numbers and a 7.6% increase in Average Revenue per Member per Month.

GROUP ADJUSTED EBITDA £m

+24.0%

2019	48.5
2018	39.1
2017	30.6
2016	25.4

Definition

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

2019 performance

Group Adjusted EBITDA increased by 24.0%, largely due to sites opened during the last two years becoming increasingly mature and improved profitability in the sites acquired from Lifestyle and easyGym.

GROUP OPERATING CASH FLOW £m

+20.0%

2019	40.8
2018	34.0
2017	24.7
2016	24.9

Definition

Group Operating Cash Flow is calculated as Group Adjusted EBITDA plus the movement in working capital less maintenance capital expenditure. Maintenance capital expenditure comprises the replacement of gym equipment and premises refurbishment.

2019 performance

Group Operating Cash Flow has increased by 20.0% as a result of an increase in Group Adjusted EBITDA and efficient use of working capital.

NON-PROPERTY NET DEBT £m

+£1.4m

2019	47.4
2018	46.0
2017	37.5
2016	5.2

Definition

Non-Property Net Debt is defined as borrowings from bank facilities less cash and cash equivalents.

2019 performance

Non-Property Net Debt increased by £1.4 million largely due to the drawdown of £1.0 million of bank loan facilities to fund site openings.

EXPANSIONARY CAPITAL EXPENDITURE £m

-43.5%

2019	32.5
2018	57.6
2017	52.5
2016	20.9

Definition

Expansionary Capital Expenditure is expenditure in relation to the fit-out of new gyms, acquisition of gyms and technology projects.

2019 performance

Expansionary Capital Expenditure has decreased by 43.5% as the previous year included the acquisition of easyGym sites.

MATURE GYM SITE EBITDA £m

+23.5%

2019	48.1
2018	39.0
2017	32.4
2016	26.6

Definition

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

2019 performance

Mature Gym Site EBITDA has increased by 23.5% due to gyms opened in 2017 reaching maturity in the current year.

RETURN ON INVESTED CAPITAL OF MATURE SITES %

31%

2019	31
2018	30
2017	30
2016	32

Definition

Return on Invested Capital is calculated as Group Adjusted EBITDA of the Group's mature organic sites, divided by total capital initially invested in the mature sites. This has been added as a financial KPI as it is a useful measure to

assess the performance of the mature sites and is a measure used internally and externally by investors.

2019 performance

Return on Invested Capital of mature sites has increased to 31% (2018: 30%).

NON-PROPERTY NET DEBT TO GROUP ADJUSTED EBITDA

0.98x

2019	0.98x
2018	1.17x
2017	1.23x
2016	0.20x

Definition

Non-Property Net Debt to Group Adjusted EBITDA is defined as Non-Property Net Debt as a proportion of Group Adjusted EBITDA.

2019 performance

Leverage has reduced due to EBITDA increasing to the point at which the Group can now fund its growth from operating cash flow.

Note: Prior year financial KPIs Group Adjusted EBITDA before Pre-Opening Costs and Group Operating Cash Flow Conversions % have been removed from current year's disclosure as they are considered a lower priority measure than those shown above.

STRATEGIC REPORT

MARKET OPPORTUNITY

INCREASING OPPORTUNITY IN THE LOW COST GYM MARKET

The UK health and fitness industry has more gyms, more members and a greater market value than ever before. Whilst impacted by Covid-19 in the short term we remain confident that the long-term structural growth in gym usage will continue. Our position as a leading operator in the fastest-growing segment of the market – low cost – gives us an ideal position to take advantage of long term growth and innovation within the sector.

The UK Government remains committed to their 'Sporting Future Strategy', published in December 2015, which set out their new vision for an approach to sport and physical activity. Mims Davies, Parliamentary Undersecretary of State for Sport and Civil Society, states in the Sporting Future Annual Report 2019: 'We want to make sure absolutely everyone can benefit from the power of sport and physical activity. It can deliver tangible benefits for people's physical and mental health, support the delivery of other vital agendas such as improving employment and educational outcomes, and it can act as a powerful tool for bringing communities closer together'.

Low cost gyms play an integral part in the health and fitness industry to fulfil that vision.

Market overview – UK health and fitness sector

LDC confirmed in their 'State of the Fitness Industry Report 2019' that the UK fitness industry is healthier than ever; it has 10.4 million members (an increase of 5.1% on

2018), 7,239 gyms (up 2.9% from 2018) and a market value of £5.1bn (up 4.1% from 2018). The percentage of the UK population who are a member of a health and fitness club has reached 15.6% as of March 2019 (up from 14.9% in 2018).²

LDC continuously researches the market in the UK. When assessing openings and closures across the private and public sector, the number of gyms has increased by net 61 gyms from March 2018 to March 2019, with all of that net growth coming from the low cost sector.²

Low cost continues to drive growth

The number of Brits with private health and fitness club membership passed the seven million mark in 2019 according to LDC.²

This continued expansion in recent years has primarily been driven by the low cost gym market, with an increasing number of locations being opened across the country. The convenience of more options close to work and home has boosted demand.

Market share versus low cost competitors^{1,2}

Number of clubs of leading low cost UK operators with more than 15 gyms

PureGym	222	263
The Gym	158	175
energie Fitness	76	75
Xercise4Less	52	51
Sports Direct/Everlast	37	34
JD Gyms	21	29
Other	92	100

• December 2018
• Net growth in 2019

Average headline rate December 2019

The Gym	18.45
Xercise4Less	18.71
JD Gyms	19.91
Sports Direct/Everlast	21.31
PureGym	22.00
energie Fitness	22.41

The number of low cost gyms has increased to 727 as of December 2019¹ and membership to 2.8 million, with the majority of the net growth driven by the two largest operators including ourselves.

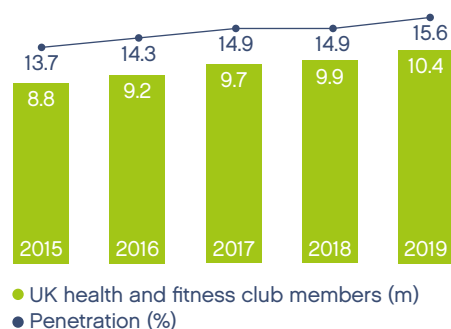
Our position in the market

As at 31 December 2019 over 60% of the low cost market share is held by the two largest operators with The Gym Group now the second largest operator in the UK and the fourth largest operator of private health and fitness clubs across Europe by number of members.³

The sites acquired in 2017 and 2018 have all been rebranded and are fully integrated into The Gym Group's network of 175 gyms. We successfully opened 18 new standard sites and two new small format gyms in 2019 whilst ensuring that we continue to select premium sites for a consistent high quality gym experience at market-leading low cost pricing.

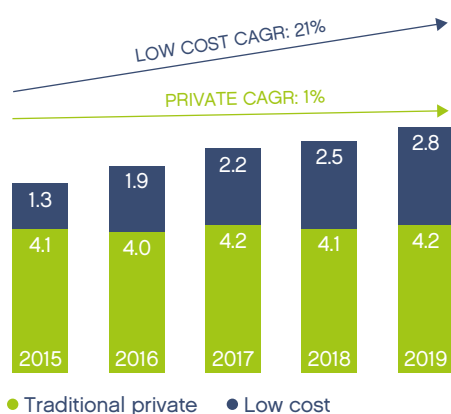
TOTAL SIZE OF THE UK HEALTH AND FITNESS MARKET £5.1BN

UK health and fitness club members



Source: LDC

Number of UK private gym members (m)



Source: LDC

Market potential⁴

The PwC study we commissioned in February 2019 into the total market potential for low cost gyms estimates the overall opportunity for low cost gyms to be between 1,200 and 1,400 gyms. As of December 2019 we estimate the total number of low cost gyms to be 727, resulting in additional growth potential of 470-670 gyms.

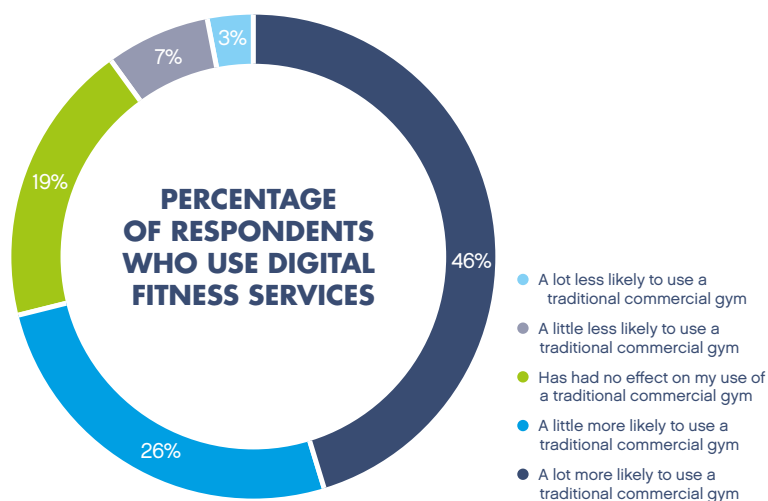
Approximately 50% of that growth potential was identified to be in markets with a population size of 25,000-60,000 which we have previously not been able to service due to the membership numbers required for our standard model. To take advantage of this growth potential, we have developed a new 'small box' gym concept in 2019 which is designed to operate at membership numbers between

1,500-4,000 members in spaces of 5,000-9,000 sq. ft. The first two smaller gyms opened their doors to members at the end of 2019 in Newark and Beverley.

Future trends

The International Health, Racquet & Sportsclub Association estimates the global number of members of health and fitness clubs to be 183 million today, a number that is forecast to grow to 230 million members in 2030. At the same time, home fitness saw strong growth in 2018 and 2019 as technological advancements have enabled interactive home experiences. A series of high-tech fitness companies have created more advanced ways to replicate boutique class-style workouts from home and

How has your usage of digital fitness services affected your likelihood to use a traditional commercial gym?⁵



1. Company own calculations
2. Leisure Database Company: State of the UK fitness industry 2019
3. Deloitte/Europe Active: European Health & Fitness Market Report 2019
4. PricewaterhouseCoopers LLP UK low cost gym market headroom assessment Mar-19, commissioned by The Gym Group
5. L.E.K. Digital Health and Consumer Survey (November 2018)

streaming exercise classes is becoming mainstream. One might surmise that streaming classes may disintermediate the gym itself, but findings as set out in the above chart suggest the opposite is true; virtual exercisers typically also maintain a membership at a health club or studio. The Gym Group is well positioned to maximise the potential arising from this trend by facilitating a multi-channel fitness experience; breaking down barriers to fitness by helping people work out in whatever way is most convenient for them.

UK FITNESS INDUSTRY
NUMBER OF MEMBERS

24%
MARKET SHARE

10.4m
+5.1% on 2018

UK FITNESS INDUSTRY
PENETRATION

15.6%
+0.9pts on 2018

STRATEGIC REPORT

**BUSINESS MODEL
AND STRATEGY****FIT FOR THE
FUTURE****WHAT WE DO**

**MARKET-LEADING
LOW COST GYM
EXPERIENCE DRIVES
GROWTH IN
MEMBERSHIP BASE**

**SIGNIFICANT
ADVANTAGES FROM
SCALE-EFFICIENT MODEL:
OPERATIONS,
TECHNOLOGY,
BRAND AND
MARKETING**

DELIVERING VALUE TO ALL OUR STAKEHOLDERS**MARKET SHARE****24.0%****Market share**

Over the past 30 months we have added 69 gyms (net), growing our market share from 16.7% and have substantiated our position as a leading provider of low cost gyms in the UK market.

MEMBERS**794,000**

Our 24/7, no contract, member focused product has continued to attract members across the UK with the number of members in 2019 having increased by 9.7%.

Our unique proposition and proven business model utilises technology and economies of scale to provide a great value member experience, whilst also delivering strong financial returns.

HOW WE DO IT

HIGH QUALITY ESTATE

See pages 20 and 21 for the Strategic Summary

COMPELLING MEMBER EXPERIENCE

See pages 22 and 23 for the Strategic Summary

INNOVATIVE TECHNOLOGY AND MARKETING

See pages 24 and 25 for the Strategic Summary

UNIQUE TEAM AND CULTURE

See pages 26 and 27 for the Strategic Summary

WITH SCALE WE CAN ACHIEVE STRONG FINANCIAL RETURNS WHICH ENABLE REINVESTMENT TO DRIVE FURTHER GROWTH

EMPLOYEES

81%

Employees taking part in our Emerging Talent development programme that have been promoted

Our Emerging Talent programme is aimed at our Assistant General Managers, to develop our future leadership team.

COMMUNITY

£125,000

Raised for Movember in 2019

During the course of 2019 we have had the privilege of working with and supporting national and international charities. This year, we continued to support the Movember Foundation. Our team and members rallied around this worthy cause with innovative initiatives and raised in excess of £125,000.

INVESTORS

31%

Return on Invested Capital of Mature Sites

We continue to deliver excellent returns for shareholders above our target of 30% ROIC.

STRATEGIC REPORT

**STRATEGIC
FRAMEWORK**

SUSTAINABLE PROFITABLE GROWTH

By focusing on consistently innovating the member experience in our gyms, growing the estate with excellent new sites and continually optimising our operating model, we deliver sustainable, profitable growth and a strong return on capital.

INITIATIVES**PROGRESS
IN 2019**

HIGH QUALITY ESTATE

We have delivered on our guideline of 15-20 standard gyms per annum and opened 18 well positioned new standard size gyms.

In addition, we have delivered two small box sites to drive a new leg of growth into smaller catchments.

Our strong covenant continues to be highly attractive to landlords, giving us access to the best sites available in the market.

RISK

- Organic rollout
- Operational gearing
- Regulatory

**PERFORMANCE
MEASURES****TOTAL NUMBER OF GYMS**

+10.8%

2019	175
2018	158

See pages 20 and 21
for Strategy in Action

COMPELLING MEMBER PROPOSITION

Continued growth in the take-up of LIVE IT membership with over 150,000 (2018: 85,000) members subscribing to the premium product at the end of 2019.

Following a trial earlier in the year, Yanga Sports Water was launched across the estate by year end.

Continued investment to keep our gyms up to date with enhancements in 2019 including improved functional space and new plate-loaded equipment in many sites.

- Member experience

NUMBER OF MEMBERS %

+9.7%

2019	794,000
2018	724,000

See pages 22 and 23
for Strategy in Action

INNOVATIVE TECHNOLOGY AND MARKETING

Member app growing rapidly, adopted by more than 400,000 members.

Improved levels of member engagement are being delivered through new communications channels including push notification, chat bots and online chat.

Significant new data capabilities added in analytics and data science, providing new insight on pricing, churn and promotion.

We launched our 'So I can' campaign in 2019, which included our first TV advert.

Our innovative 'First Steps' campaign gave thousands of 16-18 year olds six weeks of free access to our gyms.

- IT dependency
- Data protection
- Brand reputation

800,000

Average TGG app uses per month in Q4 2019

See pages 24 and 25
for Strategy in Action

UNIQUE TEAM AND CULTURE

Awarded the Investors in People (IIP) Gold Award once again and shortlisted for the IIP Employer of the Year 2019.

Rollout of new PT model, bringing in over 1,500 new part-time employees into our business.

Our newly launched mentoring programme has provided over 50 employees from across the business with senior management mentors.

- Attraction and retention of talent

81%

Employees taking part in our Emerging Talent development programme that have been promoted



See pages 26 and 27
for Strategy in Action

STRATEGIC REPORT

STRATEGY
IN ACTIONHIGH
QUALITY
ESTATE

Our disciplined approach to new site selection and obsession over design, fit-out and ongoing maintenance ensures that whilst our gyms are low cost, we deliver high quality facilities across all of our sites.

"REALLY GOOD VALUE GYM!
EQUIPMENT IS EXCELLENT
AND A WIDE RANGE OF
MACHINES, FREE WEIGHT
AND BARBELLS (ALONG WITH
A FUNCTIONAL AREA)."

MEMBER, BEVERLEY

OFFERING

FLEXI



WELL MAINTAINED

Our rigorous maintenance regime keeps our high quality kit in top shape for our members whilst maximising its life. We have found that spending a little more on equipment maintenance reduces the lifetime cost of equipment, helping us keep our prices low and supporting our objective of fitness for all.

GREAT LOCATIONS

We always pick prime locations for our sites, whilst being flexible on the space, be it a retail park in Colliers Wood, or high street such as Hove. The repurposing of buildings also brings a new lease of life to empty spaces; at Leeds York Road, the long-dilapidated public baths and library building was returned to its former glory. We've also just opened our new Battersea gym, as part of the major redevelopment of the iconic Battersea Power Station.

SMALL BOX

With the launch of our first small box gym in Newark this year, we have opened the doors to members in smaller catchments. The rollout of our small box concept will complement the ongoing rollout of our standard size gyms.



STRATEGIC REPORT

**STRATEGY
IN ACTION**

COMPELLING MEMBER EXPERIENCE

Our low cost, 24/7, no contract proposition, delivered through our friendly and high quality gyms ensures that visit after visit, we offer a compelling experience to our members, whatever their age, income or goal – we truly deliver fitness for all.



MAKING IT

PERSON

MEMBER SATISFACTION

We track member satisfaction across each of our sites to ensure we consistently exceed expectations. We know from the feedback that the ability to train in a safe environment with clean, well maintained equipment is a key driver for our members and part of what keeps them coming back.

LOW PRICES

We offer the lowest monthly membership price in the market to maximise affordability and bring fitness to all, whilst delivering a high quality workout, rep after rep.

LIVE IT

LIVE IT continues to grow in popularity with members, particularly in metropolitan areas where we often have a gym near both their home and place of work. Members value the multi-site access, and option to bring a friend, along with the FitQuest health assessment. In 2019 the number of LIVE IT subscribers increased to 150,000, representing 18.9% of our members.

LIVE IT SUBSCRIBERS

18.9%

"BRILLIANT GYM FOR A SMALL MEMBERSHIP COST, APPROACHABLE AND WELCOMING STAFF, CLEAN AREA, GOOD RANGE OF EQUIPMENT AND GENERALLY A FRIENDLY ENVIRONMENT!"

MEMBER, BURNLEY



STRATEGIC REPORT

STRATEGY
IN ACTIONINNOVATIVE
TECHNOLOGY
AND
MARKETING

Our ongoing investment in technology continues to enhance member services and the effectiveness of our low cost operating model. Our innovative approach to marketing underpins the growth in our membership.

INNOVATIVE MARKETING

Our SO I CAN campaign was our first TV advert. It featured our members and also utilised a diverse range of media – Out of Home, digital channels and social media.



IMPROVED
EXPER

TECHNOLOGY AT SCALE

We operate a highly scalable technology platform, which helps us to optimise resource use and keep things simple but effective behind the scenes.

DATA-DRIVEN FOCUS

We are investing heavily in our analytics capability to ensure data drives decision-making across the business, from pricing to customer retention and site location. With our use

of self-service reports in Workday and PowerBI, we are able to share insightful membership and financial data on a daily basis, whilst our ability to model member behaviour and revenues allows us to take proactive decisions to maximum performance.

SOCIAL MEDIA

Further enhancement of eCRM and social media engagement increased the effectiveness of our marketing, supporting the acquisition of new members in 2019.

MOBILE APP

The continuous rollout of new functionality in our member app has seen it become a must-have for our members with over 400,000 members downloading it.



SCIENCE

STRATEGIC REPORT

**STRATEGY
IN ACTION**

UNIQUE TEAM AND CULTURE

Our friendly, inclusive culture has been a consistent and key part of our success since we opened our first site in Hounslow, and we are proud to have retained our unique set of values as we have grown.

- 1. TAKING THE FIRST STEP**
- 2. FRIENDLINESS**
- 3. REALNESS**
- 4. CHALLENGING YOUR LIMITS**

These four values underpin our approach to helping members achieve their fitness and wellbeing goals. Colleagues are encouraged and supported in the growth of their careers, for example, through our newly launched mentoring programme.



OUR

CORE VALUES

NEW GYM TEAM (NGT)

Our market-leading New Gym Team personal trainer model was rolled out over the summer of 2019, with over 1,500 trainers onboarded as part-time employees and self-employed personal trainers. Bringing them into the team has enriched their roles within the business whilst enhancing member satisfaction with greater staff presence on the floor.

IIP GOLD AWARD

We are rightly proud of our people culture here at The Gym, and especially so having retained our Investors in People Gold Award in 2019 and been shortlisted for their Employer of the Year.

BACK TO THE FLOOR

The close connection between our day-to-day operations in the gyms and our leadership team remains critical to the success of our business. A great example of how this is encouraged is our Back to the Floor initiative, where every member of our Senior Leadership Team spent a day working as a team member in one of our gyms.

SHARE SCHEMES

In addition to the Share Incentive Plan already offered to employees, we launched our new Sharesave in the autumn to allow our new part-time trainers to participate in the success of the business.



A POSITIVE SOCIAL IMPACT

**OUR BUSINESS
WAS FOUNDED
WITH
SUSTAINABILITY
AT ITS CORE.**

Sustainability governance

Sustainability continues to be a key focus and differentiator for us and to reinforce this, we established our Sustainability Working Group (SWG) during 2019. Chaired by David Melhuish, our Development Director and a member of our Executive Committee, the SWG draws its members from each business function to lead the management of sustainability within the business and with our stakeholders.

The plc Board shares this passion for a sustainable business and the delivery of affordable fitness for all. It regularly discusses sustainability matters as our product evolves, the rollout of sites progresses and our employee numbers expand, and it intends to continue to monitor progress in the coming year.

Specific sustainability issues such as health and safety and employee engagement are also managed and overseen by issue-specific committees and these are detailed in this section.

Reporting for 2019 financial year

In establishing the SWG, we recognise that our strong sustainability credentials and desire to improve them requires more structured and transparent reporting. As part of our work to improve our reporting we began the process of adopting the Global Reporting Initiative (GRI) standards on sustainability reporting. GRI is an independent international organisation that has pioneered sustainability reporting since 1997. An early output of this is our expanded Sustainability section within this Annual Report, in which we have applied the Reporting Principles for defining quality and content, and used the GRI Standards to guide our disclosure on material topics.

We plan to build on these reporting improvements later this year by publishing a full Sustainability Report prepared in accordance with the Global Reporting Initiative (GRI) Standards: Core option. This option provides as a minimum the information needed to understand the nature of the organisation, its material topics and related impacts, and how these are managed. By doing so we will ensure that we continue to meet our legislative obligations and also provide our varied stakeholders with information that demonstrates how we are progressing with our key focus areas.



MAKING AN IMPACT

All data included in this section was subject to internal validation. All references to 'this year' in this chapter refer to 2019 financial year from 1 January to 31 December 2019, unless otherwise stated.

Engaging with our stakeholders

Our stakeholders are key to the success of our business and we increasingly engage with both our internal and external stakeholders regarding our goals, our progress and performance in order to improve our reporting to them. We use a range of methods to gather stakeholder expectations and feedback; see page 3 for further details on this, and our section 172 statement on pages 47 and 48.

Our priority areas of focus

As part of our work to improve our reporting, we commissioned an independent consultancy to support us in identifying the areas we need to focus on. Through this work we have been able to identify the issues of most importance to the business and our stakeholders.

The United Nations Sustainable Development Goals (SDGs) are a blueprint to achieve a better and more sustainable future for all. Together, these 17 goals and related targets for 2030 address the challenges we face as a global society,

including those related to health, education, climate, environmental degradation, poverty, and peace and justice. Throughout this report, we show the actions we are taking to advance societal goals, with key SDGs highlighted where relevant.

Our communities

Keeping fit and healthy is as important for the mind as it is for the body. For this reason we are proud to have once again partnered with Movember in 2019 to raise over £125,000 for men's health.

In addition, The Gym Group supports a different charity each month, which is nominated by our employees and advertised on our website. Members donated over £50,000 during their joining process for different causes.

Our employees are also encouraged to support charities local to their gyms and over the Easter period we invited our members to exchange an Easter egg for a free day pass for their friends; the eggs were delivered by General Managers to children's charities and hospitals within their communities.

OUR KEY SUSTAINABILITY FOCUS AREAS

1

OUR CUSTOMERS

See pages 30 and 31

2

OUR PEOPLE

See pages 32 and 33

3

OUR COMMUNITY

See pages 34 and 35

4

OUR ENVIRONMENT

See pages 36 and 37

"OUR BUSINESS WAS FOUNDED WITH SUSTAINABILITY AT ITS CORE. OUR PASSION TO BREAK DOWN BARRIERS AND PROVIDE AFFORDABLE FITNESS FOR ALL IS WHAT DRIVES US."

RICHARD DARWIN, CEO

STRATEGIC REPORT

SUSTAINABILITY

CONTINUED

GOOD HEALTH AND PROMOTING WELLBEING

Strategic approach

In the 'Sporting Future Annual Report 2019' the UK Government refers to their Sporting Future Strategy, published in December 2015 as: 'a radical new vision' for sport and physical activity. The strategy places five key outcomes at the heart of the Government's focus for investment: physical wellbeing, mental wellbeing, individual development, social and community development and economic development. In addition, it identifies tackling inactivity and getting people from under-represented groups more engaged as key priorities.

Research shows that people in the most deprived areas of the UK are twice as likely to be inactive and can expect to spend nearly 20 fewer years in good health compared with those in the least deprived areas.

Through the provision of our affordable, high quality and well equipped 24/7 facilities and our wide ranging and growing gym network, The Gym is breaking down barriers to health & fitness and is naturally aligned with the Government's vision. In addition, our gym network aligns and contributes to the United Nations' 2030 agenda for SDGs, two of which are Good Health & Wellbeing and Quality Education for all.

Health benefits of exercise

The British Heart Foundation found moderate physical activity of 150 minutes per week reduces the risk of:

Disease	Risk reduction
Dementia	30%
Cardiovascular disease	35%
Type 2 diabetes	40%
Colon cancer	30%
Breast cancer	20%
Depression	30%

Access to The Gym

The Gym makes health and fitness accessible to all by creating a safe and non-judgemental environment which is available to all members, 24/7, without having to enter into long term contracts. 46% of the UK's population now live within a 15-minute drive of one of our gyms and the rollout of our small gym format will help to expand accessibility further into less densely populated areas of the UK.

Our average headline rate of £18.45 is the lowest in the industry and reflects our goal to be the best value high quality proposition in the market. A CACI analysis of our 794,000 members shows that 54% of our gyms are in areas with a high Index of Multiple Deprivation (1 to 3) as of December 2019.

Education at The Gym

We believe that it is important to educate people to the benefits of exercise and support them on their journey. 30% of our joiners are first-time gym members, and when asked the question on application "Have you ever entered a gym before?" 20% of members responded with "No". Consequently, supporting members on their journey is very important for us.

All our memberships come with the offer of a free introductory PT session as well as online introductions helping members that are new to exercise to find their way around a gym. We also actively encourage our members to use the gym regularly.

In 2019, we have had 47.5 million visits to our gyms and seen the average number of visits per week per member increase by 13%.

Safety at The Gym

The safety of our members and staff always sits at the heart of our operation and as the business has grown, we have continued to evolve our health and safety management system. A clear understanding and continuous review of our risk profile ensures our processes are both compliant and mitigate risk. Our external health and safety auditors deliver a consistent and transparent review of performance at site level together with audits of our wider safety and building maintenance systems.

"PHYSICAL INACTIVITY DIRECTLY CONTRIBUTES TO ONE IN SIX DEATHS IN THE UK – THE SAME NUMBER AS SMOKING."
PUBLIC HEALTH ENGLAND





Q&A WITH JASS B MEMBER OF THE GYM CHADWELL HEATH

Jass had a sedentary lifestyle from an early age, combined with high levels of stress during university and later in her professional career, which led to weight gain and related health problems including fertility issues, Type 2 diabetes and liver damage. She was asked by her doctors to urgently reduce body weight to be eligible for recommended surgery.

Q When did you start using the gym?

A I started using gyms after my doctor asked me to lose 5% of my body weight in 2013 and whilst losing weight, I got pregnant for the first time which delayed my planned surgery. When my first child was old enough, I went back to exercising and focusing on a slightly healthier lifestyle and again I got pregnant within three months. I could see the positive impact of exercise and a healthy lifestyle but wasn't quite ready yet to make it an integral part of my life. I found it hard to motivate myself to exercise.

Q What motivated you to join The Gym?

A My husband joined The Gym Chadwell Heath in 2017 and encouraged me to join as well. I was lacking confidence at that time but used some of the information available on the website to get ideas for types of exercises I could do and mostly went with my husband. After a while I decided to use a personal trainer, which started my journey at The Gym with Bobby, who I train with regularly. He educated me about a healthier lifestyle and diet and tailored my exercise regime to my fitness levels and requirements.

Q Why do you use The Gym Chadwell Heath?

A It is affordable, very well equipped to suit a large variety of exercise needs and available 24/7 which is important to me as I sometimes work out very early in the morning and late in the evening. The lower membership fee helps me pay for my personal trainer and the app and body composition machines make it easy to track my progress. There are other gyms closer to my home but I learnt to drive to make sure I can go to this gym. In the summer I cycle to The Gym.

Q How often do you go to The Gym per week/month?

A I go almost daily to The Gym. If I don't have a session with Bobby, I book one of the classes or just work out on my own. The staff know me and are very friendly, there are always people I know at The Gym and I feel part of a community there.

Q What role does The Gym play in your general wellbeing?

A If I hadn't started going to The Gym, exercising regularly and looking after my diet I honestly believe I may not be alive anymore. It has given me time with my children, confidence in myself and a happy, normal life free of doctor appointments and medication. I never had to undergo any surgery to cure my liver fibrosis (stage 3) which was reversed by exercise and a healthy lifestyle.

CASE STUDY: STUDENT MEMBERS

This summer, for the first time, we offered all young people aged 16 – 18 free access to our gyms for six weeks. The 'First Steps' campaign was well received with thousands of youngsters signing up to the offer. It was designed to help young people dealing with exam stress and ensured that they had access to exercise facilities during exams and then afterwards in the holidays.

43%

OF OUR MEMBERS FALL INTO CATEGORIES 'FINANCIALLY STRETCHED' AND 'URBAN ADVERSITY'

20%

OF OUR JOINERS HAVE NEVER BEEN TO A GYM BEFORE

STRATEGIC REPORT

SUSTAINABILITY

CONTINUED

GOOD JOBS, QUALITY EDUCATION AND LIFELONG LEARNING

Strategic approach

People are our biggest asset and as a customer focused business, we need the right people, in the right places at the right times to provide a great member service. We understand that the key to a great member experience is the people who provide this service, who live and breathe our culture and values. Our culture and Company values of 'taking the first step', 'friendliness', 'realness' and 'challenging your limits' support our corporate purpose and run throughout our business for both members and employees.

2019, branded internally as 'The Year of the People', has seen a major focus on our employment model and the creation of a strong employer brand which really embodies the culture of The Gym.

Our focus on our people aligns with and contributes to the UN's 2030 agenda for sustainable development (SDGs) as we strive for Quality Education, Good Jobs and Economic Growth – directly in our own organisation and, more widely through our members.

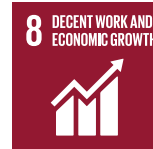
We have described more about how we engage with our employees in the Directors' Report on page 80.

Employment

This year, the New Gym Team model was launched successfully, rolled out and embedded across all regions of the business with all personal trainer employees (Fitness Trainers) receiving a full face-to-face induction. Over the course of 2019 we recruited around 1,500 new employees into our business across Gym Operations and head office, which tripled the size of our business.

To attract and retain great Fitness Trainers of the future we are trialling a 'Grow Your Own' model where we will provide the necessary qualifications to be a personal trainer, at the same time as providing part-time employment and helping them to grow their own self-employed business within our gyms. Our Fitness Trainers have access to bespoke workshops and advice as well as online Continuous Professional Development courses. This is an innovative concept which will ensure our Fitness Trainers are receiving the support they require to make their business and employed time a success with us at The Gym.

**47****AGMs HAVE PARTICIPATED
IN OUR EMERGING TALENT
PROGRAMME****38****AGMs PROMOTED TO GM**



To support our growing Fitness Trainer population, we have a strong Gym Operations management structure for whom we also provide great support and progression opportunities. Our Assistant General Managers (AGMs) and General Managers (GMs) are given the stretch and autonomy to run their gym as if it were their own business, whilst being provided with support and guidance through our 'One Best Way' approach.

Training and development

One of our core values is to enable our employees to challenge their limits. To ensure we are doing all that we can to support our employees in this, we offer a number of training programmes and internal progression routes across the business.

Our Emerging Talent Programme is for our AGMs who are aspiring GMs and is a fully modular programme aimed at supporting their progression to the GM role. To date we have had 47 AGMs participate, with 38 having been promoted so far to the GM role.

We also support our head office teams in training and development, for example by running bitesize skills training throughout the year and offering employee sponsorship in relevant functions for accredited qualifications.

Reward and recognition

Employee engagement is vitally important to The Gym and in 2019 we launched our first engagement survey to gain feedback from our teams. We were pleased with the engagement of our teams and overall the feedback from our employees was very positive.

In response to employee feedback, we have introduced a clear job evaluation framework and are reviewing benchmarks and management levels. We have reviewed and updated our bonus schemes to make these fair and consistent across like for like roles and are launching 'Coaching for Performance' to aid transparency in progression paths, promotions and pay reviews. All of these changes have been well received and would not have been possible without input from our employees.

Human rights, 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. The Company complies with the Modern Slavery Act and the Company's statement can be found on the Company's website www.tggplc.com.

The Company also has an anti-bribery and anti-corruption policy, which is available to all employees via our intranet.

The Company does not consider anti-bribery and anti-corruption to be a principal risk to the Company because it only operates within the United Kingdom and has a low level of discretionary spending due to its fixed cost base.

The Company is not aware of any business relationships it has in place which are likely to cause an adverse impact in relation to human rights, anti-bribery or anti-corruption matters. No adverse matters have been identified under the anti-bribery and anti-corruption policy to date.



"THE PEOPLE THAT WORK FOR THE GYM ARE A TEAM OF PROFESSIONALS THAT WORK TOGETHER TO ACHIEVE OUTSTANDING RESULTS. WHAT IS TRULY STRIKING IS THE FRIENDLINESS WITHIN THE ORGANISATION AT ALL LEVELS."

INVESTORS IN PEOPLE



INVESTORS
IN PEOPLE | Gold
Until 2022

DIVERSITY & EQUAL OPPORTUNITY

Strategic approach

As our business continues to grow, we are committed to nurturing our diverse and inclusive culture at The Gym, for both our members and employees. Being an inclusive and diverse employer is the right thing to do and also makes commercial sense as it helps us relate to our diverse membership and is essential in fostering a culture of innovation. Inclusion is also fundamental to our business purpose: breaking down barriers and providing an environment where everyone has the opportunity to fulfil their potential.

During 2019 we took action to build our Diversity and Inclusion strategy centred upon three core pillars; Insights, to understand our workforce demographic, experiences and opinions; Talent, to ensure we attract, develop and retain a diverse workforce; and Culture, to help underpin and drive our diversity and inclusion initiatives. Throughout our strategy, we seek to align and contribute to the United Nations' 2030 agenda for Sustainable Development Goals (SDGs), particularly by promoting Gender Equality.

Alongside this, we became proud members of Women in Hospitality, Travel and Leisure and signatories of their Diversity in Hospitality Travel Leisure Charter. Through this membership we actively participate in external cross-industry discussions and improvement programmes, with the shared purpose of increasing gender and ethnic diversity at all levels of the industry.

Inclusion at The Gym

We recognise the importance of robust data and insights to drive meaningful improvements, and our primary focus in 2019 was to develop data-driven actions based on a solid understanding of diversity and inclusion at The Gym.

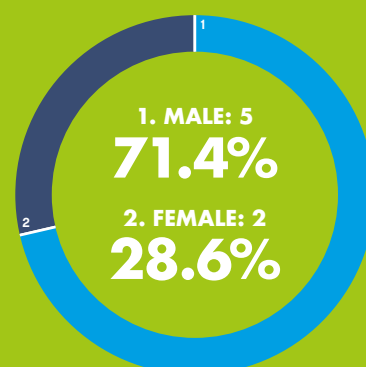
	Male	Female
Board	71.4% (5)	28.6% (2)
Exco	87.5% (7)	12.5% (1)
Senior Leadership Team	79.5% (35)	20.5% (9)
All staff	71.9% (1,448)	28.1% (566)

In 2019 we also formed our first employee-led Diversity and Inclusion group. The purpose of the group is to represent the views and experiences of our employees and members and produce tangible actions for progression. Our Chief Commercial Officer is the Executive sponsor for Diversity and Inclusion, providing a voice and advocate in the boardroom as well as a strategic steer for the Diversity & Inclusion working group. This steering group will play a pivotal role in embedding discussions around diversity and setting the standards for building inclusive behaviours.

Gender pay gap

We recognise that the nature of the fitness industry provides challenges in the attraction of women. However, we have a responsibility to strive to break down this barrier, through brand awareness, improved standardised recruitment practices to reduce unconscious bias, and targeted recruitment strategies. Further development of our

BOARD



existing mentoring initiative and leadership programmes aim to support the progression and development of our female talent and provide platforms for recognition. Our 2019 Gender Pay Gap report, which will be published on our website www.tggplc.com in spring 2020, sets out our action plan to increase female representation across the business. The data in the table below shows our gender pay gap in respect of The Gym Group plc on a group-wide basis, and the detailed analysis will be available in the 2019 Gender Pay Gap report.

	April 2018	April 2019
The mean gender pay gap	7.5%	2.0%
The median gender pay gap	4.6%	11.7%
The mean bonus gender pay gap	48.9%	37.4%
The median bonus gender pay gap	37.1%	37.1%

Wellbeing

We are committed to ensuring we provide a supportive and healthy workplace for our people. Our robust Wellness Action Plans provide managers with the tools they need to support their team members, understand stress triggers and warning signs of mental ill-health and how to respond appropriately. Our Mental Health First Aiders and Employee Assistance Programme provide additional support should employees have concerns over their mental wellbeing. Moving forward, our employee-led Wellbeing Working Group, supported by the Director of People and Development will play a crucial role in proactively raising awareness and promoting positive mental wellbeing in the workplace.

Q&A WITH JENNI TARDIFF NATIONAL GROUP EXERCISE MANAGER



What brought you into the fitness industry?

I started working in the fitness industry at the age of 19 when I was a receptionist in a health club. I quickly realised that I wanted to be the one teaching the classes and not the person booking them, so I started my training to become an instructor. I got my first job as a fitness instructor, and when The Gym Group were opening their first Scottish site, I applied for the Assistant General Manager Role – and I was successful!

What has your career adventure at The Gym been like?

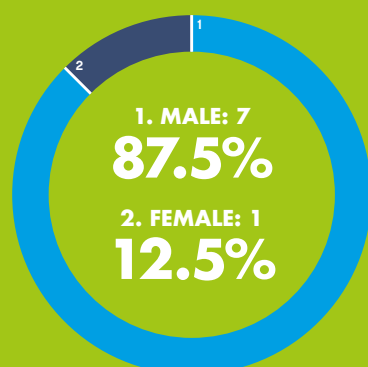
Well, ten months into my AGM role I left to have my first son, and when I returned to work ten months later my current General Manager was promoted to Regional Manager. I therefore applied for the General Manager position and I was over the moon when I got the promotion!

I then went off to have my second son and returned to work nine months later. A new role was introduced – Senior General Manager, which I went for and got it! I assisted the Regional Manager in supporting the region and I loved it!

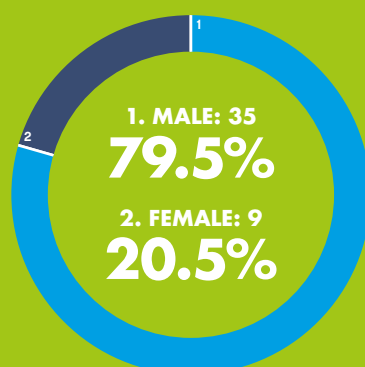
Most recently another new role was introduced – National Group Exercise Manager (my dream job!). I applied for the role and the rest is history. I have had such a great adventure with TGG and can't wait to see what the future brings!

DIVERSITY

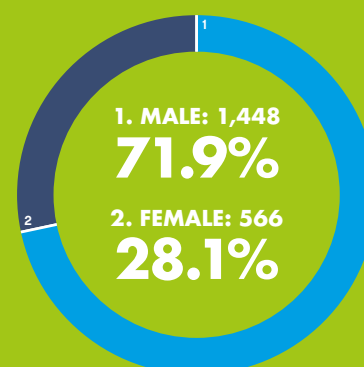
EXCO



SENIOR LEADERSHIP TEAM



ALL STAFF



STRATEGIC REPORT

SUSTAINABILITY

CONTINUED

RESPONSIBILITY TO THE ENVIRONMENT

Strategic approach

We continually seek out opportunities to improve our environmental performance and to contribute to the wellbeing and sustainability of the communities in which we operate.

The Gym recognises the importance of taking a proactive, strategic approach to environmental management and strives to be at the forefront of best practice within the health and fitness industry. Throughout this activity, we seek to align and contribute to the United Nations' 2030 agenda for sustainable development goals (SDGs), particularly by promoting Responsible Consumption and Climate Action.

As our growth continues and we open more gyms, our aim is to continue to reduce our carbon emissions and environmental impact through energy efficient design. In addition, by providing local, convenient and accessible gym facilities we reduce the environmental impact of our members travelling to use the facilities. This is further enhanced with the rollout of our small box format into smaller catchments, and we encourage both colleagues and members to use public transport with green travel plans in place at several sites.

Efficient by design

As part of our environmental strategy, we monitor energy consumption at each individual site. We know that every saving we can make is important, both environmentally and commercially, and our measurement system automatically sends notification should usage increase beyond set parameters allowing us to promptly identify and act to reduce any waste.

In addition, we aim to minimise our energy consumption across our gym network by making our buildings as efficient as possible. This includes the use of high efficiency air conditioning heat pumps, LED lighting and heat recovery ventilation systems.

Our new sites continue to take advantage of new and improved technology to minimise energy consumption. In addition, during 2019 we invested over £1.3 million to undertake a lighting upgrade programme in our older sites and replaced over 20,000 fluorescent lamps with LED light fittings. We also undertook a trial on optimising our air conditioning systems (our major power consuming asset) which has shown promising results and will be evaluated for further rollout during 2020.

Water reduction and efficiency is another area of focus for The Gym, and we continue to develop the use of low water consumption showers and install concussive or electronic taps and shower controllers to minimise water wastage. We have also invested in trial of a novel waste water recovery system for use in toilet flushing, which we aim to introduce as a standard feature on new sites in 2020.

Our intensive maintenance regime ensures equipment is operating efficiently and safely.

Waste

Eliminating waste and improving our recycling rates is an important area of focus and we encourage our members and colleagues to take an active role in reducing our impact. We have an entirely electronic membership sign-up process with no paper-based contracts and we communicate to our members electronically via email, SMS, social media and via the app. Part of our 2020 plan is to trial an electronic solution to replace all paper-based processes for staff in our gyms.

We have a national partnership to handle all waste material wherever we have responsibility for collection and removal from our gym[®]. We provide separated waste bins for members use on all sites to encourage waste segregation, and in 2019, of the 750 tonnes of waste collected, 56% was recyclable. 94% of the remaining material was processed into Refuse Derived Fuel (RDF) and used in energy from waste electricity generation plants meaning that 97% of our waste was diverted from landfill.



Our small box format is setting new standards of energy efficiency.

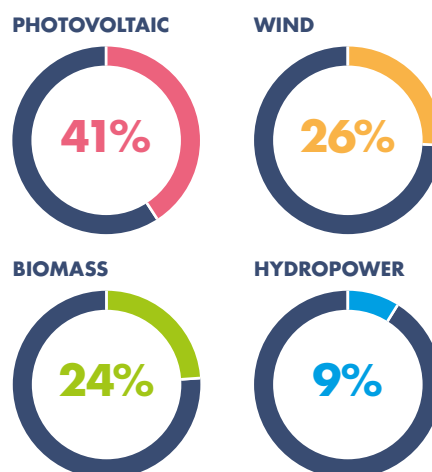
Renewable energy

We have committed to the purchase of 100% renewable power since October 2019 and have secured supply agreements until September 2022. This means that the electricity supply at all gyms where we have direct control of the supply⁽¹⁾ is now provided from renewable sources such as wind and solar energy. The 2019 renewable fuel mix of our current provider, as certified by EcoAct, is illustrated in the image (right). For 2020, we will disclose our emissions from electricity consumption as zero under GHG protocol Scope 2.

All of our sites use high-efficiency heat pump technology as the main source of heating. In addition, our small box format sites have progressed further with the introduction of hot water generation using air sourced heat pumps. At these sites, water is heated using energy extracted from the air outside. This removes the need for gas fired boilers and combined with our renewable power source means the water heating system is zero carbon. We will continue to monitor the performance of the system and aim to develop into a standard solution going forward.

- (1) The Gym has direct responsibility for waste removal at 114 operating sites. At the remaining sites waste collection is the responsibility of the landlord.
(2) We operate 19 sites where electricity is provided centrally by the landlord to our premises.

100% OF ENERGY FROM RENEWABLE SOURCES



Greenhouse gas information

Greenhouse gas (GHG) emissions for the year ended 31 December 2019 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.

	2019 Emissions tCO ₂ e	2018 Emissions tCO ₂ e
Direct Emissions from Operations (Scope 1)	2,035	1,950
Indirect Emissions from Energy Purchased (Scope 2)	9,542	8,841
Indirect Emissions from Heat Purchased (Scope 2)	2	
Total	11,579	10,791
Intensity Metric (tCO₂e per gym)	65	70

97%
OF WASTE DIVERTED
FROM LANDFILL

20,000
LAMPS REPLACED WITH LOW
ENERGY LED FITTINGS

£1.3m
COMMITTED INVESTMENT
IN ENERGY EFFICIENCY
PROGRAMMES

WE ARE NOW PURCHASING
100%
RENEWABLE ENERGY

STRATEGIC REPORT

FINANCIAL REVIEW

PROVEN BUSINESS MODEL

Summary

The Group has delivered another strong set of financial results, with revenue growing 23.6% to £153.1 million and Group Adjusted EBITDA growing 24.0% to £48.5 million. We have also continued to deliver a strong Return on Invested Capital, with ROIC in our mature sites at 31% (2018: 30%), once again meeting our target of 30%.

The growth in Group Adjusted EBITDA has been achieved alongside significant transformation and investment in the business in 2019 with 20 organic site openings, which included the first two of our new small box gym sites towards the end of the year.

Group Operating Cash Flow increased 20.0% to £40.8 million (2018: £34.0 million) as a result of the growth in EBITDA and continuing efficient use of working capital. Free Cash Flow which also incorporates exceptional items, tax and interest increased from £28.5m to £33.9m.

We ended the year with Non-Property Net Debt of £47.4 million, a small increase on the £46.0 million at Dec 2018 and broadly in line with the £47.2 million debt level at June 2019, demonstrating that in 2019 we

reached the point of being able to fund our expansion through operating cash flows.

IFRS 16 has been adopted for the first time in 2019 and all figures presented are on this basis unless stated otherwise. The 2018 comparatives have been restated accordingly – see note 4 for more detail. This financial review uses a combination of statutory and non-statutory measures to report on 2019 performance. See page 41 for the definitions of the Key Performance Indicators.

	2019 £'000	2018 Restated £'000
Total Number of Gyms	175 ¹	158
Total Number of Members ('000)	794	724
Revenue	153,134	123,884
Group Adjusted EBITDAR*	74,453	58,498
Group Adjusted EBITDA*	48,540	39,131
Group Adjusted EBITDA before Pre-Opening Costs*	49,715	40,671
Mature Gym Site EBITDA	48,113	38,967
Adjusted Profit before Tax*	13,969	10,275
Adjusted Earnings*	10,574	7,875
Group Operating Cash Flow*	40,763	33,972
Free Cash Flow	33,867	28,487
Statutory Profit before Tax	6,219	6,956
	%	%
Return on Invested Capital (%)	31	30

1 Excludes three gyms closed in 2019 as previously announced; two sites acquired from the Lifestyle Fitness and easyGym acquisitions plus one site opened in 2015 for which a 5-year break clause was exercised by the Group.

* Refer to page 41 for the definitions of the Key Performance Indicators.

Key financial metrics on a pre-IFRS 16 basis²:

	2019 £'000	2018 Restated £'000
Revenue	153,134	123,884
Group Adjusted EBITDA	47,005	36,813
Adjusted Profit before Tax	20,421	14,361
Adjusted Earnings	15,781	11,230

2 Figures shown using IAS 17 rent costs rather than IFRS 16 right-of-use depreciation and interest. 2018 figures restated to include IT amortisation costs following a change to definition of Adjusted PBT and Adjusted Earnings in 2019.



**STRONG TO
THE CORE**

Result for the year on IFRS 16 basis

	2019 £'000	2018 Restated £'000
Revenue	153,134	123,884
Cost of sales	(1,437)	(1,007)
Gross profit	151,697	122,877
Administration expenses excluding exceptional items	(124,036)	(100,919)
Exceptional administration items	(6,086)	(2,343)
Operating profit	21,575	19,615
Finance income	32	22
Finance costs excluding exceptional items	(14,902)	(12,681)
Exceptional finance costs	(486)	–
Profit before tax	6,219	6,956
Tax charge	(2,624)	(2,030)
Profit for the year	3,595	4,926
Profit before tax	6,219	6,956
Amortisation of non-IT intangible assets	1,178	976
Exceptional administration and finance expenses	6,572	2,343
Adjusted Profit before Tax	13,969	10,275
Tax charge	(2,624)	(2,030)
Tax effect of above items	(771)	(370)
Adjusted Earnings	10,574	7,875

	2019 £'000	2018 Restated £'000
Operating profit	21,575	19,615
Depreciation of property, plant and equipment and Impairment	41,778	33,539
Amortisation of intangible assets	3,114	1,989
Exceptional administration costs	6,086	2,343
Long term employee incentive costs	1,900	1,012
Cash rent payments	(25,913)	(19,367)
Group Adjusted EBITDA	48,540	39,131

Revenue

The increase in revenue was driven by a combination of growth in the number of members and an increase in the Average Revenue Per Member Per Month ('ARPM').

We ended the year with 794,000 members, an increase of 9.7% compared with the closing membership level in December 2018. As a result of the increased size of the estate, including the easyGym acquisition in July 2018, the average membership level across the 12-month period grew by 14.9% to 796,000 (2018: 693,000).

ARPM increased 7.6% from £14.89 to £16.02 in 2019 through a combination of factors. Approximately one third of the increase came from the rollout of our new personal trainer operating model, NGT, which added rental income to each site (offset by a salary cost); excluding this factor, ARPM growth would have been 5.2%. Of the remaining increase in ARPM, £0.37 came from the increased penetration of our premium membership package LIVE IT and £0.40 resulted from an increase in average headline price. The positive contribution to yield from pricing was due to selected price increases across our mature estate, the maturation of pricing on recently opened

sites and the impact of former easyGym sites being in our estate for a whole year in 2019 (vs only six months in 2018).

As a result of these factors, revenue for the year increased 23.6% to £153.1 million (2018: £123.9 million).

Group Adjusted EBITDA

Group Adjusted EBITDA (Group Adjusted EBITDAR minus cash rent costs) increased by 24.0% to £48.5 million (2018: £39.1 million). Growth was driven by the increased size and maturation of the organic estate and a growing contribution from sites acquired in the Lifestyle and easyGym acquisitions. Group Adjusted EBITDA margin remained strong at 31.7% (2018: 31.6%) which is particularly encouraging in light of the rollout of NGT in the year, which, as planned, increased revenue and had a small reduction in EBITDA.

Mature Site EBITDA* contributed by the 110** mature sites increased to £48.1 million (2018: £39.0 million Mature Site EBITDA from 89 mature sites) and this has contributed significantly towards the growth in overall Group Adjusted EBITDA.

EBITDA from new sites*** increased from £10.9 million in 2018 to £13.3 million in 2019.

New sites in the year include sites acquired from Lifestyle Fitness in 2017 and from easyGym in 2018, in addition to new gyms opened in 2018 and 2019, which are performing in line with expectations.

Administration expenses

Administration expenses (excluding exceptional items) increased by 22.9%, primarily due to the number of gyms increasing from 158 at 31 December 2018 to 175 at 31 December 2019.

The largest cost within administration expenses is depreciation, which following the adoption of IFRS 16 now includes the depreciation of property lease right-of-use assets. As a percentage of revenue, depreciation charges have increased from 27.0% (£33.5 million) in 2018 to 27.2% (£41.7 million) in 2019. Excluding property lease assets depreciation, the depreciation charges have decreased from 15.9% of revenue (£19.7 million) in 2018 to 14.7% (£22.6 million) in 2019, partly as a result of a change in the useful economic life assumption of gym equipment.

Staff costs also form a significant part of administration expenses and increased from £16.8 million to £24.7 million, excluding a charge of £1.9 million (2018: £1.0 million) from long term employee incentives. The increase in staff costs was driven by new gym openings and a scaling up of support office costs to support future growth and the roll out of NGT.

Overall central support office costs (including central staff costs) increased from £10.6 million in 2018 to £12.9 million in 2019 due primarily to headcount increases. This represents a decrease as a percentage of revenue from 8.6% to 8.4%.

Amortisation charges increased from £2.0 million to £3.1 million of which £1.9 million was amortisation of IT and software investment (£1.0 million in 2018) and £1.2 million was amortisation of acquisition intangibles (£1.0 million in 2018).

Exceptional items

Exceptional administration costs increased to £6.1 million, from £2.3 million in 2018, and comprised:

- £3.0 million due to a change in the probability-based estimate of contingent consideration that will be payable for the acquisition of two former easyGym sites (London Oxford Street and Birmingham Kings Heath) as it is assumed that the

* 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 fewer than 24 months at the end of the year.

** Total number of mature sites during the year was 110. Following the closure of a site in December 2019 there were 109 mature sites at year end.

*** Total number of new sites (sites opened in 2018 onwards and those acquired from Lifestyle Fitness and easyGym) during the year was 70 including two gyms closed in 2019 (2018: 68).

STRATEGIC REPORT

FINANCIAL REVIEW

CONTINUED

Group will be successful in acquiring new leases for these sites;

- £2.7 million arising on the closure of three sites during 2019, which arose as a result of estate management. Stoke and Birmingham Corporation Street were acquisitions from Lifestyle and easyGym respectively, whilst we exercised a lease break option in Newport, a site we opened in 2015;
- £0.4 million of restructuring costs, related to the cost associated with changing the operating model in relation to the use of personal trainers within the business.

Exceptional finance costs increased to £0.5 million (2018: £nil) and comprised:

- £0.5 million of unamortised bank facility fees from our previous bank facilities which were written off on completion of our refinancing in October 2019.

Of the £6.6 million of exceptional items, only £1.1 million had a cash impact in the year.

Long term employee incentives

During the year the Group granted further shares under the Performance Share Plan (PSP) and Share Incentive Plan (SIP) and also Restricted Stock Options to certain members of senior management. The awards vest in three years provided continuous employment during this period and, in the case of the PSP, certain performance conditions are attained relating to earnings per share and total shareholder returns.

The Group continues 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 continuous employment.

Towards the end of the year, the Group has also granted shares under a new share saving scheme (SAYE), where all employees were invited to save regularly, up to a maximum value, to buy the Group's shares at a discounted price, which vest in three years subject to continuous employment.

The Group recognised a charge of £1.9 million (2018: £1.0 million) in relation to these share-based payment arrangements.

Finance costs

Finance costs excluding exceptionals increased to £14.9 million in 2019 (2018: £12.7 million) comprising the implied interest relating to the lease liability under IFRS 16 of £12.9 million (2018: £10.9 million) plus interest costs associated with our bank borrowing facilities of £2.0 million (2018: £1.7 million).

In October 2019 the Group refinanced its existing £60.0 million facilities with a new £70.0 million Revolving Credit Facility (RCF). The interest charge on the new RCF varies according to the Group's leverage ratio at any time but at current leverage levels interest is charged at 1.75% above LIBOR.

Cash flow

	2019 £'000	2018 Restated £'000
Group Adjusted EBITDA*	48,540	39,131
Movement in working capital	2,507	3,159
Maintenance capital expenditure cash flow	(10,284)	(8,318)
Group Operating Cash Flow	40,763	33,972
Exceptional items	(1,120)	(2,105)
Bank interest	(2,197)	(1,371)
Taxation	(3,579)	(2,009)
Free Cash Flow	33,867	28,487
Expansionary capital expenditure cash flow	(32,504)	(57,551)
Dividends paid	(1,933)	(1,637)
Refinancing fees	(884)	(302)
Net proceeds from issue of Ordinary shares	–	23,196
Other financial assets purchased	–	(645)
Bank interest received	32	22
Movement in Non-Property Net Debt	(1,422)	(8,430)
(Decrease)/increase in debt	1,000	11,000
Net Cash flow	(422)	2,570

* See page 91 for a reconciliation of operating profit to Group Adjusted EBITDA

Balance sheet

	2019 £'000	2018 £'000
Non-current assets	501,095	468,920
Current assets	12,028	11,102
Current liabilities	(49,627)	(47,778)
Non-current liabilities	(313,333)	(285,005)
Net assets	150,163	147,239

This compares to the previous facilities' interest rate of 2.5% above LIBOR, regardless of leverage. As the new RCF came into effect towards the end of the year the benefit on overall finance costs in 2019 was minimal. The remaining unamortised loan arrangement fees of £0.5 million in relation to the previous facility have been written off as a result of the debt refinance (see Exceptional items above) and an additional £0.9 million of fees has been incurred on the establishment of the RCF, which will be amortised over the term of the facility.

At December 2019 the Group has drawn £50.0 million of the facilities and with cash of £2.6 million ended the year with Non-Property Net Debt of £47.4 million, representing 0.98x Group Adjusted EBITDA (2018: 1.17x). This relatively low level of leverage ensures we can offer a strong covenant to potential landlords, providing us with a significant commercial advantage in the securing of desirable new sites.

Taxation

The Group has incurred a tax charge of £2.6 million for the year ended 31 December 2019, which represents an effective tax rate (ETR) on Statutory Profit before Tax of 42.2% (2018: 29.2%). The increase in ETR is due to an increased level of exceptional items which are not deductible for tax purposes and increased charges relating to share based payments.

The underlying effective tax rate on Adjusted Profit before Tax, after adjusting for amortisation and exceptional items, is 24.3% (2018: 23.4%).

Earnings

Statutory Profit before Tax decreased to £6.2 million (2018: £7.0 million), with an increase in Group Adjusted EBITDA, offset by increased depreciation due to increased number of sites, increased amortisation of intangible assets from acquisitions and higher exceptional costs. The Group delivered a profit for the year of £3.6 million (2018: £4.9 million) as a result of the factors discussed above.

Adjusted Profit before Tax is calculated from Statutory Profit before Tax and adding back the amortisation associated with non-IT related intangibles and any exceptional items. Adjusted Profit before Tax in the year was £14.0 million up 35.9% from £10.3 million in 2018.

Basic earnings per share (EPS) was 2.6p (2018: 3.7p). Basic Adjusted EPS was 7.7p (2018: 5.9p).

Dividend

The Board expects 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.

The Group declared an interim dividend of 0.45p per share earlier in the year. The Board had planned a final dividend of 1.15p per share in respect of the financial year ending 31 December 2019, resulting in a full year dividend of 1.60p per share, however, as part of our response to Covid-19, we currently do not anticipate putting a resolution to the AGM to pay this dividend.

Capital expenditure

The Group invested expansionary capital expenditure³ of £32.3 million (2018: £54.5 million) in the fit-out of new gyms, the conversion of two of the easyGym sites acquired in 2018 and investment in new LED lighting across the estate. Expansionary capital expenditure also includes IT & software capital expenditure of £3.9 million (2018: £3.2 million) as a result of investment in website, infrastructure, app and support office technology. Adjusting for the movement in capex creditors, the cash flow in the year from expansionary capital expenditure was £32.5 million.

Total maintenance capital expenditure⁴ was £10.2 million (2018: £7.6 million) and, at 6.7% of revenue, in line with our guidance. Adjusting for the movement in capex creditors, the cash flow in the year from maintenance capital was £10.3 million.

Cash flow

Group Operating Cash Flow has increased by 20.0% from £34.0 million to £40.8 million as a result of an increase in Group Adjusted EBITDA. Our Group Operating Cash Flow Conversion has decreased slightly to 84.1% (2018: 86.8%).

Balance sheet

Non-current assets have increased by £32.0 million to £501.1 million (2018: £468.9 million). This is largely as a result of capital expenditure in property, plant and equipment and intangibles plus an increase in right of use assets totalling £82.1 million, offset by depreciation and amortisation of £44.8 million.

Current assets have increased £0.9 million due to higher trade receivables (as a result of the introduction of rental income charged to personal trainers) and higher inventories (as a result of the increased stock of Yanga water in our gyms). Current liabilities have increased by £1.8 million as a result of growth in the number of gyms, which has increased trade and other payables as well as lease liabilities.

As of 31 December 2019 the Group had drawn £50.0 million of its £70.0 million revolving credit facility.

As a precaution against a potential period of disruption to the business resulting from the Covid-19 outbreak, the Group drew the remaining £20.0 million of the revolving credit facility in March 2020.

2020 and our response to Covid-19

In the first two months of 2020, the Group traded in line with our expectations.

In the first half of March we began to see an impact to our business from the Covid-19 outbreak and then on 20 March we were required by the Government to close all our gyms. Our strategy for operating through the outbreak will be to reduce run rate cash outgoings to a much lower level such that: (1) in the closure period we minimise cash burn during the weeks when we have no revenue; and (2) once the gyms re-open we are able to have positive cash flow with a much lower monthly revenue than we had prior to the crisis.

We have taken a number of actions to reduce our cash outgoings in anticipation of a period of disruption:

- We have drawn down the remaining £20m of our RCF. As of 18 March we had £28.6m of cash;
- New gyms under construction will be completed but all other new sites put on hold, resulting in 7 standard gyms and

1 small box gym opening in H1 2020. YTD committed expansionary capex of £10m;

- Expenditure on maintenance and IT capex reduced to essential spend only; we currently plan to complete the refurbishment of the London Oxford Street and Fulham sites;
- Operating costs will be reduced by halting discretionary spend, reducing marketing and focusing maintenance on essential health & safety spend only; and
- We plan to not pay the final dividend for FY2019 which would preserve a further £1.6m of cash.

We also have other options open to us including (i) additional reductions in expenditure at certain times to improve liquidity; (ii) announcements by the UK Government since 17th March 2020 of measures to assist companies with the impact of the Covid-19 pandemic including a rates holiday for leisure businesses, financial support to pay 80% of wages for staff retained and flexibility on VAT and PAYE payments; (iii) the potential of the Group to access additional debt where the Directors note that the Group's existing £70m revolving credit facility includes a further £30m accordion which requires consent of the banks; (iv) the potential for the Group to agree with its landlords deferrals in the timing of rental payments; or (v) the potential to raise additional funds from third parties.

Mark George
Chief Financial Officer
31 March 2020

³ Expansionary capital expenditure relates to the Group's investment in the fit-out of new gyms, the acquisition of the Lifestyle and easyGym portfolios and technology projects. It is stated net of contributions towards landlord building costs. It is a non-IFRS GAAP measure.

⁴ Maintenance capital expenditure comprises the replacement of gym equipment and premises refurbishment. It is a non-IFRS GAAP measure.

KEY PERFORMANCE INDICATORS – PRE- AND POST-IFRS 16

The adoption of IFRS 16 as of 1 January 2019 has had a significant impact on the key performance indicators previously adopted by the Group. As there is no impact on Group strategy or cash, the Board has amended the definitions of KPIs, which are non-IFRS GAAP measures, as per the presentation available on our website <https://www.tggplc.com> with the aim to have cash-based measures that best reflect the underlying performance of the business and these new definitions are those used in this document.

Definitions

For each of the KPIs below the definition remains unchanged with the adoption of IFRS16 unless stated otherwise.

- **Group Adjusted EBITDAR** – is operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items.
- **Group Adjusted EBITDA** – Pre-IFRS 16 definition of Group Adjusted EBITDA is

operating profit (including IAS17 rent costs) before depreciation, amortisation, long term employee incentive costs and exceptional items, and is a non-IFRS GAAP measure. Post IFRS 16 definition of Group Adjusted EBITDA is operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items, and after cash rent costs.

- **Group Adjusted EBITDA before Pre-Opening Costs** – is defined as Group Adjusted EBITDA excluding the costs associated with new site openings.
- **Adjusted Profit before Tax*** – is calculated as Profit Before Tax before non-IT amortisation and exceptional items.
- **Adjusted Basic Earnings*** – is calculated as the Group's profit for the year before non-IT amortisation, exceptional items, and the related tax effect.
- **Adjusted EPS*** – is calculated as the Group's profit for the year before non-IT amortisation, exceptional items, and the related tax effect, divided by the basic weighted average number of shares.

- **Group Operating Cash Flow** – is calculated as Group Adjusted EBITDA plus movement in working capital less maintenance capital expenditure.
- **Free Cash Flow** – is calculated as Group Operating Cash Flow less tax, interest and other financing costs and exceptional items.
- **Non-Property Net Debt** – is calculated as borrowings less property finance leases and cash and cash equivalents.
- **Return on Invested Capital** – is calculated as Group Adjusted EBITDA of the Group's mature sites, divided by total capital invested in the sites.

* Note: the definitions of Adjusted PBT/Earnings/EPS have changed between 2018 and 2019 with IT-related amortisation no longer being excluded. Where shown, the 2018 Adjusted PBT/Earnings/EPS figures have been restated based on this new definition.

** Note: In 2019 the Group changed its policy relating to the Useful Economic Life of gym equipment (see Note 2.3 below). The 2019 numbers in this report reflect this new policy and the 2018 numbers are based on the previous policy.

STRATEGIC REPORT

PRINCIPAL RISKS AND
UNCERTAINTIESOUR 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.

Emerging risks and uncertainties in 2020 – Covid-19

We are also mindful of our exposure to emerging risks around which there is currently a high level of uncertainty of the impact on the wider environment and the Group's operations. At the time of preparing this report, we are monitoring the impact of the Covid-19 pandemic in the UK on a daily basis. Our priority is to ensure the safety of our staff and members.

We are following our robust risk management framework and ensuring that an active risk assessment and business continuity plan is in place, overseen by our Health and Safety Manager, reporting to the Executive Committee. The Group will follow Public Health England and Health Protection Scotland guidance, and medical and local authority advice where relevant, to ensure that we respond to any developments quickly, safely and in the best interests of our people. This includes responding to instructions to close the entire estate as occurred on 20 March 2020. In addition, management has taken a number of actions to reduce costs to mitigate the disruption

caused by the outbreak, and it will also seek to access the various government schemes to support businesses. As set out on page 45, appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from Covid-19 and in support of viability.

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.	<ul style="list-style-type: none"> Continue to operate a low cost operating model to ensure we can retain price 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 an adverse impact on growth targets and operational returns.	<ul style="list-style-type: none"> Our highly experienced property team is focused on site selection and sourcing the best deals to deliver a strong pipeline. Our expansion into Small Box gyms increases the range of suitable sites.
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.	<ul style="list-style-type: none"> Monitor gym utilisation and member satisfaction 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. Maintain appropriate levels of expenditure on repairs and maintenance.
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.	<p>The Group uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include:</p> <ul style="list-style-type: none"> competitive remuneration packages; opportunities to own shares in the Company; opportunities for training and progression; short, clear reporting lines; succession planning; and utilising staff engagement surveys so our staff have an opportunity to provide feedback and ideas.
ECONOMIC CONDITIONS	A prolonged uncertainty following wider economic shock such as the impact of Brexit or Covid-19 outbreak could cause significant disruption to business conditions.	<ul style="list-style-type: none"> Incoming equipment and materials could increase in cost due to currency movement and additional import costs. A period of disruption caused by a shutdown of some or all of our gyms could result in a loss of membership and revenue, combined with the inability of the Group to remove certain of its cost base in a closure scenario means this could lead to a material uncertainty in the Group's ability to continue as a growing concern. 	<ul style="list-style-type: none"> As part of our Brexit planning we have stockpiled the capital requirements needed to be imported from Europe to ensure we can continue to meet our rollout target in the first six months. We actively monitor developing situations which may pose a risk to our supply chain and have robust risk assessment and business continuity processes in place. Management has identified and implemented measures to preserve cash and reduce discretionary expenditure during a period when all of the Group's sites are closed, and to be able to re-open quickly to minimise revenue loss. Appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from Covid-19 and in support of viability.

STRATEGIC REPORT

**PRINCIPAL RISKS AND
UNCERTAINTIES**

CONTINUED

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
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.	<ul style="list-style-type: none"> • 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.	<ul style="list-style-type: none"> • The Group's networks and systems are protected by firewalls, security software and secure passwords. • 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. • A third party data security audit took place in 2019.
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.	<ul style="list-style-type: none"> • Monthly monitoring and reforecasting of business performance at site level. • Active yield management on a gym-by-gym basis. • Regular financial management by Executive Committee and Board. • Option to slow down expansion in order to preserve cash.
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.	<ul style="list-style-type: none"> • The Board has oversight of 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 for the Consolidated Financial Statements for the year ended 31 December 2019, the Directors have considered the Group's cash flows, liquidity and business activities. At 31 December 2019, the Group had cash balances of £2.6 million and undrawn financing facilities of £20.0 million which are available for general corporate purposes, including but not limited to funding 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 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.

In making this assessment the Directors have made a current consideration of the potential impact of the Covid-19 pandemic on the cashflows and liquidity of the Group over the next 12 month period. This assessment has taken in to account the current measures being put in place by the Group to preserve cash and reduce discretionary expenditure during a period when the Group has had to temporarily close all of its sites as a result of enforcement action by the UK Government, and potential reductions in revenues resulting from changes in the behaviours of members once gyms are allowed to open. The Group's financial modelling assumes reduced membership and revenue as a result of Covid-19 impacting members behaviours and associated actions by the UK government, more than it would have otherwise expected during the next 12 months both during the period of closure and thereafter. The Directors have considered the impact of additional downside scenarios with a greater length of closure and a more severe impact on the Group's cashflows and liquidity as a result of additional loss of membership and revenue. These downside scenarios assume that Group Adjusted EBITDA in 2020 reduces by approximately 65% compared to the Board's expectations prior to development of the Covid-19 pandemic. At these levels of Group Adjusted EBITDA reductions, when combined with the mitigating actions that are within the Group's control including reductions in capital and other expenditure, the Directors currently believe the Group can maintain sufficient liquidity within its £70m debt financing facilities (reflecting the £20m drawdown in March 2020 of the remaining facility) and satisfy its bank covenant levels over the next 12 months.

The Directors have also assessed the impact of an even more severe effect on the Group were there to be an even longer period of

enforced closure and greater reductions in revenues resulting from changes in members' behaviours. Under certain of these scenarios the Group could breach its bank covenants or have insufficient liquidity within the next 12 months.

In considering the impact on the Group's going concern position the Directors have carried out a preliminary assessment of the additional options that may be available to the Group to mitigate the impact on its cashflows and liquidity. In particular Directors have considered (i) additional reductions in expenditure at certain times to improve liquidity; (ii) announcements by the UK Government since 17th March 2020 of measures to assist companies with the impact of the Covid-19 pandemic including a rates holiday for leisure businesses, financial support to pay 80% of wages for staff retained and flexibility on VAT and PAYE payments; (iii) the potential of the Group to access additional debt where the Directors note that the Group's existing £70m revolving credit facility includes a further £30m accordion which requires consent of the banks; (iv) the potential for the Group to agree with its landlords deferrals in the timing of rental payments; or (v) the potential to raise additional funds from third parties.

The Directors have concluded that the potential impact of the Covid-19 pandemic described above and uncertainty over possible mitigating actions represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Nevertheless, having assessed the combination of these various options and the impact of a potential liquidity shortfall in the event of a longer period of impact from the Covid-19 pandemic the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

Viability Statement

In accordance with provision 31 of the UK Corporate Governance Code 2018, the Directors have assessed the viability of the Group taking into account the Group's current position and the potential impact of the principal and emerging risks documented above that would threaten its business model, future performance, solvency or liquidity.

As indicated under the Going Concern assessment above, the Directors have concluded that the potential impact of the

Covid-19 pandemic described above and uncertainty over possible mitigating actions represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Nevertheless, as stated above the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months and that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021. The Directors have determined that the 21 month period to 31 December 2021 is an appropriate period over which to assess its viability statement as it covers the maturity period of sites opened in 2019 (as defined on page 9 mature gyms are those which have been open and in our network for over two years as this is the period of time taken for a gym to reach the expected ongoing revenue level) and is sufficient to reflect the impact that Covid-19 and related mitigation plans are likely to have on the Group's performance and cash flows.

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. As noted above the Board has also performed specific stress testing on the impact of the Covid-19 pandemic. The outputs from these reviews were then used to perform liquidity and debt covenant headroom analysis on the strategic plan and the Covid-19 scenarios, including the downside sensitivity reviews that were 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, changes to the cost base as set out above under going concern in the Covid-19 scenarios. Individual, aggregated and downside scenarios were tested, as well as a reverse stress testing exercise. In both the downside scenarios and the reverse stress test scenario mitigating actions were then modelled. Key mitigating actions included stopping the rollout and refurbishment programme, moving to a minimum level of maintenance capital expenditure and IT capital expenditure and reductions in discretionary expenditure in order to preserve cash.

The principal risks detailed above which have the greatest effect on financial results are considered to be the impact of Covid-19, competition and member experience. Although the Company's response to the Covid-19 crisis is management's sole focus at this time, the Directors consider the longer term opportunity in the UK health and fitness market to remain substantial and that the Company will be very well placed to take advantage of this once it has come through the Covid-19 crisis.

STRATEGIC REPORT

**NON-FINANCIAL INFORMATION
STATEMENT**

The table below sets out where stakeholders can find information in our Strategic Report that relates to non-financial matters detailed under section 414CB of the Companies Act 2006.

REPORTING REQUIREMENT	WHERE TO FIND FURTHER INFORMATION	PAGE	SUMMARY OF RELEVANT POLICIES IF APPLICABLE
ENVIRONMENTAL MATTERS	Sustainability Report – environmental responsibility and greenhouse gas information	36-37	Our environmental strategy is set out on page 36.
EMPLOYEES	Sustainability Report Chief Executive's Statement Principal Risks – staff retention	28-37 8-11 43	The Company has relevant training for all employees which is served via a training portal. Our employee related policies and procedures which include our privacy notice, family friendly policies, code of conduct and all work-related policies are available to all employees online.
HUMAN RIGHTS	Modern Slavery Act Statement ¹ Human rights, anti-bribery and anti-corruption	33	It is prohibited for any employee or person working on our behalf to offer, give, request or accept any bribe. The Company has an Anti-Bribery Policy which sets out the relevant procedures, as described on page 33. The Company also has a Whistleblowing Policy.
SOCIAL MATTERS	Sustainability Report	28-37	Our strategic approaches to diversity and equal opportunity and promoting wellbeing are set out on pages 34 and 30.
BUSINESS MODEL	Business Model	16	An explanation of the business model can be found on page 16.
PRINCIPAL RISKS	Principal Risks and Uncertainties	42-45	The Board has a process for considering the principal risks (page 42) as set out in the Audit & Risk Committee Report on page 58.
NON-FINANCIAL KPIs	Key Performance Indicators	12-13	The Board approves relevant KPIs for use in the Strategic Report, as on page 12.
RELATIONSHIPS WITH SUPPLIERS, MEMBERS AND OTHERS	S172 statement within the Strategic Report	47-48	The Company has a number of policies and procedures underpinning its commitment to high standards of business conduct, which are available to all staff online.

¹ The Company's Modern Slavery Act Statement is available at <http://tggplc.com>.

SECTION 172 OF THE COMPANIES ACT 2006

Board decision making

Section 172 of the Companies Act 2006 ("s.172") imposes a general duty on directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its stakeholders. Our goal is to drive value for members, colleagues and shareholders alike. The Board believes that balancing the interests of stakeholders with our corporate purpose and the desire to maintain high standards of ethical conduct is embedded in the way we do business. The table below sets out who we consider to be our key stakeholders, what their interests are, some key engagement areas in 2019, and examples of how our stakeholders' interests influence the way we do business. For more information on Board decision making, see page 53.

The Board has reserved certain matters for its own decision and these can be found on page 53.

How we consider our stakeholders

Following the Covid-19 outbreak in March 2020 we have updated all our key stakeholders with information regarding the actions we are taking and how it affects them. We kept our members (and therefore the communities in which we operate) updated on actions we were taking while gyms were still open and reminded them of PHE Covid-19 guidelines. When we were required to close the gyms by the Government we immediately contacted members to let them know and to explain that their memberships would be automatically 'frozen' and they would not be charged during the period of closure. We have communicated frequently with employees via email and video messages to keep them updated on developments as the crisis has progressed, and also accelerated the rollout of our new communications platform. The Board provided information to shareholders on our Covid-19 plans in our Preliminary results statement on 19 March and then subsequently via RNS when the gyms were closed. Executive Directors, on behalf of the Board, have also held discussions directly with our lender banks and have worked with key suppliers to develop joint plans for the crisis.

WHO THEY ARE	WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGED DURING 2019	HOW THE BOARD CONSIDERS THE INTERESTS OF OUR STAKEHOLDERS
Shareholders	Our investors provide capital for growth, whilst providing challenge and feedback on our business model and plans for the future.	<ul style="list-style-type: none"> Timely and relevant information on performance Opportunities for engagement with management Dividend policy Remuneration Policy 	<p>Our Executive Directors maintain an investor relations annual plan, consisting of:</p> <ul style="list-style-type: none"> Meetings with our current and prospective shareholders; Presentations given to shareholders upon the release of annual or interim results; Feedback from our joint brokers following investor engagement, and market overview; Reporting to the Board as whole on investor matters; Preparation of investor materials. <p>In 2019, the Chairwoman met with many of our top investors to discuss their views.</p> <p>We received approval for our Remuneration Policy in 2019.</p>	<p>The Board is kept informed of all responses received as part of shareholder consultations.</p> <p>The Board's dividend policy can be found on page 40.</p> <p>The Board welcomes attendance from shareholders at our AGM as another method of engagement, and giving shareholders a chance to ask questions of the entire Board. The arrangements for our 2020 AGM will be confirmed in the 2020 Notice of Meeting.</p> <p>As it relates to Remuneration, we will continue to consult shareholders on any future major changes to Policy. The Remuneration Report is on pages 61-79.</p>
Employees	Our employees are the driving force behind our purpose and growth.	<ul style="list-style-type: none"> Regular, relevant, clear information Opportunities to provide feedback Opportunities to develop careers and skills Engagement with management Participation in share schemes 	<p>Our Unique team and Culture is a vital part of our strategy, and 2019 highlights are set out on page 26.</p> <p>In addition to communications tools, our Executive Committee regularly visit our sites to update our employees on key changes, and for 'back to the floor' days.</p> <p>We have implemented employee engagement and pulse surveys, results of which are fed back to the Board.</p> <p>We have an Emerging Talent programme for our staff.</p> <p>We launched our market leading NGT model, offering our Fitness Trainers flexibility in the way they work.</p> <p>We now operate two all-employee share plans since the launch of Sharesave in 2019.</p>	<p>All Directors visit several of our sites each year and occasionally board meetings are held within our gyms.</p> <p>We also host an annual conference to which central support employees and gym managers are invited, and this presents a chance for Directors to reinforce the Company's values and ensure we have the right culture to meet the strategic needs of the business.</p> <p>David Kelly is the non-executive director who is responsible for people engagement, and you can find out more about our activities in the Directors' Report on page 80.</p>

STRATEGIC REPORT

SECTION 172 OF THE COMPANIES
ACT 2006

CONTINUED

WHO THEY ARE	WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGED DURING 2019	HOW THE BOARD CONSIDERS THE INTERESTS OF OUR STAKEHOLDERS
Members	<p>Happy members are what makes our gyms successful, and they inspire us every day with their achievements. They are the best indicator that we are delivering fitness for all.</p>	<ul style="list-style-type: none"> • A great value experience • Excellent service and equipment • Accessibility and inclusivity • Demonstration of our values 	<p>It is a key part of our strategy and business model to use technology to improve the member experience, with updates highlighted on page 24.</p> <p>In 2019 we opened 20 sites and launched our small box format gyms, rolling out our efficient model to continue to deliver a high quality and great value member experience.</p> <p>Promoting wellbeing is also a key part of our sustainability strategy as on page 30.</p>	<p>We regularly review our member satisfaction scores at Board meetings.</p> <p>Member satisfaction forms part of our bonus targets for Executive Directors.</p> <p>Directors use member feedback to identify ways in which our member journey can be improved or enhanced.</p>
Suppliers	<p>We believe our partnerships ensure we source the best value goods and services for the benefit of our members.</p> <p>High standards of ethics and business conduct is an important part of being a responsible part of the communities in which we operate.</p>	<ul style="list-style-type: none"> • High levels of business conduct and integrity • Strong listed company covenant 	<p>Our strong, listed company covenant continues to be highly attractive to landlords.</p> <p>We actively manage our supplier relationships, including site visits and meetings with landlords.</p> <p>The Company has in place whistleblowing arrangements which enable employees to anonymously raise concerns should they suspect wrongdoing or unethical conduct.</p> <p>We publish our Payment Practices Report twice a year at Companies House.</p>	<p>The Board is committed to high standards of ethical business conduct. The policies and procedures relevant to business conduct are available to all employees.</p> <p>The Board takes a zero-tolerance approach to bribery and corruption. It also reviews the Company's Modern Slavery Act Statement annually.</p>
Community	<p>Being a valuable part of the communities in which we operate is hugely important to us; a strong relationship between our gyms and our communities is mutually beneficial.</p>	<ul style="list-style-type: none"> • Be a responsible corporate citizen • Support local and national charities • Contribute positively to the local community • Be inclusive and accessible 	<p>Our affordable model supports members in accessing a gym for the first time. 54% of our gyms were in areas with a high index of multiple deprivation as of December 2019.</p> <p>In 2019 we raised over £125,000 for Movember. Our employees also regularly focus on supporting charities local to their gyms.</p> <p>In 2019, we launched our First Steps campaign which was aimed at introducing 16-18 year olds to using gyms by giving them free off-peak membership for six weeks over the summer months.</p>	<p>The Board recognises the importance of contributing to wider society and considers it a vital part of achieving our purpose.</p> <p>The Board considers the long-term impact of its operations as part of its Sustainability strategy.</p>
Environment	<p>We continually seek out opportunities to improve our environmental performance and to contribute to the wellbeing and sustainability of the communities in which we operate.</p>	<ul style="list-style-type: none"> • Minimise the impact of the Company's operations on the environment • Energy efficiency and sustainable working practices 	<p>During the year we established our Sustainability Working Group to build on our strong credentials.</p> <p>Our Sustainability Report details our environmental strategy, activity and initiatives. This can be found on pages 36 and 37.</p>	<p>The Board is conscious of the Company's impact on the environment and aim to make our gyms as energy efficient as possible. For more on our responsibility for the environment, please see pages 36 and 37.</p>
Lending Banks	<p>Our lending banks provide funds for growth and day to day working capital to enable us to operate and grow our business to its full potential.</p>	<ul style="list-style-type: none"> • Regular and clear reporting that demonstrates company performance is meeting agreed covenant targets • Regular engagement with management to understand business strategy and risks 	<p>Prior to October 2019 the Group held lending facilities of £60 million with two leading banks: HSBC and Barclays. During the year we provided regular updates on company performance and reported on performance versus agreed debt covenants.</p> <p>In October 2019 we completed a re-financing exercise, which resulted in a new £70 million Revolving Credit Facility (RCF) with three leading banks: NatWest, HSBC and Banco de Sabadell. Over the course of four months, advised by Deloitte, we engaged with several lending banks before finalising the RCF transaction, which gave the Group increased funding (vs £60 million in the previous facilities) and at a lower interest charge.</p>	<p>Management holds regular meetings/calls with lending banks during the year to enable them to be updated on the progress and performance in the business.</p> <p>Representatives from the lending banks are invited to our half-year and full-year results presentations.</p> <p>In financial plans discussed at the Board, analysis is presented on how plans would impact debt covenants to ensure the interests of the lending banks are protected.</p> <p>The Board's annual going concern and viability assessment is performed with specific reference to the level of borrowings required under different scenarios and the impact of such scenarios on debt covenants.</p>

CHAIRWOMAN'S INTRODUCTION

DEAR SHAREHOLDERS,

I am pleased to introduce the 2019 Corporate Governance Report on behalf of the Board. The Corporate Governance Report forms part of the Directors' Report.

BOARD ACTIVITY IN 2019

- Launch of small box format gyms
- Launch of our members' app
- Launch of NGT model
- New credit facility for the Group
- Implementation of IFRS 16
- Site approvals
- Performance management
- Operational matters and deep dives
- Consideration of our sustainability strategy
- Engagement with our stakeholders
- Review of industry trends and external market perceptions
- Consideration of Corporate Governance Code 2018 and the requirements of the Miscellaneous Reporting Regulations, including s172
- Annual reviews of Board and Committee effectiveness

BOARD ACTIVITY IN 2020

To date in 2020, the Board has focused on preparing the year end results and Annual Report and Accounts, together with standing agenda items which include operational updates and governance matters. The Board has also considered the impact of the Covid-19 pandemic on the Group's operations, including its ability to continue as a going concern (as described on page 45). As the Covid-19 pandemic develops, the Board is changing its usual working practices to meet using remote working, holding meetings by telephone and video conference, as permitted by the Company's Articles. The Board already receives its papers electronically, using a secure document portal.

The Board continues to be committed to ensuring that the Group operates with high standards of corporate governance. We believe it is important that the governance structure supports the success of the Company's strategy and ensures the creation and preservation of shareholder value, as well as benefiting other stakeholders.

The Board and Executive Committee (ExCo) work closely together to ensure the robust governance of the business and successful execution of our strategy. We have a stable and talented executive team, whose biographies can be seen on page 52.

In 2019, together with routine operating matters, site approvals and performance management, the Board has focused on the launch of our new small box format gyms, the launch of our app for members on the App Store, agreeing a new credit facility and implementing IFRS 16. We have also focused on ensuring our compliance with the new UK Corporate Governance Code 2018 (the Code) which impacts us fully for the first time this year. We are pleased to report that we are fully compliant with the new Code, and the Board takes care to ensure that the interests of stakeholders are carefully and responsibly considered as part of its decision making, as described in our section 172 statement on page 47.

In this report we have also described our Board evaluation process in respect of the year, set out on page 54. As part of this process, in accordance with the Corporate Governance Code, we reviewed our composition and concluded that there was an effective balance of skills, experience and knowledge. The Nomination Committee is responsible for keeping composition, tenure and succession planning under review and making recommendations as appropriate, and will continue to do so in 2020. The dates of directors' service contracts are on page 78.

The remainder of this report explains in more detail the corporate governance structure in place, including our Board and Committee structure, described on page 53, our policies, including our Diversity & Equality Policy which is described in the report of the Nomination Committee on pages 56 and 57, and protocols on internal controls, which is discussed in more detail in the Report of the Audit and Risk Committee on pages 58 to 60. I hope that you find these pages useful.

Penny Hughes

Chairwoman
31 March 2020



GOVERNANCE

BOARD OF
DIRECTORS

	PENNY HUGHES Independent Non-Executive Chairwoman	RICHARD DARWIN Chief Executive Officer	MARK GEORGE Chief Financial Officer
Committees	<div><div></div><div></div></div>	<div><div></div></div>	None
Skills and experience	<p>Penny has served on the boards of directors of firms across the consumer, media, technology and finance sectors.</p> <p>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.</p>	<p>Richard possesses extensive experience working for leisure and FMCG companies in the UK and internationally, including The Rank Group, Hard Rock Café International and Diageo. He qualified as a chartered accountant with Coopers & Lybrand.</p> <p>He has previously held the positions of Chief Financial Officer of Essenden plc (now Ten Entertainment Group plc) from 2009 to 2015 and Chief Financial Officer of Paramount Restaurants from 2003 to 2008.</p> <p>Richard served as The Gym Group's Chief Financial Officer from 2015 to 2018.</p>	<p>Mark has held senior roles in finance, strategy and general management in a number of leading consumer businesses including Tesco, ASOS and most recently Auto Trader plc, where he was Deputy CFO and a member of the Operational Leadership Team. He started his career as a management consultant with McKinsey & Co.</p>
Other appointments	Aston Martin – Chairwoman iQ Student Accommodation – Chairwoman	None	None

Committees

- Nomination Committee
- Audit and Risk Committee
- Remuneration Committee



JOHN TREHARNE

Founder Director



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.

Ukactive – Board Member
Frame – Chairman
Jigsaw South East – Chair of Trustees

PAUL GILBERTSenior Independent
Non-Executive Director

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), Clothingsites.co.uk, Hiring Hub, and Sykes Cottages.

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

New Look – Non-Executive Director
Grip-UK Limited – Non-Executive Chairman

EMMA WOODS

Non-Executive Director



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

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

Wagamama – Chief Executive Officer

DAVID KELLY

Non-Executive Director



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 Rackpace from 2010 to 2012.

On the Beach Group plc – Senior Independent Director and Chair of the Remuneration Committee
Reach plc – Chair of the Remuneration Committee
Simply Business – Chairman
Pure360 – Chairman
Camelot Global Lottery Solutions Ltd – Chairman
Holiday Extras – Non-Executive Director



GOVERNANCE

EXECUTIVE COMMITTEE

**BARNEY HARRISON – Chief Commercial Officer**

Barney is an experienced marketing and e-commerce 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 joined The Gym in 2016, and in 2019 was promoted to Chief Commercial Officer.

**JASPER MCINTOSH – Chief Information Officer**

Jasper has headed The Gym Group's technology operation since 2011, joining the Executive Committee in 2014. An experienced technology director, Jasper has previously delivered several high profile projects for GlaxoSmithKline, Global Fund, the NHS and the French Presidential Palace. While at The Gym Group, he has overseen a major programme of digital transformation, introducing significant new digital experiences and data and analytics capabilities.

**NICK HENWOOD – Chief Operating Officer**

A highly experienced member of the Executive Committee. Nick has a strong track record in delivering improvements in customer satisfaction, colleague engagement, driving profitable growth and developing strategic initiatives. Nick has previously held Operations Director roles at Autoglass, Mothercare plc and David Lloyd Leisure.

**JONATHAN SPAVEN – Property Director**

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. At The Gym Group he has driven expansion from 38 to over 175 gyms.

**ANN-MARIE MURPHY – Director of People and Development**

Ann-marie joined The Gym Group in April 2018. She has over 15 years' experience across a variety of senior human resources roles, particularly in the travel and retail industries. Before joining The Gym Group, Ann-marie was Group Human Resources Director at New Look Retailers.

**DAVID MELHUIISH – Development Director**

David joined The Gym Group in April 2013 and has successfully opened over 100 gyms to date. He was previously Head of Development & Facilities at Central England Co-operative, managing a diverse trading estate of over 300 properties.

CORPORATE GOVERNANCE REPORT

BOARD GOVERNANCE

Overview

This report explains the key features of the Company's governance structure and how it complies with the Code. It also explains how our Board Committees function and the effectiveness of the Group's risk management and internal control systems.

Compliance with the Code

The Company complies with all the provisions set out in the Code.

The Board and Committees

As at the date of this report, the Board comprises seven members, namely the Non-Executive Chairwoman, three Independent Non-Executive Directors, two Executive Directors and one Founder Director. The Chairwoman was deemed to be independent on appointment and the Board feels that there is an appropriate combination of Executive and independent Non-Executive Directors. A full list of the Directors and their biographies can be found on pages 50 and 51.

Board and Committee composition continues to be a focus for Directors during the year, along with succession planning. Our Remuneration and Audit and Risk Committees continue to be made up of Non-Executive Directors. Our Nomination Committee is made up of a majority of Non-Executive Directors, with the Founder Director and CEO also being members.

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 to grow shareholder value sustainably. 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 permitted parameters.

The Board has established a formal schedule of matters reserved for its approval and has delegated other specific responsibilities to its principal Committees: the Audit and Risk Committee, Remuneration Committee and Nomination Committee. Each of the Committees' 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 56 to 79.

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.

Board decision making

As part of its decision making, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decisions in the long term and its long term reputation in the marketplace. Each year, the Board holds two strategy sessions which consider future plans and initiatives for beyond the next 12 months. The Directors also review the Business Plan and Budget for the forthcoming year in detail. The Executive Committee attend these sessions and present to the Board on each of their respective departments to ensure the Board has all relevant information on behalf of stakeholder groups, such as environmental impact, community assessment via site appraisals, employee and member feedback, and any necessary communications, and to ensure that the Board's strategy is clearly communicated ahead of execution. To help reduce risk as part of decision making, the Audit and Risk Committee review all risks that the Company faces, which are not limited to those disclosed as principal risks in this report. Risks are also considered in detail as part of any acquisition made by the Company. The Board draws on all of the above resources and processes when considering a major decision, such as the launch of our small box format gyms and the roll out of NGT.

Executive Committee

The Executive Committee is responsible for executing the strategy determined by the Board and members regularly attend Board meetings to update Directors of progress made against the Company's agreed strategic objectives.

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 in her current and previous non-executive roles to promote effective debate and contribution from Executive and Non-Executive Board members. Richard Darwin, as Chief Executive Officer, leads the Executive Committee, which support him in the operational and day-to-day management of the Company. The Non-Executive Directors meet at least once annually, without Executive Directors present.

GOVERNANCE

CORPORATE GOVERNANCE
REPORT

CONTINUED

Senior Independent Director (SID)

Paul Gilbert fulfils 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 also acts as intermediary for the other Directors and the Chairwoman, as necessary, and conducts the annual appraisal of the Chairwoman.

Company Secretary

In January 2020, the Company appointed an in-house Company Secretary, with responsibility for ensuring effective communication flows between the Board, its Committees, and the Executive Committee. The Company Secretary also advises the Board on corporate governance matters and ensures that Board procedures are followed. The Company Secretary attends all Board and Committee meetings by invitation of the respective Chairs. During the year, Richard Darwin acted as Company Secretary until 13 March 2019 when Mark George was appointed Company Secretary, both in addition to their executive responsibilities. By resolution of the Board, Katy Tucker was appointed as Company Secretary on 2 January 2020, and Mark George stepped down from the role of Company Secretary on the same date. Mark remains Chief Financial Officer and all company secretarial duties discharged by Mark have been passed to Katy.

Board meetings

There were eight scheduled Board meetings held in 2019 and there are eight Board meetings scheduled for 2020. There were also four scheduled sub-Committee meetings of the Board to approve financial and trading statements and dividend payments. Six additional ad hoc Board meetings were held during 2019 to discuss specific business matters, including approving matters related to the Company's blocklisting application as a result of the first vestings of the Performance Share Plan and the launch of the Company's Save As You Earn Scheme. Two additional Audit and Risk Committee meetings were held to agree revised KPIs as a result of IFRS 16 and to approve the auditors' fees. No additional Remuneration or Nomination Committee meetings were held during the year.

The scheduled Board and Committee meetings have standing agenda items, which ensure that all aspects of the business are given due consideration. The Board regularly reviews strategic matters as part of the standing agenda items. In addition, the Board held specific strategy meetings in May and November 2019 with the Executive Committee, to review, consider and discuss the ongoing strategic development of the Group and the key strategic focuses for 2020 and beyond. The Board intends to maintain the same number of meetings dedicated to strategic matters in 2020.

Our Directors' attendance and engagement has continued to be excellent. 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	2/2	–	3/3
Richard Darwin	8/8	2/2	–	–
Mark George	8/8	–	–	–
Paul Gilbert	8/8	2/2	4/4	3/3
David Kelly	8/8	2/2	4/4	3/3
John Treharne	8/8	2/2	–	–
Emma Woods	8/8	2/2	4/4	2/3*

* Emma was unable to attend one Remuneration Committee meeting as it was rescheduled at late notice.

Appointment and induction of new Directors

No new Directors were appointed during the year.

The Company has an induction programme in place to provide new Directors with a formal, tailored induction that includes visiting the main operational locations. 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 has in 2019 reviewed training and development needs with each Director. Overall, the Board feel well trained. There was a request for some refresher training on Board Committee responsibilities which will be facilitated during 2020.

Re-election of Directors

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

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.

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 during Board meetings, the Board considers each year whether to conduct a formal external performance evaluation of the Board, its Committees and the Chairwoman and it was agreed to undertake the review internally this year, as in previous years. As the Company is outside of the FTSE 350, it is not required to hold an external evaluation.

As part of the 2019 evaluation, a tailored questionnaire specifically designed to assess the performance of the Board, each of its Committees and the Chairwoman, was circulated and completed by all Directors. As part of the review, feedback on effectiveness of the Board was also sought from the Executive Committee and key corporate advisers. The questionnaire covered the Board's performance in relation to key initiatives which took place during the year, including the rollout of our small box format gyms, the appointment process of our new Company Secretary, and also reflected on the efficacy of the changes which were made to the Board during 2018. The questionnaire was supplemented by a review of the Chairwoman's performance which was carried out by the SID and which identified no matters of concern. The results were collated, and a summary paper was prepared, which was discussed in detail by the Board and a list of action points was compiled which will be monitored by the Nomination Committee to ensure all outcomes are monitored and achieved in a timely manner.

The results of the evaluation exercise demonstrated that the Board, its Committees and the Chairwoman continue to operate effectively. Last year one action was to review Board and Committee reporting to ensure that papers issued to Directors were of an appropriate level of detail to encourage healthy debate. The Board were pleased that feedback from Directors on this was positive, and improvements in report and agenda structure will continue to ensure that greater time can be spent discussing matters of strategic importance. The Board were also pleased that the Company has appointed an in-house Company Secretary who joined the Company at the start of 2020, which was another key piece of feedback arising from the 2018 evaluation. Other actions raised and agreed this year were that there should be continued focus on all aspects of diversity within the Company, particularly at Board and senior management level, and for more opportunities for Directors to refresh and develop their understanding of specific topics, both of which will be considered during 2020. In addition, the Directors reflected on the increasing number of sites subject to Board approval. It was noted that while the current approvals process was effective, the Board agreed to consider ways of ensure robust and efficient governance was maintained, such as developing a dedicated Board Committee.

The performance of each Director was also assessed through a self-appraisal section of the questionnaire and was discussed by the Board and, accordingly, the Board believes 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 Director continues to be effective and that they each demonstrate 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 £2.0 million (2018: £2.3 million) to Closewall in connection with the fit-out of new gyms during the year ended 31 December 2019. 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 has followed appropriate governance procedures with regard to conflicts of interest.

No Directors took on additional significant commitments during the year.

Information and support

An agenda and accompanying pack of detailed papers is usually circulated to the Board a week in advance of each Board meeting via a secure digital app. Given the fast-paced nature of the business, certain relevant information, such as latest trading data, is shared with Directors at Board meetings. These include reports from Executive Directors, other members of senior management and external advisers. Members of senior management are often 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 and proper for purpose and that it enables sound decision making.

Relationship with shareholders

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

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 conducts meetings and site visits with institutions that focus on private clients as a way of extending the Company shareholder base. The Chairwoman is also available to shareholders and has met several of the Company's larger shareholders during the year, as described on page 6.

The Board receives regular investor feedback through our joint brokers, Numis and Peel Hunt, both in person at Board meetings and through written updates, as well as via our remuneration consultants who provide updates to the Board on institutional shareholder views.

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. The Chairwoman, CEO and CFO usually present the half year and full year results in person in the City, with such presentations being made available as audio recordings on the investor website. All Board members usually attend the Annual General Meeting.

Penny Hughes

Chairwoman

31 March 2020

GOVERNANCE

REPORT OF THE NOMINATION
COMMITTEECOMMITTEE
MEMBERS

Chairwoman	Penny Hughes
Committee members	Richard Darwin, Paul Gilbert, David Kelly, John Treharne, Emma Woods
Number of meetings held in 2019	2

OBJECTIVES

- To ensure the Board has an appropriate balance of skills, diversity, experience, knowledge and independence.
- To ensure that the most suitable candidates for Executive and Non-Executive positions 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.
- To undertake a Board evaluation process to identify developmental processes that can enhance Board practices and Director performance.

KEY ACHIEVEMENTS IN 2019

- Led the recruitment process for the appointment of an in-house Company Secretary.
- Held a succession planning session for key roles within the wider business.
- Reviewed the composition of the Board and its Committees and as a result recommended Penny Hughes step down from the Audit & Risk Committee in line with the requirements of the 2018 UK Corporate Governance Code.
- Approved and provided oversight to the induction and development programmes for Richard Darwin and Mark George as they commenced new roles of CEO and CFO respectively.
- Recommended Richard Darwin be appointed to the Nomination Committee.
- Supported the Board evaluation process for 2019-2020, the results of which can be found in the Corporate Governance Code report on pages 54 and 55.

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 reappointments to the Board. In addition, it is responsible for reviewing the succession plans for Executive Directors and 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 Diversity and Equality Policy is that no individual should be discriminated against on the grounds of race, colour, ethnicity, religious belief, political affiliation, educational background, gender, age or disability. Whilst we have not currently established diversity targets, our policy is reflected in our approach to recruitment at all levels, including Board level, and is stated in our employee handbook which forms part of our employees' service contracts. You can read more about our strategic approach to diversity and equal opportunity on page 34.



As at 31 December 2019, the Board comprised 28.6% (two) female and 71.4% (five) male Board members. The gender balance within our Executive Committee was 12.5% (one) female and 87.5% (seven) male members. The senior leadership team, comprised mainly of Executive Committees' direct reports, have 20.5% (nine) female and 79.5% (35) male members.

We have published our 2018 Gender Pay Gap Report and whilst our gender pay gap compares favourably with other organisations across both the low cost retail and fitness sector and the UK economy more widely, we are committed to reporting on an annual basis the actions we are taking to further reduce the gap and on our progress made against these actions. As we highlight in our report, the pay gap is formed largely because our most senior roles are mainly filled by men and we continue to focus on a diverse succession pipeline. Our report for 2019 will be published in spring 2020, which will include up to date disclosures and our action plan for increasing female representation across the business. This will be available on our website www.tggplc.com.

We commit to monitor and report our progress on diversity during 2020.

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 2019, the Committee met twice and attendance at the meetings is shown in the table on page 54.

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

Main activities

One of our primary efforts during the year was to recommend the appointment of an in-house Company Secretary to the Board, which was an action from our Board Evaluation the previous year. The Company Secretary's main duties are ensuring Board procedures are followed, advising the Board on corporate governance matters, and ensuring effective communication flows between the Board, its Committees, and the Executive Committee. During 2019 a thorough interview process was followed to assess suitable candidates. Katy Tucker was appointed to the role of Company Secretary on 2 January 2020 and Mark George, Chief Financial Officer, stepped down as Company Secretary on the same date.

Senior management succession planning continues to be a focus for the Committee. During the year, the Committee undertook a detailed review of the Executive Committee and other senior management roles, both from a capabilities perspective and in terms of succession planning.

A development programme was provided to Richard Darwin as he stepped into the CEO role. This included executive coaching from an experienced senior level coach during his first 12 months in post. Mark George embarked on a detailed induction programme as he joined in the role of CFO. In addition to this, support was provided to build and develop the finance team including coaching, mentoring, feedback sessions and personal development plans.

It also reviewed the size, composition and skillset 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. Feedback from Directors demonstrated that the Committee should continue to focus on all aspects of diversity when making appointments, especially at Board and senior management level. The evaluation also reflected on the recruitment process of the Company Secretary, and feedback was unanimous in the process yielding a successful result, although consideration could be given as to the speed of the recruitment process. Both factors have been noted by the Committee and will be picked up as part of future succession planning conversations.

The report on the full Board evaluation process can be found within the Corporate Governance Report on page 54.

Penny Hughes

Chairwoman of the Nomination Committee
31 March 2020

"OUR DIVERSITY AND EQUALITY POLICY IS REFLECTED IN OUR APPROACH TO RECRUITMENT AT ALL LEVELS."

PENNY HUGHES, CHAIR OF THE NOMINATION COMMITTEE

GOVERNANCE

REPORT OF THE AUDIT AND
RISK COMMITTEECOMMITTEE
MEMBERS

Chairman	Paul Gilbert
Committee members	David Kelly, Emma Woods
Number of meetings held in 2019	6

OBJECTIVES

- To monitor the integrity of the Financial Statements and related announcements, including any significant financial reporting judgements contained therein of the Company and its subsidiaries.
- To advise on whether the Annual Report and Accounts, taken as a whole, is fair, balance and understandable and to provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.
- To review and, where appropriate, make recommendations to the Board on the adequacy and effectiveness of the Group's financial controls and internal control and risk management systems.
- To review the Group's risk management framework, including principles, policies, methodologies, systems, processes, procedures and people.
- To monitor the effectiveness and objectivity of the Company's internal audit function (if applicable).
- To monitor the effectiveness, independence and objectivity of the Company's external auditors, as well as setting the auditors' remuneration and terms of engagement, and conducting a tender process (if applicable).
- To develop, implement and monitor the non-audit services policy.
- To monitor the effectiveness of the Group's whistleblowing procedures.
- To review the Group's risk appetite.

KEY ACHIEVEMENTS IN 2019

- Considered the plans and outcome of the Group's half year and full year results announcements and Annual Report.
- Oversaw the introduction of IFRS 16.
- Oversaw a review of the Company's KPIs following the implementation of IFRS 16.
- Reviewed the Corporate Risk Assessment and methodology, including a wider review of the Company's financial control environment.
- Oversaw the planning and execution of revolving credit facility.

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 auditors. During 2019 the Committee held a private session with the external auditors without members of management being present.

The Committee is made up solely of the Independent Non-Executive Directors who have experience relevant to our market. The Chairman of the Committee is a chartered accountant and brings recent and relevant financial experience and expertise. The Committee has formal terms of reference which can be viewed on the Company's website: www.tggplc.com. Penny Hughes stood down from the Committee with effect from 1 January 2019, in compliance with the 2018 UK Corporate Governance Code, which recommends that the Chair of the Board should not sit on the Audit Committee.



Significant issues

Prior to each meeting of the Committee at which they are to be considered, the management team 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 2019 Annual Report are as follows:

Covid-19

In March 2020, the Committee considered the potential impact of the Covid-19 pandemic on the cashflows and liquidity of the Group, particularly in relation to the preparation of the Company's financial statements on a going concern basis and the assessment of the Group's viability. Appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from Covid-19 and in support of viability. The Company's going concern and viability statements are set out on page 45, and these set out the approach taken and the conclusions made.

IFRS 16

The Committee held discussions with management and the Group's auditors during the year on IFRS 16 calculations given this is the first year the Group has had to report against this standard. The Committee also considered the appropriateness of the incremental borrowing rates being applied, being a significant area of judgement as set out on page 100.

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.

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. The Committee is satisfied that there was no impairment of goodwill and other intangible assets as at 31 December 2019. Please refer to note 3 to the Financial Statements for further information.

Exceptional items

Exceptional items as identified by management have been reviewed and considered, and the Committee is satisfied that they are appropriately classified as such.

External auditor

The appointment of Ernst & Young LLP was made having considered their capabilities and experience in comparison to the previous audit firm. As part of the annual reporting process, we reviewed the effectiveness of the auditor through:

- Reviewing the 2019 audit plan;
- Discussing the results of the audit including their views on material accounting issues and key judgements and estimates;
- Meeting the auditor without management present and understanding the extent to which the auditors challenged management;
- Considering the robustness of the audit process; and
- Confirming their independence and objectivity through a review of any non-audit service work undertaken during the year and whether any other conflicts of interest exist which might impact independence.

The Audit and Risk Committee is satisfied with the performance and independence of Ernst & Young LLP and therefore recommend their reappointment at the AGM.

Audit rotation

The external auditor, Ernst & Young LLP, was appointed on 28 July 2015. In line with EU requirements, it is intended that the external audit will be put to tender every ten years and therefore the Company will conduct a tender process no later than 2025. In addition, as required by the UK Financial Reporting Council's Ethical Standards (2016 and 2019), Ernst & Young LLP's policy is to rotate key audit partners every five years, with the next rotation to take place ahead of our year ending 31 December 2022.

Risk management

Our risk management process and the risks which are considered to be the principal risks of the Group are detailed on pages 42 to 45. 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.

"IN 2019, THE COMMITTEE OVERSAW THE INTRODUCTION OF IFRS 16, INCLUDING A REVIEW OF THE COMPANY'S KPIS."

PAUL GILBERT, CHAIR OF THE AUDIT AND RISK COMMITTEE

GOVERNANCE

REPORT OF THE AUDIT AND RISK COMMITTEE

CONTINUED

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 2019 and up to at least 31 March 2020. 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. 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 Committee has not identified, nor been advised of, any failings or weaknesses that it has determined to be significant although a number of minor improvements have been made throughout the year.

The Group did not have an internal audit function during the year. The Committee discussed the requirement for an internal audit function during the year, as it does annually, and has 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 as the Company continues to grow.

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 employees 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 anonymously in respect of suspicions of wrongdoing or unethical conduct. The Audit and Risk Committee reviews and considers responses to any whistleblowing reports received. The Committee reviewed the effectiveness of the Group's whistleblowing procedures at the March 2019 meeting.

Non-audit services

In 2019, the auditor did not provide any non-audit services to the Company or its subsidiaries.

In line with EU regulations, the Committee is responsible for approving all non-audit services provided by the auditor. The Committee has a formal policy on the supply of non-audit services by the Company's auditor, which is aligned with the requirements of the UK Financial Reporting Council's Ethical Standards (2016 and 2019). This policy is available on the Group's website. All non-audit services carried out by the Company's auditor are pre-approved by the Committee.

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, and following the outcome of the last evaluation it was noted that more time had been dedicated to Committee meetings during the year under review.

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 83, each of the Directors has confirmed that, to the best of each person's knowledge and belief, 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 position, performance, business model and strategy.

Paul Gilbert

Chairman of the Audit and Risk Committee
31 March 2020

REPORT OF THE REMUNERATION COMMITTEE

COMMITTEE MEMBERS

Chairman	David Kelly
Committee members	Penny Hughes, Paul Gilbert, Emma Woods
Number of meetings held in 2019	3

Dear Shareholder

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

Our whole Board is grateful to its shareholders for the support received on remuneration matters at the Company's 2019 AGM where our Directors' Remuneration Report and our updated Directors' Remuneration Policy were each approved by over 94.7% of our shareholders.

As I write, the Committee is continuing to consider the impacts of Covid-19 on remuneration at The Gym. Already we have undertaken the following actions, all of which are further detailed in this report:

- The Executive Directors and the Executive Committee have agreed material reductions in salary for the second quarter of 2020.
- The Executive Directors are deferring receipt of 2019 bonuses.
- 2020 share plan awards to the Executive Directors have been postponed.

- The Non-Executive Directors and the Chairwoman have agreed to waive their fees for the second quarter of 2020, and this will be reviewed at the end of the second quarter.

The Gym Group's performance in 2019

As detailed earlier in the Annual Report, 2019 was a year of continued growth for The Gym with our main profits KPI (Adjusted EBITDA on a pre-IFRS 16 basis) growing to £47.0 million (2018: £36.8 million). Together with the levels of attainment for our additional bonus metrics on OSAT, Mature Site Members and New Sites, the Committee determined that an overall bonus outcome of 35.1% of the maximum bonus available for our CEO and CFO (35.1% of salary) was appropriate. In determining this outcome the Committee excluded certain costs of new gym openings in 2020 which were incurred in Q4 2019: this adjustment (for the purpose of the bonus calculations only) was made to maintain the integrity of the originally set EBITDA target range, within which the costs of site openings beyond upper expectations was not fully provided for, and to reward management appropriately for acting in the best long term interests of shareholders by accelerating the work on opening of new sites.

The end of the 2019 financial year was also the end of the three-year performance period for our Performance Share Plan (PSP) awards made in March 2017, and these vested at 72.5%:

- The 50% of PSP award shares subject to a TSR condition measured against the constituents of the FTSE SmallCap ex IT will vest at 83.3% for this part, reflecting relative TSR performance between a median and upper quintile level over three years to 31 December 2019; and
- The 50% of PSP award shares subject to an EPS condition will vest at 61.7% for this part, reflecting an Adjusted Diluted EPS of 11.4p for 2019 (EPS target range between 9.0p and 13.6p for FY2019). In measuring Adjusted Diluted EPS for this purpose, the Committee made an adjustment to exclude the cost of IT amortisation which has been included in our reported Adjusted EPS from 2019 onwards, but was excluded from the definition of Adjusted EPS when the targets for the 2017 plan were set. This was appropriate to maintain a consistent approach to EPS measurement over the three-year PSP performance period.



"OUR WHOLE BOARD IS GRATEFUL TO ITS SHAREHOLDERS FOR THE SUPPORT RECEIVED ON REMUNERATION MATTERS."

DAVID KELLY, CHAIR OF THE REMUNERATION COMMITTEE

GOVERNANCE

REPORT OF THE REMUNERATION
COMMITTEE

CONTINUED

The Committee determined that it would be appropriate for FY2019 annual bonus outcomes and for the March 2017 PSP awards to vest as described above as these outcomes were valid reflections of overall performance by the Company in the respective performance periods.

The Committee exercised what it regards as normal commercial judgement in respect of Directors' remuneration throughout the year (and in all cases in line with the Company's Directors' Remuneration Policy) including in relation to:

- Setting performance metrics for normal course annual bonuses and PSP awards in the year; and
- Confirming the outcome of performance metrics for annual bonuses and PSP awards in the year.

Additional exercises of judgement are detailed in this report, including the changes to performance measures for in flight PSP awards as a consequence of changes in the Company's main reported KPIs, reflecting altered accounting practices including the introduction of IFRS 16 (see below).

Implementation of our remuneration policy in 2020

As explained above, our Directors' Remuneration Policy was renewed at our 2019 AGM, and how we intend to apply this policy is set out in our "Implementation Report" for 2020.

Following the year end, the Committee considered fully the impact of the Company's proposed approach to reporting its profit KPIs after the introduction of IFRS 16 (Leases) and also changes in accounting assumptions regarding the amortisation of IT investments.

The Committee determined that it was appropriate to reflect the impact of these technical changes in the following ways for in-flight PSP awards:

- For 2018 and 2019 PSP awards, the stated **Adjusted EPS targets** will be increased; this ensures integrity with the changes made in the Company's on-going reporting of **Adjusted EBITDA** (which will reflect cash rent rather than IAS 17 rent charges). The revised EPS target ranges will also continue to apply the amortisation assumptions for IT capital expenditure which applied when the original PSP target ranges were set.
- For 2019 PSP awards, the metric for **ROCE (Return on Capital Employed)** in the Mature Estate (25% weighting) will be replaced with **ROIC (Return on Invested Capital) in the Mature Estate**. The difference between ROCE and ROIC is that the Group Adjusted EBITDA numerator in the return on capital calculation for ROIC will use the Company's new definition of Group Adjusted EBITDA as described above (after cash rent), with the denominator of initial capital invested remaining the same. The ROCE targets in the 2019 PSP have been adjusted downwards slightly to reflect the fact that ROIC (new definition) in the applicable years will be slightly lower than ROCE (old definition) for any level of performance due to cash rent costs being slightly higher than IAS 17 rent costs for mature sites.

For completeness, as we stated in our Directors' Remuneration Policy, which was approved at our 2019 AGM, the Committee expects to consider the introduction of post-cessation share ownership guidelines during the life of the policy. At the same time, we will further consider the pension contribution levels of our current Executive Directors, reflecting the recent points raised by leading UK shareholders on this matter. Our 2019 policy has already committed to any newly recruited Executive Directors being aligned to level of pension contribution for the majority of the workforce.

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

At the AGM, to be held on 13 May 2020, shareholders will be asked to approve the Directors' Remuneration Report (excluding the Directors' Remuneration Policy).

The vote on the Directors' Remuneration Report is our normal annual advisory vote on such matters.

I hope that our shareholders will remain supportive of our approach to executive pay at The Gym Group and that you will vote in favour of the resolutions on remuneration matters to be tabled at the 2020 AGM.

David Kelly

Chairman of the Remuneration Committee
31 March 2020

At a glance

Remuneration policy and implementation

	Overview of policy	Remuneration in 2019	Implementation for 2020
Base salary	<p>Reviewed annually.</p> <p>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.</p> <p>See page 73.</p>	<p>Richard Darwin: £300,000</p> <p>Mark George: £220,000</p> <p>See page 64.</p>	<p>Richard Darwin: £306,000</p> <p>Mark George: £224,400</p> <p>(2% increases equivalent to average level of increase for all employees)</p>
Pension and benefits	<p>Pension – maximum contribution of 15% of salary.</p> <p>Benefits consist of travel allowance, life insurance, private medical cover, a car parking space (in the case of the CEO) and additional mobile telephone contracts (in the case of the Founder Director).</p> <p>See pages 73 and 74.</p>	<p>In line with policy.</p> <p>See page 66.</p>	<p>Richard Darwin and Mark George pension contributions at 10% of salary.</p>
Annual bonus	<p>Maximum of 100% of salary.</p> <p>Paid in cash up to 75% of base salary and outcomes above this level deferred into shares for two years.</p> <p>Subject to achievement of relevant performance conditions.</p> <p>Subject to malus and clawback provisions.</p> <p>See page 74.</p>	<p>Outcomes at 35.1% of maximum (but deferred).</p> <p>See page 66.</p>	<p>No changes in maximum.</p> <p>Details of proposed 2020 operation set out in Implementation Report.</p>
Long term incentives	<p>Performance share award, subject to service and performance over a three-year period.</p> <p>Maximum award of 200% of salary (300% in exceptional circumstances).</p> <p>Subject to malus and clawback provisions.</p> <p>See page 75.</p>	<p>PSP awards held by Richard Darwin and John Treharne vested in by reference to performance measured to 31 December 2019 at 72.51% of maximum.</p> <p>Awards granted in 2019:</p> <ul style="list-style-type: none"> Richard Darwin: 175% of salary Mark George: 175% of salary <p>Performance conditions: 50% Relative TSR target, 25% Adjusted Earnings per Share, 25% ROCE in mature estate.</p> <p>See pages 68 and 69.</p>	<p>Awards for 2020 postponed.</p>
Share ownership guidelines	<p>300% for Executive Directors.</p> <p>(200% for new Executive Directors).</p> <p>See page 75.</p>	<p>At the year end Richard Darwin met the requirements. Mark George will build a shareholding to the required levels.</p> <p>See page 69.</p>	<p>No change.</p>

GOVERNANCE

**REPORT OF THE REMUNERATION
COMMITTEE**

CONTINUED

2019 single total figure

	Salary	Taxable benefits	Bonus	Long term incentives	Pension	Total remuneration
Richard Darwin	300,000	11,395	105,300	89,918	30,000	536,613
Mark George	220,000	1,840	77,220	5,613	22,000	326,673

See page 66.

2019 annual bonus outcomes

	Weighting	Threshold	Target	Maximum	Actual	Outcome	Bonus payout (% of salary)
Group Adjusted EBITDA	70%	£47.0m	£48.0m	£52.8m	£47.25m (adjusted)	21.1%	
Site openings	10%	17	18	18 (plus strong pipeline for 2020 plus 2 small catchment gyms)	Max	10%	35.1%
Customer satisfaction	10%	49%	51%	53%	49%	2%	
Mature site members	10%				Threshold	2%	

See page 66.

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).

Part A constitutes the implementation sections of the Directors 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 B represents shows our Directors' Remuneration Policy which was approved by shareholders at the 2019 AGM (the Directors' Remuneration Policy). The information in Part B is not subject to the advisory vote on the Directors' Remuneration Report at the 2020 AGM.

PART A: IMPLEMENTATION REPORT

Implementation of Policy for 2020 (unaudited information)

Base salary

The Executive Directors' base salaries for 2020 will be as follows:

- Richard Darwin: £306,000
- Mark George: £224,400

The Executive Directors were awarded a 2% increase in line with the average increase for all employees for 2020. As disclosed in the Committee Chairman's letter introducing this report, the Executive Directors and the Executive Committee have agreed material reductions in the salary they will be paid for the second quarter of 2020 as part of the Company's mitigation against the Covid-19 crisis.

Pension

Contributions rates for Richard Darwin and Mark George will be 10% of salary. 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 66. There is no current intention to introduce additional benefits in 2020.

Annual bonus

At the commencement of the 2020 financial year, the Committee had intended to operate the 2020 annual bonus in line with the parameters used in past years (mix of 2020 financial performance measures and strategic measures). However, given the impact of Covid-19 already on the business the Remuneration Committee plans to introduce a scheme that operates at its discretion based on the performance of the Company and its response to an evolving situation. In determining any payments the Remuneration Committee will consider affordability, and supporting disclosures will be made in the DRR for 2020.

Long term incentives

As disclosed in the Committee Chairman's letter introducing this report, the grant of awards to Executive Directors in 2020 has been postponed. When awards are made, appropriate disclosures regarding the awards will be made in the related RNS.

Founder Director

John Treharne will continue to be paid a base salary of £195,000 as Founder Director and to receive benefits in accordance with the Policy. He will not receive any pension contributions, nor will he participate in the annual bonus plan or receive any PSP awards in 2020. The Founder Director, along with the Non-Executive directors, has agreed to waive his fees for the second quarter of 2020. It is intended to pay the Founder Director's fees for the second half of the year, subject to Board review at the end of the second quarter.

Non-Executive Directors' fees

Penny Hughes will receive an annual fee of £138,000 as Chairwoman. Paul Gilbert, David Kelly and Emma Woods will each receive a fee of £55,000. The Non-Executive Directors and Chairwoman have agreed to waive their fees for the second quarter of 2020. It is intended to pay the Non-Executive Directors' and Chairwoman's fees for the second half of the year, subject to Board review at the end of the second quarter.

GOVERNANCE

REPORT OF THE REMUNERATION
COMMITTEE

CONTINUED

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.

For the year ended 31 December 2019:

£	Salary/fees	Taxable benefits ¹	Bonus ²	Long term incentives ^{3,4}	Pension ⁵	Total remuneration	Total fixed remuneration ⁶	Total variable remuneration ⁶
<i>Executive Directors</i>								
Richard Darwin	300,000	11,395	105,300	89,918	30,000	536,613	341,395	195,218
Mark George	220,000	1,840	77,220	5,613	22,000	326,673	243,840	82,833
<i>Founder Director</i>								
John Treharne ⁵	195,000	10,999	–	139,873	–	345,872	205,999	139,873
<i>Non-Executive Directors</i>								
Paul Gilbert	55,000	2,995	–	–	–	57,995	57,995	–
Penny Hughes	138,000	–	–	–	–	138,000	138,000	–
David Kelly	55,000	–	–	–	–	55,000	55,000	–
Emma Woods	55,000	–	–	–	–	55,000	55,000	–

1 Taxable benefits comprise car allowance (£8,000 for Richard Darwin), private medical cover travel and life assurance allowances, a car parking space (in the case of the CEO) and additional mobile telephone contracts (in the case of the Founder Director).

2 Further details of the bonus outturn for 2019 can be found on page 66. The bonus totals for Richard Darwin and Mark George represent 35.1% of base salary, respectively. Payment of these bonus amounts has been deferred.

3 These vesting levels of the PSP awards granted in 2017 are at 72.5% reflecting outcomes against the EPS growth and TSR performance measures to 31 December 2019 (see page 68). This vesting outcome (representing 109,656 shares for Richard Darwin and 170,577 shares for John Treharne, including dividend equivalents) is then applied to the share price on the date of vesting of 82p (using the closing price on 18 March 2020) to produce the estimated long term incentives figures shown for 2019 in the above table. At the date of award (15 March 2017) the Company's share price was 185p and accordingly the relevant figures are reflective of a decrease of 55.7% in the Company's share price comparing the date of award to the date of vesting. Details of the performance measures and targets applicable to the 2017 PSP are set out on page 67.

4 The value of long term incentives for Mark George includes the intrinsic value of the option granted to him under the Sharesave Plan on 24 October 2019, being the difference between the option price (202.0p) and the average market value of the Company's shares over the final quarter of the 2019 financial year (265.5p), multiplied by the number of option shares (8,910 shares). Further details of the Sharesave Plan options are disclosed on page 69.

5 Pensions are provided via a defined contribution and/or cash supplement. John Treharne did not receive a pension contribution after 17 September 2018.

6 Total fixed remuneration is the aggregate of the base salary, pensions and benefits elements, and total variable remuneration is the aggregate of the bonus and long term incentive elements.

Comparative figures for the year ended 31 December 2018:

£	Salary/fees	Taxable benefits	Bonus	Long term incentive	Pension	Total remuneration ¹	Total fixed remuneration	Total variable remuneration
Richard Darwin	222,489	11,008	35,598	46,980	22,249	338,324	255,746	82,578
Mark George	37,258	–	5,979	–	3,726	46,963	40,984	5,979
John Treharne	237,382	18,057	28,827	73,080	27,157	384,503	282,596	101,907
Paul Gilbert	50,000	2,512	–	–	–	52,512	52,512	–
Penny Hughes	130,000	–	–	–	–	130,000	130,000	–
David Kelly	50,000	–	–	–	–	50,000	50,000	–
Emma Woods	50,000	–	–	–	–	50,000	50,000	–

1 The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2019 was £1,515,153 (2018: £1,052,302).

Further information on the 2019 annual bonus (audited)

For 2019 the overall bonus plan maximum was 100% of base 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 strategic targets.

The financial targets were as follows:

	Threshold	Target	Maximum	Actual
Group Adjusted EBITDA	£47m	£48m	£52.8m	£47.25m (adjusted – see below)
% of this element of bonus payable	20%	60%	100%	30.2% (21.1% of base salary)

The pre-IFRS 16 Group Adjusted EBITDA result for the year was £47.0 million. This was then adjusted for the purposes of the annual bonus plan to the £47.25 million figure shown by excluding certain costs of new gym openings in 2020, which were incurred in Q4 2019. This adjustment was made to maintain the integrity of the originally set EBITDA target range (within which the costs of site openings beyond upper expectations was not fully provided for) and to reward management appropriately for acting in the best long term interests of shareholders by accelerating the opening of new sites in the year. The cost of the additional bonus paid in relation to these adjustments to targets (which was applied to central staff in bonus schemes) was £0.1 million.

The strategic targets relate to: the number of site openings; overall customer satisfaction (OSAT) and the growth in members in mature sites. Each of these metrics had an equal weighting (10% of bonus each). A summary of overall performance against the New site metrics is as follows:

Non-financial metric	Targets			Outcome and payout		
	Threshold (20% payout)	Target (60% payout)	Stretch (100%)	Outcome	Outcome as % of maximum	Payout as % of maximum bonus
New sites	17	18	≥ 18 + 2 small box ¹ + pipeline	18 + 2 small box + pipeline at above expectations	100%	10%
Customer satisfaction	49%	51%	53%	49%	20%	2%

1 For the new sites measure, the stretch target also requires an appropriate pipeline of sites exchanged for scheduled 2020 opening (minimum ten sites exchanged).

The Committee considers that the target ranges for our Growth in mature site members numbers are matters of commercial sensitivity and so it is not appropriate to disclose these at the current time. This metric was achieved at a threshold level against the specific quantitative targets set at the beginning of 2019 so that 2% of bonus potential was payable. The target range required high levels of attainment and was set considering both prior year performance and the initiatives being taken in 2019.

Having considered overall group performance in the year, including the growth in profits, the Committee determined that it was appropriate to allow payment of the 2019 annual bonus in line with the achievement of the originally set targets as described in this section, giving a total bonus of 35.1% of maximum bonus payable (21.1% on financial metrics; 14% on strategic targets).

Performance Share Plan awards Vesting outcomes for 2017 PSP awards

Performance measure and weighting	Target range (each measured to 31 December 2019)	Performance achieved	Vesting outcome	% of total award vesting
Earnings per share growth (50%)	Target range between 9p (20% vests) and 13.6p (100% vests) for financial year 2019.	11.4p	61.7% ¹	30.86%
TSR (50%)	Target range between median performance (20% vests) and upper quintile performance (100% vests) against the constituents of the FTSE SmallCap (excluding Investment Trusts).	73rd percentile	83.3% (between median and upper quintile)	41.65%
Total				72.51%

1 The calculation of Adjusted EPS for these purposes applied the assumptions regarding amortisation of IT capital expenditure which applied when the original target range of 9.0p to 13.6p was determined, to ensure a consistent basis of measurement across financial years 2017 to 2019.

Details of Outstanding PSP Awards

Executive	Awards held at 1 Jan 2019	Awards granted during the year ⁴	Awards exercised during the year ³	Awards lapsed during the year ³	Interests held at 31 Dec 2019
Richard Darwin	343,745	236,913	23,490	32,295	524,873
Mark George	–	173,736	–	–	173,736
John Treharne	503,757	–	36,540	50,236	416,981

1 The above PSP awards were granted at the five-day average market price of 221.6p from the last trading day prior to grant on 27 March 2019. The awards thus represented awards to Richard Darwin and Mark George over shares worth 175% of salary.

2 The exercise price is 0.01p.

3 PSP awards held by John Treharne and Richard Darwin vested over 36,540 shares and 23,490 shares, respectively (including dividend equivalents). These awards were exercised on 26 March 2019 when the share price was 222p, giving gains to each Director of £81,119 to John Treharne and £52,148 to Richard Darwin (aggregate gains of £133,267).

4 The minimum share price in 2019 was 185.8p and the maximum share price was 292.5p. The closing share price on 31 December 2019 was 289p.

GOVERNANCE

**REPORT OF THE REMUNERATION
COMMITTEE**

CONTINUED

These awards vest based on performance against the following targets:

Performance measure	2017 award (50% growth in Adjusted EPS and 50% TSR)	2018 award (50% growth in Adjusted EPS and 50% TSR)	2019 award (50% TSR, 25% growth in Adjusted EPS and 25% ROCE in mature estate)
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 FY2019.	Target range between 11.7p and 17.6p for FY2020. (Original targets set at 10.8p to 16.2p.)	Target range between 14.2p and 19.6p for FY2021. (Original targets set at 13.6p to 18.8p.)
TSR	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 2017 award.	Target range as for 2017 award.
ROIC 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 (average across 3 years).	Not applicable	Not applicable	Target range between 29.7% and 31.7%. Vesting above 60% for this part of the award subject to an additional underpin of average ROIC of 20% for legacy Lifestyle and easyGym sites across 2020 and 2021. (Original targets set at 30% to 32% on ROCE)

Detail:

The EPS condition applies to the EPS achieved in the final year only of the three financial years' performance period, based on the Adjusted EPS.

- For 2017 awards, Adjusted EPS is calculated excluding the impacts of IFRS 16.
- For 2018 and 2019 awards, Adjusted EPS is to be calculated using the Company's new definition of Group Adjusted EBITDA (which will reflect cash rent rather than IFRS 16 depreciation and interest charges) and the targets have been raised accordingly.
- In all years, the EPS metrics will continue to apply the amortisation assumptions for IT capital expenditure which applied when the original PSP target ranges were set.

The TSR condition will (other than in exceptional circumstances) use a three-month averaging period at the start and end of each performance period to calculate the TSR of the Company and the TSR of the constituents of the comparator group. For 2017 and 2018 PSP awards, relative TSR was measured on the basis of performance over three financial years (beginning with the financial year of grant) and from 2019 onwards is measured on the basis of three calendar years beginning with the grant date.

ROIC in the mature estate reflects ROIC in those sites which have been developed organically by the Group and have been open more than two years.

The difference between the use of ROCE and ROIC for the 2019 awards is that the Group Adjusted EBITDA numerator in the return on capital calculation for ROIC will use the Company's new definition of Group Adjusted EBITDA as described above (after cash rent), with the denominator of initial capital invested remaining the same. The ROCE targets in the 2019 PSP have been adjusted downwards slightly to reflect the fact that ROIC (new definition) in the applicable years will be slightly lower than ROCE (old definition) for any level of performance due to cash rent costs being slightly higher than IAS 17 rent costs for mature sites.

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 2019	Partnership shares purchased in 2019	Matching shares awarded in 2019	Free shares awarded in 2019	Total SIP shares at 31 Dec 2019
Richard Darwin	3,875	1,467	1,467	–	6,809
Mark George	–	1,434	1,434	–	2,868

Participation in the Sharesave Plan

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

Executive	Total Sharesave awards at 1 Jan 2019	Awards granted	Exercise price	Awards vested (number)	Awards exercised (number)	Awards lapsed (number)	Total Sharesave awards at 31 Dec 2019	Earliest exercise date
Richard Darwin	–	–	–	–	–	–	–	–
Mark George ¹	–	8,910	202.0	–	–	–	8,910	1 December 2022

¹ The Sharesave award granted to Mark George over 8,910 shares relates to a three-year savings contract that is due to vest in 2022. The exercise price was set in line with the HMRC rules.

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 2019:

Director ¹	Penny Hughes	John Treharne ²	Richard Darwin ³	Mark George	Paul Gilbert	David Kelly	Emma Woods ⁴
Ordinary shares	50,000	3,550,242	995,231	–	187,776	5,000	8,930
Shares awarded under SIP	–	3,909	6,809	2,868	–	–	–
Maximum awards receivable under PSP	–	416,981	524,873	173,736	–	–	–
Maximum awards receivable under Sharesave	–	–	–	8,910	–	–	–
Total shareholding and share interests	50,000	3,971,132	1,526,913	185,514	187,776	5,000	8,930

¹ The shareholdings and awards set out above include those held by Directors and their respective connected persons.

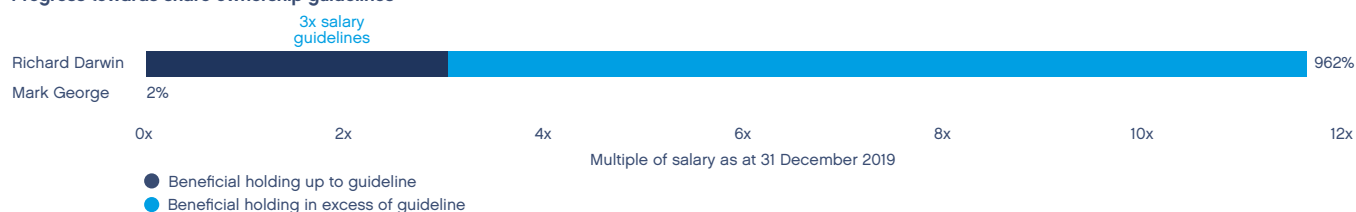
² There is a charge over 1,150,000 shares held in John Treharne's name in an account with Investec Wealth & Investment Limited.

³ 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.

⁴ The total number of Ordinary shares in which Emma Woods or persons connected with her or are interested in includes 8,930 Ordinary shares owned by Lorcan Woods.

⁵ There have been no changes in the interests disclosed between 1 January 2020 and 17 March 2020, the latest date practicable to verify this information prior to the publication of this report.

Progress towards share ownership guidelines



Under share ownership guidelines implemented by the Remuneration Committee, the existing Executive Directors are required to build and then maintain a shareholding equivalent to at least 300% of base salary. Additionally, John Treharne has committed to maintaining a holding of at least 0.5% of issued share capital whilst in the role of Founder Director. At the 2019 year-end, Richard Darwin and John Treharne complied with this requirement as shown above. Mark George joined the business on 31 October 2018 and will be required to build and then maintain a shareholding equivalent to at least 200% of base salary.

Payments to past Directors (audited)

No payments were made to past Directors during the year.

GOVERNANCE

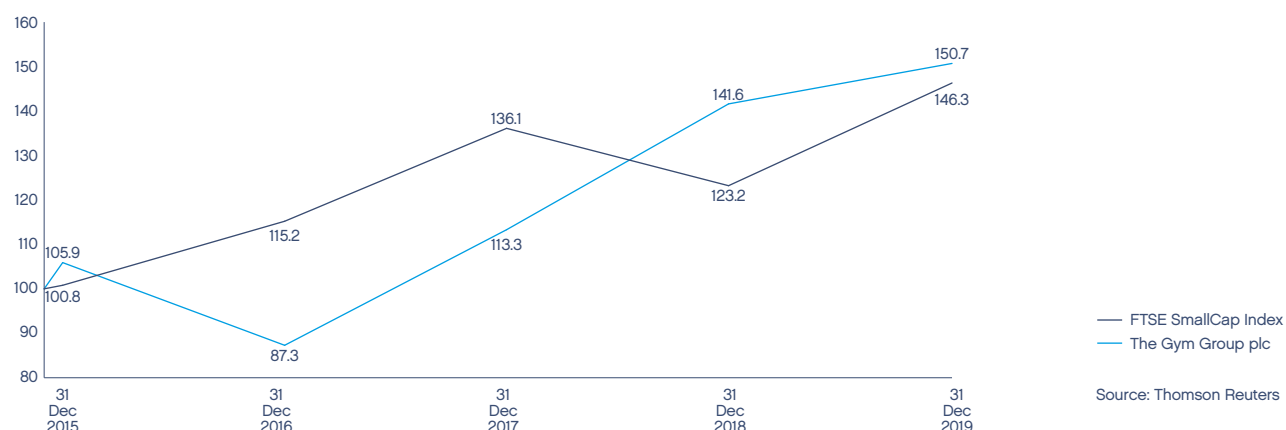
REPORT OF THE REMUNERATION
COMMITTEE

CONTINUED

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 SmallCap Index over the same period. The FTSE SmallCap 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 the CEO's remuneration over the same period as presented in the TSR graph:

	CEO	Single figure of total remuneration	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2015	John Treharne	£287,793	£60,000 ²	n/a
2016	John Treharne	£313,628	27.2% ³	n/a
2017	John Treharne	£431,302	74.3% ³	n/a
2018 ¹	John Treharne	£272,721	16.0%	41.7%
2018 ¹	Richard Darwin	£97,326	16.0%	41.7%
2019	Richard Darwin	£536,613	35.1%	72.5%

1 The 2018 figures represent the single figure of total remuneration for John Treharne for the period to 17 September 2018, and for Richard Darwin from that date.

2 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 vested in 2015, 2016 or 2017.

3 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. The maximum bonus for 2017 was 75% of base salary and so the outcome of 74.3% of maximum bonus was 55.7% 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 ^{1,2}	All staff
Salary and fees	12.06%	3.86%
Short term incentives	205%	75.9%
All taxable benefits	(22.7)%	12.8%

1. The short-term incentives reflects 2018 annual bonus at 16% of maximum and 2019 bonus at 35.1% of maximum.

2. The taxable benefits reflects 2018 benefits being a combination of the benefits for John Treharne and Richard Darwin.

CEO to employee pay ratio

The table below shows how the CEO's single figure remuneration (as taken from the single figure remuneration table on page 66) compares to equivalent single figure remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile. Please note that while not required to publish the CEO to employee pay ratio last year, the Committee felt that, in the interest of transparency, it would be appropriate to make this disclosure on a voluntary basis for 2018 and has included it again this year for context.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018	Option B	19.2 : 1	12.8 : 1	10.4 : 1
2019	Option B	30.4 : 1	26.6 : 1	13.5 : 1

Notes to the CEO to employee pay ratio:

- Option B (based on the gender pay gap reporting disclosures) was preferred as this data was already prepared on a Group basis.
- In line with the gender pay gap reporting regulations, pay for the 25th percentile, median and 75th percentile employees was calculated with reference to 5 April for each financial year.
- The ratios shown are representative of the FTE 25th percentile, median and 75th percentile pay for employees within the Group at the gender pay gap reference date.
- FTE equivalent pay has been calculated using the gender pay gap reporting methodology.
- The Committee believes the median pay ratios for 2018 and 2019 to be consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole as at the reference date.

The total pay and benefits and the salary component of total pay and benefits for the employee at each of the 25th percentile, the median and the 75th percentile are shown below:

Year	Salary			Total pay and benefits		
	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
2018	£19,000	£28,560	£33,660	£21,470	£32,273	£39,719
2019	£17,135	£19,380	£37,740	£17,649	£20,177	£39,862

The change in the median pay ratio from 2018 reflects both: (1) improved company performance, resulting in higher annual bonus and PSP outcomes (as percentage of maximum opportunity) for the CEO as detailed earlier in this report, and (2) changes in the employment model of the Group where the number of UK staff was increased in 2019 under the New Gym Team initiative which offers part time employment to our personal trainers.

Relative importance of spend on pay (unaudited)

The table below details the change in total staff pay between 2018 and 2019 as detailed in note 9 to the Consolidated 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:

	2019 (£'000)	2018 (£'000)	% change
Total gross staff pay	22,966	15,224	50.9%
Dividends/share buy backs	1,933	1,637	18.1%

GOVERNANCE

REPORT OF THE REMUNERATION
COMMITTEE

CONTINUED

Summary of shareholder voting

The following table shows the results of the advisory vote on the 2018 Directors' Remuneration Report and the binding vote on the Directors' Remuneration Policy at the 2019 Annual General Meeting:

	Approval of the 2018 Directors' Remuneration Report (2019 AGM)		Approval of the Remuneration Policy (2019 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	78,526,702	94.7%	84,131,086	94.7%
Against	4,363,298	5.3%	4,759,041	5.3%
Votes withheld	6,000,127	—	0	—

Remuneration Committee

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 3 times during the year and the table on page 54 details attendance of members at these meetings.

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

The Committee does not currently consult with employees specifically on the effectiveness and appropriateness of the executive remuneration policy and framework. However, the Company seeks to promote and maintain good relationships with employees as part of its employee engagement strategy.

During the year, the Committee considered its obligations under the UK Corporate Governance Code and concluded that:

- The Directors' Remuneration Policy supports the Company's strategy (including in the performance measures chosen); and
- Remuneration for our Directors remains appropriate.

In addition, the Committee has ensured that the Directors' Remuneration Policy and practices are consistent with the six factors set out in Provision 40 of the Corporate Governance Code:

Clarity – Our Directors' Remuneration Policy is well understood by our senior executive team and has been clearly articulated to our shareholders and representative bodies (both on an ongoing basis and during consultation when changes are being made)

Simplicity – The Committee is mindful of the need to avoid overly complex remuneration structures which can be misunderstood and deliver unintended outcomes. Therefore, a key objective of the Committee is to ensure that our Directors' Remuneration Policy and practices are straightforward to communicate and operate

Risk – Our Directors' Remuneration Policy has been designed to ensure that inappropriate risk-taking is discouraged and will not be rewarded via (i) the balanced use of both annual incentives and long term incentives which employ a blend of financial, non-financial and shareholder return targets, (ii) the significant role played by shares in our incentive plans (together with bonus deferral and in employment shareholding guidelines) and (iii) malus/clawback provisions within all our incentive plans

Predictability – Our incentive plans are subject to individual caps, with our share plans also subject to market standard dilution limits. The weighting towards use of shares within our incentive plans means that actual pay outcomes are highly aligned to the experience of our shareholders

Proportionality – There is a clear link between individual awards, delivery of strategy and our long term performance. In addition, the significant role played by incentive/at-risk pay, together with the structure of the Executive Directors' service contracts, ensures that poor performance is not rewarded

Alignment to culture – Our executive pay policies are fully aligned to Gym Group's culture through the use of metrics in both the annual bonus and PSP that measure how we perform against key aspects of our strategy, which has the objective of delivering sustainable growth in profits and ROCE

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 2019 were £64,405 plus VAT. FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

On behalf of the Board

David Kelly

Chairman of the Remuneration Committee
31 March 2020

PART B: 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	Changes from previous policy
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.	<p>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.</p> <p>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.</p>	<p>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), 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 increase will be made if it would take an Executive Director's base salary above £383,000 per annum (being the median level of salaries for CEOs in the bottom half of the FTSE SmallCap).</p>	n/a	Clarified the maximum amount of salary for the duration of the policy as a fixed amount.
Benefits To provide benefits valued by recipients.	<p>The Executive Directors currently receive private medical cover, a car allowance, a car parking space (in the case of the CEO) and additional mobile telephone contracts (in the case of the Founding Director).</p> <p>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.</p> <p>Where appropriate, the Company will meet certain costs relating to Executive Director relocations.</p>	<p>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.</p> <p>Relocation expenses are subject to a maximum limit of 100% of base salary, provided that such expenses may be paid only in the year of appointment and for a further two financial years.</p> <p>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.</p>	n/a	No material changes.

GOVERNANCE

REPORT OF THE REMUNERATION
COMMITTEE

CONTINUED

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
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 10% of base salary. Newly appointed Executive Directors will have employers' contribution levels aligned to the contribution levels for the majority of the workforce.	n/a	Reduced to 10% for all Executive Directors. This aligns Executive Directors' pension contribution levels with those for senior managers in the business. Newly appointed Directors will be aligned to the majority of the workforce.
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 will be paid in cash up to 75% of base salary. Outcomes above this level will be deferred in shares for two years. During the deferral period the value of any dividends will be credited as re-invested in further deferred shares. Clawback provisions apply to the annual bonus plan and malus and clawback will apply to deferred shares.	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.	Introduction of deferral feature for bonus outcomes in respect of financial year 2019 and later years. Deferral will be made under the new Deferred Share Bonus Plan (DSBP) being proposed for approval by shareholders at the 2019 AGM.

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
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.	<p>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 (in exceptional cases only).</p> <p>Vested awards for Executive Directors will be subject to a further two-year holding period during which time awards may not normally be exercised or released but are no longer contingent on performance conditions or future employment.</p> <p>During the vesting period (and the additional holding period) the value of any dividends on performance vested shares will be credited as re-invested in further PSP award shares.</p> <p>Clawback and malus provisions apply to PSP awards.</p>	<p>The PSP allows for awards over shares with a maximum value of 200% of base salary per financial year (300% for recruitment-related awards or in special circumstances).</p> <p>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 limits.</p>	<p>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.</p> <p>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.</p> <p>No more than 20% of awards vest for attaining the threshold level of performance conditions. The Committee also has a standard power to apply its judgement to adjust the formulaic outcome of all LTIP performance measures to take account of any circumstances (including the performance of the Company, any individual or business) should it consider that to be appropriate.</p>	<p>A two-year holding period was introduced in 2018 and applied to PSP awards made to Executive Directors in 2018. This is now included in the formal policy for completeness.</p> <p>Clarified the ability of the Committee to adjust the formulaic outcomes from performance conditions where appropriate.</p>
Share ownership guidelines To further align the interests of Executive Directors with those of shareholders.	<p>Executive Directors are expected to build up a prescribed level of shareholding.</p> <p>Minimum shareholding of 300% of base salary for any Executive Director at Admission, 200% of salary for any future Executive Director appointed after Admission. The Committee reserves the power to amend, but not reduce, these levels in future years.</p> <p>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 share plans until the guideline is met. Any PSP performance-vested shares subject to a holding period and any shares awarded in connection with annual bonus deferral will be credited for the purpose of the guidelines (discounted for anticipated tax liabilities).</p>	n/a	n/a	<p>No material changes.</p> <p>The Committee will further consider the appropriateness of extending the application of the share ownership guidelines for a period post termination of employment during the anticipated three-year period of this policy.</p>

GOVERNANCE

REPORT OF THE REMUNERATION
COMMITTEE

CONTINUED

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
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.	<p>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 intends to operate a Sharesave scheme.</p> <p>These all-staff share plans are established under HMRC tax-advantaged regimes and follow the usual form for such plans.</p> <p>Executive Directors would be able to participate in all-employee share plans on the same terms as other Group staff.</p>	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.	No material changes.

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.	<p>The fees paid to the Chairwoman and Non-Executive Directors aim to be competitive with other fully listed companies of equivalent size and complexity.</p> <p>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.</p> <p>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.</p>	<p>Fees are paid monthly in cash.</p> <p>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 £1,000,000 p.a. in aggregate).</p> <p>Any increases actually made will be appropriately disclosed.</p>	n/a

Notes to the policy table**Malus and Clawback**

The Remuneration Committee may apply malus and clawback to a PSP award, to deferred shares under the new Deferred Share Bonus Plan and to cash amounts under the annual bonus plan (clawback only). The relevant circumstances where these powers of recovery may operate are where:

- The Company materially misstated its financial results for any reason and that misstatement would result or resulted either directly or indirectly in an award being granted or vesting to a greater extent than would have been the case had that misstatement not been made;
- The extent to which any performance target and/or any other condition was satisfied was based on an error, or on inaccurate or misleading information or assumptions which resulted either directly or indirectly in an award being granted or vesting to a greater extent than would have been the case had that error not been made;

- Circumstances arose (or continued to arise) during the vesting period (including any holding period) of an award which would have warranted the summary dismissal of the participant; or
- (For awards made from 2019 onwards) there is a sufficiently significant impact on the reputation of the Company (including a Company failure) to justify the operation of malus or clawback.

Normally, clawback can operate for up to three years following the vesting of an award.

Stating maximum amounts for the remuneration policy

The DRR Regulations and related investor guidance encourages companies to disclose a cap within which each element of the Directors' Remuneration Policy will operate. Where maximum amounts for elements of remuneration have been set within the Directors' Remuneration Policy, these will operate simply as caps and are not indicative of any aspiration.

Travel and hospitality

While the Committee does not consider it to form part of benefits in the normal usage of that term, it has been advised that corporate hospitality, whether paid for by the Company or another, and business travel for Directors and in exceptional circumstances their families may technically come within the applicable rules and so the Committee expressly reserves the right for the Committee to authorise such activities within its agreed policies.

Differences between the policy on remuneration for Directors from the policy on remuneration of other staff

While the appropriate benchmarks vary by role, the Company seeks to apply the philosophy behind this policy across the Company as a whole. Where the Group's pay policy for Directors differs from its pay policies for groups of staff, this reflects the appropriate market rate position and/or typical practice for the relevant roles. The Company takes into account pay levels, bonus opportunity and share awards applied across the Group as a whole when setting the Executive Directors' Remuneration Policy.

Committee discretions

The Committee will operate the annual bonus plan, the DSBP and PSP according to their respective rules and the above policy table. The Committee retains discretion, consistent with market practice, in a number of respects, in relation to the operation and administration of these plans.

These discretions include, but are not limited to, the following:

- The selection of participants;
- The timing of grant of an award/bonus opportunity;
- The size of an award/bonus opportunity subject to the maximum limits set out in the policy table;
- The determination of performance against targets and resultant vesting/bonus pay-outs;
- Discretion required when dealing with a change of control or restructuring of the Group;
- Determination of the treatment of leavers based on the rules of the plan and the appropriate treatment chosen;
- Adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events and special dividends); and
- The annual review of performance measures, weightings and targets from year to year.

While performance measures and targets for annual bonus and PSP will generally remain unchanged once set, the Committee has the usual discretions to amend the measures, weightings and targets in exceptional circumstances (such as a major transaction) where the original conditions would cease to operate as intended. Any such changes would be explained in the subsequent Directors' Remuneration Report and, if appropriate, be the subject of consultation with the Company's major shareholders.

Any use of these discretions would, where relevant, be explained in the Directors' Remuneration Report.

Outstanding obligations

For the avoidance of doubt, in approving this policy, authority is given to the Company to honour any commitments entered into with current or former Directors prior to the adoption of this policy (including under a prior policy).

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 in the year of appointment and for a further two financial years, 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 awards to a newly recruited Executive Director which are not buy-outs will be subject to the limits for the annual bonus plan and PSP as stated in the general policy.

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 (for example, specific arrangements under Listing Rule 9.4.2).

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. Exceptionally, where necessary, such buy-outs may include a guaranteed or non-prorated annual bonus in the year of joining.

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

GOVERNANCE

**REPORT OF THE REMUNERATION
COMMITTEE**

CONTINUED

Service contracts

The date of each Executive Director's contract is:

Name	Date of service contract	Duration
John Treharne	6 November 2015	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 current Executive Directors comply with that policy.
Richard Darwin	6 November 2015	
Mark George	31 October 2018	

The contracts of all current Executive Directors, 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.

For each Non-Executive Director, the effective date of their latest letter of appointment is:

Name	Date of appointment	Term
Penny Hughes	6 November 2015	Initial period of three years, subject to re-election at each Annual General Meeting of the Company and are terminable on one months' notice given by either party.
Paul Gilbert	6 November 2015	
David Kelly	25 July 2016	
Emma Woods	11 November 2016	

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, the DSBP 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.

Deferred Share Bonus Plan

Awards are normally preserved in all leaver cases (other than termination for cause) but release will not typically be accelerated, except in the case of death in service. The Committee has the ability to release a good leaver's awards early in suitable cases.

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; or
- 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. The Committee has a standard ability to vary time pro-rating.

If a participant ceases employment during the holding period, performance-vested awards will normally be retained and vest as normal at the end of the holding period (unless the Committee exercises its discretion to allow awards to vest early on cessation in suitable cases). However, if the participant ceases employment due to dishonesty, fraud, misconduct or any other circumstances justifying summary dismissal, awards lapse in full.

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 all-staff Share Incentive Plan and Sharesave scheme provide treatments for leavers in line with HMRC rules for such plans.

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 Annual General Meeting, as well as guidance from shareholder representative bodies more broadly, when determining the remuneration policy and its implementation. The Committee seeks to build an active and productive dialogue with investors on developments on the remuneration aspects of corporate governance generally and it 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.

External appointments

The Company's policy is to permit an Executive Director to serve as a non-executive director elsewhere when this does not conflict with the individual's duties to the Company, and where an Executive Director takes such a role they may be entitled to retain any fees which they earn from that appointment. Such appointments are subject to approval by the Chairwoman.

Consideration of employment conditions elsewhere in the Group (unaudited information)

Pay and employment conditions generally in the Group will be taken into account when setting Executive Directors' remuneration.

The same reward principles guide reward decisions for all Group employees, including Executive Directors, although remuneration packages differ to take into account appropriate factors in different areas of the business:

Base salary/benefits/pension	The Committee receives and considers an annual report summarising the base salaries, benefits and pension arrangements received by each category of Group staff.
Annual bonus	The majority of Group employees participate in an annual bonus plan, although the quantum and balance of Group, business unit and individual objectives varies by level and nature of role. The Committee receives an annual report summarising the bonus potential and performance metrics used in each of the annual bonus schemes in operation across the Group.
Long term incentives	Key Group employees participate in the PSP and may receive awards based on the same performance conditions as those for Executive Directors (although the Committee reserves the discretion to vary the performance conditions for awards made to employees below Board level). The Committee is responsible for operation of the PSP and approves all PSP awards made to Group staff.
All employee share plans	The Committee considers it is important for all employees to have the opportunity to become shareholders in the Company. The Company currently offers a Share Incentive Plan and Sharesave scheme. The Committee regularly monitors participation in the Group all-employee share plans.

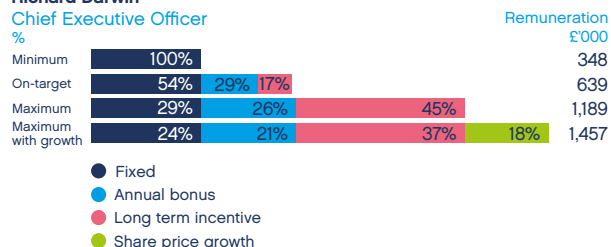
Reflecting standard practice, the Company does not consult with staff in drawing up the Company's annual Remuneration Report or when determining the underlying policy.

Illustrations of application of remuneration policy

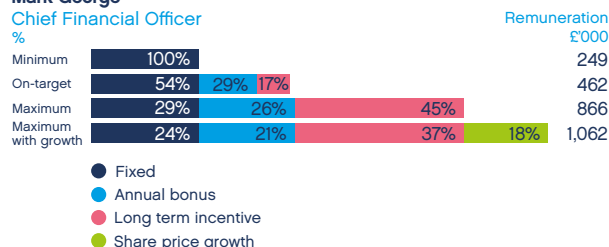
The following charts show how the remuneration policy for Executive Directors will be applied in 2020 using the following assumptions:

Minimum	<ul style="list-style-type: none">• Consists of base salary, benefits and pension.• Base salary is the salary to be paid in 2020.• Benefits measured as benefits paid in the year ended 31 December 2019.• Pension measured as the defined contribution or cash allowance in lieu of Company contributions of 10% of salary for Richard Darwin and Mark George.															
	<table><tr><td></td><td>Base salary</td><td>Benefits</td><td>Pension</td><td>Total fixed</td></tr><tr><td>Richard Darwin</td><td>306,000</td><td>11,395</td><td>30,000</td><td>347,395</td></tr><tr><td>Mark George</td><td>224,400</td><td>1,840</td><td>22,400</td><td>248,640</td></tr></table>		Base salary	Benefits	Pension	Total fixed	Richard Darwin	306,000	11,395	30,000	347,395	Mark George	224,400	1,840	22,400	248,640
	Base salary	Benefits	Pension	Total fixed												
Richard Darwin	306,000	11,395	30,000	347,395												
Mark George	224,400	1,840	22,400	248,640												
Target	<p>Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends):</p> <ul style="list-style-type: none">• 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 Richard Darwin and Mark George).															
Maximum	<p>Based on the maximum remuneration receivable (excluding share price appreciation and dividends):</p> <ul style="list-style-type: none">• Annual bonus: consists of maximum bonus of 100% of base salary.• LTI: consists of full vesting of PSP awards (at 175% of salary for Richard Darwin and Mark George) under the PSP.• Maximum with growth simply assumes 50% share price growth for PSP awards.															

Richard Darwin Chief Executive Officer



Mark George Chief Financial Officer



GOVERNANCE

DIRECTORS' REPORT

As permitted by legislation, some of the matters normally included in the Directors' Report, including disclosures regarding greenhouse gas emissions, have instead been included in the Strategic Report (pages 6 to 48) as the Board considers them to be of strategic importance.

A summary statement of non-financial information and where this can be found in the report is on page 46.

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
Mark George

The roles and biographies of the Directors as at the date of this report are on pages 50 and 51. 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 Annual General Meeting 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' and 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 1.15p per share, giving a proposed full year dividend of 1.60p per share. At this time, as part of our response to Covid-19, we currently do not anticipate putting a resolution to the AGM to pay this dividend.

Post Balance Sheet Events

On 3 February 2020, The Gym Group Operations Limited purchased convertible loan notes in Fiit Limited for cash consideration of £1.0 million. Conversion will take place within two years of issue and would result in a small minority stake.

On 20 March 2020 the Group temporarily closed all of its gym sites following the UK Government's announcement that all gyms must close as part of the Government's Covid-19 containment plan. The extent of this period of closure and actions by members once the gyms are reopened are uncertain, but downside scenario forecasting indicates the Group's Adjusted EBITDA in 2020 could reduce by approximately 65% compared to the Board's expectations prior to development of the Covid-19 pandemic. As a precaution against a potential period of disruption to the business resulting from the Covid-19 outbreak, the Group drew the remaining £20.0 million of the revolving credit facility in March 2020. The impact of these matters on the Group's ability to continue as a going concern is set out in note 2 to the Consolidated Financial Statements. Despite the potential reduction in EBITDA, the Directors do not currently expect an impairment of goodwill, other intangibles, property, plant and equipment and right of use assets, as there was significant headroom when an impairment test was undertaken at the year end.

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 48 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 53 to 55, and forms part of this report by reference.

Health and safety

An overview of health and safety is provided in the Sustainability Report on page 30 and forms part of this report by reference.

Greenhouse gas emissions

Information on the Group's greenhouse gas emissions is set out in the Sustainability Report on page 37 and forms part of this report by reference.

Human rights, anti-bribery and anti-corruption

Information on the Group's human rights, anti-bribery and anticorruption policies is set out in the Sustainability Report on page 33 and forms part of this report by reference.

Political donations

The Company made no political donations in 2019 (2018: £nil).

Employee involvement and policy regarding disabled persons

The Company 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.

Workforce engagement

The Group updates staff with information on the Group's performance and on matters concerning them on a regular basis, through email communications, a communications platform, staff meetings and forums, and the annual company conference. Our People system, Workday, also alerts employees to Group related and role related communications. This includes any relevant updates on financial and economic factors which might be affecting the Company, particularly following results presentations to ensure that staff have an up to date understanding of the Company's performance. Our Board and executive committee regularly visit our gyms, which facilitates engagement and keeps the Board up to date with gym operations. The Board believes that our commitment to developing and supporting our people forms part of the Company's strategy, as set out in our Sustainability report on page 32, where further employee engagement initiatives are detailed.

When making Board decisions which are relevant to our people, considerable value is placed on: the involvement of staff, regular, open, fair and respectful communication, zero tolerance for human rights violations, fair remuneration, and, above all, a safe working environment. 2019 saw a significant change to the Group's business model in the rollout of NGT. Feedback from newly onboarded Fitness Trainers will be gathered through 2020 using improved communication tools as well as participation in further employee engagement surveys. An employee representative forum is also planned for launch in 2020 which will cover a wide range of business-related topics which the elected representatives wish to discuss.

The Company encourages the involvement of employees in the Company's performance through our employee share schemes. In addition to the Share Incentive Plan (SIP), in autumn 2019 we launched a new Sharesave plan to allow our new personal trainer population the opportunity to participate in the Company's success.

The Board has appointed one of its members as the designated non-executive director for People Engagement, and undertakes to review the specification and duties of this role annually. During the year and to date, David Kelly has held this role, with responsibility for acting as the employees' ambassador at the Board table. In 2019, the views of our employees and feedback from our teams were gathered via an engagement survey. David's responsibilities included review and analysis of the feedback from the survey, and presentation of feedback and engagement initiatives to the Board, in conjunction with Group HR. David also plays a role in the group-wide recognition programme via the Remuneration Committee.

Gender pay gap

As mentioned in the Report of the Nomination Committee, we have published our 2018 Gender Pay Gap Report on both the government and Company's websites. 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. As we highlight in our

report, the pay gap is formed largely because our most senior roles are mainly filled by men and we continue to focus on a diverse succession pipeline. Our report for 2019 will be published on the same websites shortly.

Directors' interests

The beneficial interests of the Directors of the Company at 31 December 2019, and their connected persons, in the issued Ordinary shares are provided on page 69 within the Directors' Remuneration Report.

Major interests in shares

As at 31 December 2019, 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
Legal & General Investment Management	11,155,860	8.08%
Liontrust Sustainable Investments	10,132,800	7.34%
Columbia Threadneedle Investments	7,190,532	5.21%
Fidelity International	6,325,502	4.58%
AXA Framlington Investment Managers	5,083,469	3.68%
Premier Miton Investors	4,941,127	3.58%
Janus Henderson Investors	4,887,125	3.54%
Aberdeen Standard Investments	4,577,920	3.32%

Between 31 December 2019 and 18 March 2020, the Company received further notifications under DTR 5:

Institution	Number of shares	Percentage
Legal & General Group plc (direct)	5,579,214	4.04%

Share capital

The details of the issued share capital can be found in note 26 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.

GOVERNANCE

DIRECTORS' REPORT

CONTINUED

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;
- some of the Company's employee share plans include restrictions on transfer of shares while the shares are held within the plan;
- 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 2019 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:

- The maximum number of Ordinary shares authorised to be purchased is 13,805,154, representing 10% of the Company's existing share capital;
- 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);
- The maximum price (exclusive of expenses) which may be paid for each Ordinary share purchased under this authority is the higher of:
 - 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
 - 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;
- The authority shall expire at the close of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, on 30 June 2020.

The Company did not buy back any shares during the year. A resolution will be proposed at the 2020 AGM to renew this authority.

Authority to allot shares

At the 2019 AGM, authority was given to the Directors to allot new ordinary shares up to a nominal value of £4,601.72, equivalent to 33.33% of the issued share capital of the Company. In addition, authority was given to the Directors to allot further new ordinary shares up to a nominal value of £9,203.44, equivalent to 66.67% of the authorised share capital of the Group. The authority shall expire at the close of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, on 30 June 2020.

A resolution will be proposed at the 2020 AGM to renew this authority.

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 24 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 (pages 61-79)
10	Details of contracts of significance	Corporate Governance Report (page 55 – Directors' conflicts of interest)

Section 172 and engagement with suppliers, customers and others

In its decision making, the Board has regard to each directors' duty to promote the success of the Company on behalf of the Company's stakeholders, to foster the Company's relationships with employees, suppliers, members, and others, and considers the effect of the principal decisions taken by the company during the financial year on the Company's stakeholders. This is set out in our s172 statement on pages 47 and 48.

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 auditor and a resolution to reappoint them will be proposed at the forthcoming Annual General Meeting.

AGM

The Notice convening the 2020 AGM will be circulated to shareholders separately.

On behalf of the Board

Katy Tucker

Company Secretary
31 March 2020

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 position, performance, business model and strategy.

On behalf of the Board

Richard Darwin
Chief Executive Officer
31 March 2020

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE GYM GROUP PLC

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 2019 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; 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 2019	Company Statement of Financial Position as at 31 December 2019
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 9 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 32 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.

Material Uncertainty Related to Going Concern

We draw attention to note 2 to the financial statements which indicates that the ability of the Group and Company to continue as a going concern is subject to material uncertainty. With the current outbreak of Covid-19 in the UK, the Group has had to temporarily close all of its sites as a result of enforcement action by the UK Government, and there is uncertainty over the length of the required

closed period and the potential reductions in revenues resulting from changes in the behaviours of members once gyms are allowed to open. As stated in note 2, these events or conditions, along with other matters as set forth in note 2, indicates that a material uncertainty exists that may cast significant doubt on the group and company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

We describe below how the scope of our audit has responded to the material uncertainty related to going concern:

- We obtained management's forecast cash flows and covenant calculations covering the period from the date of signing to 31 March 2021. We tested the calculation of the forecast covenants and the headroom in respect of the financial covenant compliance.
- We challenged the Board of Directors in respect of the assumptions used in the going concern assessment and reverse stress test reflecting the potential impact of Covid-19 to determine the magnitude of decline in revenue and cash flow that would give rise to elimination of the headroom in borrowing facilities (after taking into consideration the controllable mitigations) and breaching of financial covenants.
- We understood and challenged the Board's controllable mitigation plans and the forecast impact on the ability of the business to operate within its financial covenants. We obtained supporting documentation to evaluate the plausibility and achievability of management's mitigation plans.
- We compared forecast future cash flows to historical data, ensuring variations are in line with our expectations and understanding of the business and considered the reliability of past forecasts.
- We performed our own sensitivity analysis on managements forecast cash flows and considered the reverse stress tested management model.
- We agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations.
- We have assessed the adequacy of disclosures within the Annual Report and Accounts.

We draw attention to the Viability statement in the Annual Report at page 45 which indicates that an assumption to the statement of viability statement in respect of going concern in light of the material uncertainty arising as a result of the Covid-19 outbreak. Our opinion is not modified in respect of this matter.

Conclusions relating to principal risks, going concern and viability statement

Aside from the impact of the matters disclosed in the material uncertainty related to going concern section, 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 44 that describe the principal risks and explain how they are being managed or mitigated;
- the directors' confirmation set out on page 45 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;
- whether the directors' statements relating to going concern and their assessment of the prospects of the company 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 45 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	<ul style="list-style-type: none"> • Deferral of membership income. • Annual goodwill impairment testing including cash flow and discount rate assumptions. • Adoption of IFRS 16 – “Leases”.
Audit scope	<ul style="list-style-type: none"> • 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	<ul style="list-style-type: none"> • Overall Group materiality of £639,000 which represents 5% of profit before tax and exceptional items.

Key audit matters

Key audit matters are those matters that, in our professional judgment, 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.

In addition to the matter described in the material uncertainty related to going concern section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Deferral of membership income – total revenue for the year ended 31 December 2019: £153m (31 December 2018: £123.9m), of which £8.0m was deferred at 31 December 2019 (31 December 2018: £7.1m) and presented in the balance sheet as contract liabilities.</p> <p><i>Refer to the Report of the Audit and Risk Committee (page 58); accounting policies (page 96); and notes 5 and 20 of the Consolidated Financial Statements (pages 105 and 112).</i></p> <p>Member's monthly subscription payments are collected each month on various dates during each calendar month. The Group also collects non-refundable joining fees and longer term 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 and presented as a contract liability under IFRS 15 “Revenue from Contracts with Customers” (“IFRS 15”).</p> <p>Although the calculation of deferred membership fees does not involve judgements and estimates, it is non routine in its performance, with large numbers of members, varying subscription rates and the reliance on outsourced processes. The deferred calculation is automated, driven by manually input reports. There is an increased risk of material error and management override in the inputs to this calculation.</p>	<p>We obtained an understanding of the Group's revenue recognition process, in particular in respect of the membership subscription process. This included visiting the outsourced membership management service provider to obtain an understanding of the outsourced elements of the membership income process.</p> <p>We also obtained an understanding of the deferred membership fee income calculation process and related controls.</p> <p>We re-performed management's deferred membership fee income calculation in order to ensure the accuracy of the calculation of income deferred.</p> <p>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 2019 membership income reports used to post revenue. This included sample testing by reference to membership data held by the Group and membership data provided directly to us by the outsourced membership management service provider. We also tested completeness of the membership data held by the Group and used to recognise revenue, by comparing the monthly income files provided to us from management to the monthly income files provided directly received from the outsourced membership management service provider.</p> <p>We tested the completeness of the members included in the deferred membership fee income calculation by using the December 2019 membership data in the income reports used to post revenue within our re-performance of the deferred membership fee income calculation.</p> <p>We tested the appropriateness of manual journal entries recorded in the general ledger in relation to revenue, and in particular those related to deferred income.</p> <p>We considered the risk of management override in the revenue process including the deferred membership income calculation through our work on the testing of the inputs, as well as our testing of manual journal entries.</p> <p>The Group audit team performed full and specific scope procedures over this risk area in all locations, which covered 100% of the risk amount.</p>	<p>Based on our procedures, deferral of membership income in the year ended 31 December 2019 is appropriately recognised and presented as contract liabilities as at that date.</p>

FINANCIAL STATEMENTS

**INDEPENDENT AUDITOR'S REPORT
TO THE MEMBERS OF THE GYM GROUP PLC**

CONTINUED

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Annual goodwill impairment testing including cash flow and discount rate assumptions – 31 December 2019: £77.7m (31 December 2018: £66.4m).</p> <p><i>Refer to the Report of the Audit and Risk Committee (page 58); accounting policies (pages 97 and 101); and note 15 of the Consolidated Financial Statements (page 111).</i></p> <p>As disclosed in note 15 to the Consolidated Financial Statements, goodwill recognised in the Group Statement of Financial Position of £77.7m (arising on the acquisition of the Gym Limited in 2013, the acquisition of the trade and assets of 18 gyms from Lifestyle Fitness, the acquisition of the trade and assets of one gym in Aylesbury and the acquisition of the trade and assets of 13 gyms from easyGym) has been allocated to one group of cash generating units ("CGUs") comprising The Gym chain of health and fitness facilities.</p> <p>Management have undertaken an annual impairment review in respect of the goodwill allocated to the group of CGUs in accordance with the requirements of IAS 36 "Impairment of Assets" ("IAS 36") and concluded that no impairment arises at 31 December 2019.</p> <p>We focused on this area due to both the significance of the carrying value of goodwill 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.</p> <p>The significant assumptions are disclosed in note 15 to the Consolidated Financial Statements.</p>	<p>We obtained and challenged management's CGU assessment which treats each gym as a CGU, but allocates the group's goodwill to the chain of health and fitness facilities operating under "The Gym" brand. This group of CGUs represent the lowest level within the group at which the goodwill will be monitored for internal management purposes and is consistent with the Operating Segments identified under IFRS 8 "Operating Segments". We therefore consider management's assessment of CGU's as appropriate.</p> <p>We obtained management's impairment testing model, considered the calculation methodology, sources for key assumptions and sensitivities applied and tested the integrity of the model.</p> <p>We discussed with management the basis of the key assumptions used in the impairment model, being the discount rate, revenue growth and cost inflation over the next 3 years and the long term growth from 2023 onwards, as disclosed in note 15 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.</p> <p>We also assessed the historical accuracy of management's forecasting by comparing actual financial performance to management's previous forecasts/budgets.</p> <p>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.</p> <p>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.</p> <p>We ensured that the Financial Statement disclosures, particularly those in note 15 to the Consolidated Financial Statements, met the requirements of IAS 36 and IAS1 "Presentation of Financial Statements" ("IAS 1"), particularly those related to judgements, estimation uncertainty and sensitivities.</p> <p>The Group audit team performed the full scope audit procedures on the impairment models prepared for The Gym Group plc.</p>	<p>Based on our procedures, we believe that the combined effect of the cash flow and discount rate assumptions used by management in the CGU impairment model are within acceptable ranges and reasonably possible changes in the key assumptions would not cause an impairment to arise in respect of the goodwill.</p> <p>We consider that management's impairment model methodology is acceptable.</p> <p>The Financial Statement disclosures, particularly those in note 15 to the Consolidated Financial Statements, materially comply with the applicable requirements of IAS 36 and IAS1.</p>

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p>Adoption of IFRS 16 “Leases” – recognition of right of use asset of £239m at 31 December 2019 and lease liability of £278m at 31 December 2019</p>	<p>We assessed the completeness, measurement and presentation of the Group’s right of use lease assets, lease liabilities in the balance sheet, together with the related finance charges and depreciation costs within the income statement.</p>	<p>Based on our procedures and adjustments which have been made, leases are appropriately recognised in the balance sheet in accordance with IFRS 16.</p>
<p><i>Refer to the Report of the Audit and Risk Committee (page 58); accounting policies (pages 97 and 100); and note 4 of the Consolidated Financial Statements (page 101).</i></p>	<p>In particular, we considered the completeness of the population of leases and agreements within the scope of IFRS 16 based upon our prior year lease testing, new gym sites opened in 2019 and also our knowledge of the Group’s business.</p>	<p>The Financial Statement disclosures, particularly those in note 21 to the Consolidated Financial Statements, materially comply with the applicable requirements of IFRS 16.</p>
<p>IFRS 16 – “Leases” (“IFRS 16”) is applicable for the first time in the year ended 31 December 2019, eliminating the distinction between operating and finance leases for lessees and requires recognition of all leases with a lease term of greater than 12 months and not of a low value in the Statement of Financial Position.</p>	<p>We reviewed lease agreements to identify terms and conditions that required further consideration under IFRS 16.</p>	
<p>The Group has adopted IFRS 16 using the full retrospective approach. There is no impact on cash flows, although the presentation of certain line items in the cash flow statement has changed significantly (see note 4 to the Consolidated Financial Statements).</p>	<p>We ensured that the lease payments assumed in calculating the right of use asset and lease liability balances were in agreement with the underlying lease agreements and appropriately treated in accordance with IFRS 16.</p>	
<p>We focused on this area due to the significant leasing arrangements within the Group, such that the adoption of this standard has a material impact on the presentation and measurement of assets, liabilities and expenses within the Group’s Financial Statements.</p>	<p>We reviewed the methodology and assumptions used by management to derive each lease’s IBR that the IBR was calculated in accordance with the requirements of IFRS 16 and its calculation was arithmetically correct. This included using the assistance of EY lease accounting and treasury specialists and sample testing of the market data used by management.</p>	
<p>Further, while the Group’s leasing arrangements are non complex, the adoption of IFRS 16 required judgement in estimating the discount rate to be applied to the lease payments in measuring the right of use asset and lease liability.</p>	<p>We tested the accuracy of management’s lease models used to calculate the entries recognised within the 2019 financial statements.</p>	
<p>In particular, in the absence of knowing the interest rate implicit in each lease, management are required to estimate the incremental borrowing rate (“IBR”) for each lease. This is a new risk in the year due to required adoption of IFRS 16 from 1 January 2019.</p>	<p>We assessed the reasonableness of the accounting entries and adjustments to the comparative figures on adoption of IFRS 16 at 1 January 2019.</p>	
	<p>We have also considered the adequacy of the disclosures made in respect of leases within the 2019 financial statements against the requirements of IFRS 16.</p>	
	<p>The Group audit team performed full and specific scope procedures over this risk area in all locations, which covered 100% of the risk amount.</p>	

In the prior year, our auditor’s report included a key audit matter in relation to the accounting for the acquisition of easyGym gyms. In the current year, this is not applicable as there have been no acquisitions in the year.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE GYM GROUP PLC

CONTINUED

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.

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. For the remaining three components ("specific scope components"), we performed audit procedures on specific accounts within that component 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.

The reporting components where we performed audit procedures accounted for 100% (2018: 100%) of the Group's Revenue, Group's Profit before tax and exceptional items, Profit before tax and Total assets.

	2019			2018		
	Full scope	Specific scope	Remaining components	Full scope	Specific scope	Remaining components
Number of components	2	3	2	2	3	2
Revenue	97.1%	2.9%	–	97.3%	2.7%	–
Profit/(loss) before tax and exceptional items	130.5% (30.5%)		–	116.4% (16.4%)		–
Profit/(loss) before tax	175%	(75%)	–	120.3% (20.3%)		–
Total assets	99.9%	0.1%	–	98.5%	1.5%	–

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 2019 audit scope is consistent with our 2018 audit scope.

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 £639,000 (2018: £616,000), which is 5% (2018: 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 £12,791,000 (2018: £12,310,000) has been arrived at by adding back £6,572,000 (2018: £2,343,000) of exceptional items (as disclosed in note 7 to the Consolidated Financial Statements) to the Group's profit before tax of £6,219,000 (2018: £9,967,000).

During the course of our audit, we reassessed our initial assessment of materiality from an amount of £700,000 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 £2,182,280 (2018: £1,943,720), which is 1% (2018: 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% (2018: 75%) of our planning materiality, namely £479,000 (2018: £462,000). We have set performance materiality at this percentage due to experience with the Group 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 £95,900 to £479,000 (2018: £92,400 to £462,000).

We determined performance materiality for the Parent Company's own financial statements to be £479,000 (2018: £462,000) 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 Committee that we would report to them all uncorrected audit differences in excess of £32,000 (2018: £33,000), which is set at 5% of planning 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 79, 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 83** – 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 pages 58 to 60** – 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 45** – 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' responsibilities statement set out on page 83, 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.

FINANCIAL STATEMENTS

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF THE GYM GROUP PLC

CONTINUED

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 Companies (Miscellaneous Reporting Regulation) 2018; 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 programs and controls established to address risks identified, or otherwise prevent, deter and detect fraud, and how senior management monitors those programs 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/continuation 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 formalized 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 5 years, covering the years ending 31 December 2015 to 31 December 2019.
- 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.

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.

Michael Kidd (Senior statutory auditor)

for and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast
31 March 2020

Notes:

1. The maintenance and integrity of The Gym Group plc web site 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 web site.
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 2019

	Note	31 December 2019 £'000	31 December 2018 Restated* £'000
Revenue	5	153,134	123,884
Cost of sales		(1,437)	(1,007)
Gross profit		151,697	122,877
Administration expenses		(130,122)	(103,262)
Operating profit		21,575	19,615
Finance income	10	32	22
Finance costs	11	(15,388)	(12,681)
Profit before tax		6,219	6,956
Tax charge	12	(2,624)	(2,030)
Profit for the year attributable to equity shareholders		3,595	4,926
Other comprehensive income for the year			
<i>Items that may be reclassified to profit or loss</i>			
Changes in the fair value of derivative financial instruments	24	(155)	(11)
<i>Items that will not be reclassified to profit or loss</i>			
Changes in the fair value of financial assets at fair value through other comprehensive income		(277)	(463)
Total comprehensive income attributable to equity shareholders		3,163	4,452
Earnings per share	8	pence	pence
Basic		2.6	3.7
Diluted		2.6	3.7
Reconciliation of operating profit to Group Adjusted EBITDA:		£'000	£'000
– Operating profit		21,575	19,615
– Depreciation and impairment of property, plant and equipment	14	41,778	33,539
– Amortisation and impairment of intangibles	15	3,114	1,989
– Exceptional administration items	7	6,086	2,343
– Long term employee incentive costs	26	1,900	1,012
– Cash rent payments ²		(25,913)	(19,367)
– Group Adjusted EBITDA ¹		48,540	39,131

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

2 Cash rent payments are the actual cash payments which are paid for the property leases during the year.

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

The notes on pages 95 to 121 form an integral part of the Financial Statement

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	31 December 2019 £'000	31 December 2018 Restated* £'000	1 January 2018 Restated* £'000
<i>Non-current assets</i>				
Property, plant and equipment (excluding right-of-use asset)	14	176,001	163,675	133,356
Right-of-use asset	14	238,702	218,631	170,262
Intangible assets	15	86,379	86,160	71,718
Trade and other receivables		–	–	515
Financial assets at fair value through other comprehensive income	16	–	285	316
Derivative financial instruments	25	13	169	–
Deferred tax assets	12	–	–	159
Total non-current assets		501,095	468,920	376,326
<i>Current assets</i>				
Inventories	17	654	379	197
Trade and other receivables	18	8,769	7,696	5,543
Cash and cash equivalents	19	2,605	3,027	457
Total current assets		12,028	11,102	6,197
Total assets		513,123	480,022	382,523
<i>Current liabilities</i>				
Trade and other payables	20	29,389	26,376	24,593
Lease liabilities	21	15,637	13,299	8,058
Other financial liabilities	13	3,875	3,002	–
Borrowings	22	–	3,000	–
Provisions	23	352	679	917
Income taxes payable		374	1,422	822
Total current liabilities		49,627	47,778	34,390
<i>Non-current liabilities</i>				
Borrowings	22	49,116	45,165	37,113
Lease liabilities	21	262,706	238,558	189,798
Other finance liabilities		–	–	184
Provisions	23	1,303	1,145	740
Deferred tax liabilities	12	208	137	–
Total non-current liabilities		313,333	285,005	227,835
Total liabilities		362,960	332,783	262,225
Net assets		150,163	147,239	120,298
<i>Capital and reserves</i>				
Issued capital	26	14	14	12
Own shares held	26	48	48	48
Capital redemption reserve	26	4	4	4
Share premium	26	159,474	159,474	136,280
Hedging reserve	26	(166)	(11)	–
Retained deficit	26	(9,211)	(12,290)	(16,046)
Total equity shareholders' funds		150,163	147,239	120,298

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

The notes on pages 95 to 121 form an integral part of the Financial Statements.

These Financial Statements were approved by the Board of Directors on 31 March 2020.

Signed on behalf of the Board of Directors

Richard Darwin
Chief Executive Officer

Mark George
Chief Financial Officer

Company Registration Number 08528493

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER 2019

	Note	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Hedging reserve £'000	Retained deficit £'000	Total £'000
At 1 January 2018 (as previously reported)		12	48	4	136,280	—	(15,723)	120,621
Adjustment from adoption of IFRS 16	4	—	—	—	—	—	(323)	(323)
At 1 January 2018 (restated)		12	48	4	136,280	—	(16,046)	120,298
Profit for the period and total comprehensive income (restated)		—	—	—	—	—	4,926	4,926
Share based payments	27	—	—	—	—	—	797	797
Deferred tax on share based payments	12	—	—	—	—	—	133	133
Issue of Ordinary share capital		2	—	—	23,998	—	—	24,000
Costs associated with the issue of share capital		—	—	—	(804)	—	—	(804)
Changes in the fair value of derivative financial instruments		—	—	—	—	(11)	—	(11)
Dividends paid	30	—	—	—	—	—	(1,637)	(1,637)
Changes in the fair value of financial assets at fair value through other comprehensive income		—	—	—	—	—	(463)	(463)
At 31 December 2018 (restated)		14	48	4	159,474	(11)	(12,290)	147,239
Profit for the year		—	—	—	—	—	3,595	3,595
Share based payments	27	—	—	—	—	—	1,670	1,670
Deferred tax on share based payments	12	—	—	—	—	—	24	24
Dividends paid	30	—	—	—	—	—	(1,933)	(1,933)
Changes in the fair value of financial assets at fair value through other comprehensive income		—	—	—	—	—	(277)	(277)
Changes in the fair value of derivative financial instruments		—	—	—	—	(155)	—	(155)
At 31 December 2019		14	48	4	159,474	(166)	(9,211)	150,163

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

The notes on pages 95 to 121 form an integral part of the Financial Statements

FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2019

	Note	31 December 2019 £'000	31 December 2018 Restated* £'000
<i>Cash flows from operating activities</i>			
Profit before tax		6,219	6,956
Adjustments for:			
Net finance costs		15,356	12,659
Exceptional administration items	7	6,086	2,343
Depreciation and impairment of property, plant and equipment	14	41,778	33,539
Amortisation and impairment of intangible assets	15	3,114	1,989
Long term employee incentive costs	27	1,900	1,012
(Profit)/loss on disposal of property, plant and equipment		(112)	72
Increase in inventories		(275)	(182)
Increase in trade and other receivables		(1,073)	(1,218)
Increase in trade and other payables		3,967	4,487
Cash generated from operations		76,960	61,657
Tax paid		(3,579)	(2,009)
Net cash flows from operating activities before exceptional items		73,381	59,648
Exceptional items		(1,120)	(2,105)
Net cash flow from operating activities		72,261	57,543
<i>Cash flows from investing activities</i>			
Payment for financial assets at fair value through other comprehensive income		–	(432)
Business combinations		(2,114)	(18,600)
Purchase of property, plant and equipment		(38,604)	(42,341)
Purchase of intangible assets		(2,461)	(4,928)
Disposal of tangible assets		391	–
Interest received		32	22
Net cash flows used in investing activities		(42,756)	(66,279)
<i>Cash flows from financing activities</i>			
Dividends paid		(1,933)	(1,637)
Lease liabilities paid ¹		(13,093)	(10,907)
Lease interest paid ¹		(12,820)	(8,460)
Bank interest paid		(2,197)	(1,371)
Payment of financing fees		(884)	(302)
Drawdown of bank loans		53,500	12,500
Repayments of bank loans		(52,500)	(1,500)
Proceeds of issue of Ordinary shares		–	24,000
Costs associated with share issue		–	(804)
Derivative financial instruments paid		–	(213)
Net cash flows (used in)/from financing activities		(29,927)	11,306
Net (decrease)/increase in cash and cash equivalents		(422)	2,570
Cash and cash equivalents start of period		3,027	457
Cash and cash equivalents at end of period		2,605	3,027

¹ These two items totalling £25,913,000 represent cash rent as used in the KPI definitions.

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

The notes on pages 95 to 121 form an integral part of the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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 and the recognition of financial assets at fair value through other comprehensive income.

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2018 is presented in these consolidated financial statements due to the retrospective application of accounting policies as a result of the adoption of IFRS 16 Leases. See Note 4.

See note 13 for the adjustment in fair value of business combinations.

Going concern

In assessing the going concern position of the Group for the Consolidated Financial Statements for the year ended 31 December 2019, the Directors have considered the Group's cash flows, liquidity and business activities. At 31 December 2019, the Group had cash balances of £2.6 million and undrawn financing facilities of £20.0 million which are available for general corporate purposes, including but not limited to funding 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 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.

In making this assessment the Directors have made a current consideration of the potential impact of the Covid-19 pandemic on the cash flows and liquidity of the Group over the next 12 month period. This assessment has taken in to account the current measures being put in place by the Group to preserve cash and reduce discretionary expenditure during a period when the Group has had to temporarily close all of its sites as a result of enforcement action by the UK Government, and potential reductions in revenues resulting from changes in the behaviours of members once gyms are allowed to open. The Group's financial modelling assumes reduced membership and revenue as a result of Covid-19 impacting members behaviours and associated actions by the UK government, more than it would have otherwise expected during the next 12 months both during the period of closure and thereafter. The Directors have considered the impact of additional downside scenarios with a greater length of closure and a more severe impact on the Group's cash flows and liquidity as a result of additional loss of membership and revenue. These downside scenarios assume that Group Adjusted EBITDA in 2020 reduces by approximately 65% compared to the Board's expectations prior to development of the Covid-19 pandemic. At these levels of Group Adjusted EBITDA reductions, when combined with the mitigating actions that are within the Group's control including reductions in capital and other expenditure, the Directors currently believe the Group can maintain sufficient liquidity within its £70m debt financing facilities (reflecting the £20m drawdown in March 2020 of the remaining facility) and satisfy its bank covenant levels over the next 12 months.

The Directors have also assessed the impact of an even more severe effect on the Group were there to be an even longer period of enforced closure and greater reductions in revenues resulting from changes in members' behaviours. Under certain of these scenarios the Group could breach its bank covenants or have insufficient liquidity within the next 12 months. In considering the impact on the Group's going concern position the Directors have carried out a preliminary assessment of the additional options that may be available to the Group to mitigate the impact on its cash flows and liquidity. In particular Directors have considered (i) additional reductions in expenditure at certain times to improve liquidity; (ii) announcements by the UK Government since 17th March 2020 of measures to assist companies with the impact of the Covid-19 pandemic including a rates holiday for leisure businesses, financial support to pay 80% of wages for staff retained and flexibility on VAT and PAYE payments; (iii) the potential of the Group to access additional debt where the Directors note that the Group's existing £70m revolving credit facility includes a further £30m accordion which requires consent of the banks; (iv) the potential for the Group to agree with its landlords deferrals in the timing of rental payments; or (v) the potential to raise additional funds from third parties.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies continued

The Directors have concluded that the potential impact of the Covid-19 pandemic described above and uncertainty over possible mitigating actions represents a material uncertainty that may cast significant doubt on the Group and Company's ability to continue as a going concern. Nevertheless, having assessed the combination of these various options and the impact of a potential liquidity shortfall in the event of a longer period of impact from the Covid-19 pandemic the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group and Company were unable to continue as a going concern.

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.

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. Subsequent changes to the fair value during the measurement period are treated as fair value adjustments against the acquired net assets.

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 175 sites. It is managed as one entity and management have consequently determined that there is only one 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.

Revenue from membership income comprises monthly membership fees, non-refundable joining fees and longer term membership fees. All membership income is recognised and spread over the period the membership relates to, being the period of the Group's performance obligations.

Rental income from Personal Trainers is recognised on a straight-line basis over the term of the rental agreement.

Other income is recognised at a point in time, which is the point of sale as this reflects the fulfilment of all performance obligations.

Contracts with customers are non-complex and do not require any significant accounting judgements or estimates.

Contract liabilities relate to membership fees received at the start of a contract, where the Group has the obligation to provide a gym membership over a period of time.

2. Summary of significant accounting policies continued

Cost of sales

Cost of sales comprise costs arising in connection with the generation of ancillary revenue, primarily call centre costs and payment processing costs.

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 the shorter of the useful life and the term of lease;
- Fixtures, fittings and equipment between three and ten years;
- Gym and other equipment between five and nine years; and
- 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.

Assets under construction represents the construction of gyms and are included in Property, plant and equipment. No depreciation is provided on assets under construction until the asset is available for use.

Right-of-use assets

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

Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include lease payments less any lease incentives receivable. In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term or a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments).

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.

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 initially recognised 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.

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.

Contract related

Contract related intangibles relate to the premium paid to acquire certain concession arrangements. These assets have been amortised on a straight-line basis over the useful lives of the individual contracts, ranging from three to 22 years.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

2. Summary of significant accounting policies continued

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.

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

Financial assets (excluding derivative financial instruments)

The Group classifies its financial assets as those to be measured at amortised cost and those recognised at fair value through other comprehensive income.

The Group's measures its trade and other receivables and cash and cash equivalents at amortised cost. 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.

Due to the Group's upfront payment model, it has limited exposure to credit losses.

Investments in unquoted equity securities are designated as fair value through other comprehensive income if they are held as long-term strategic investments that are not expected to be sold in the short to medium term. All fair value movements in value in respect of those assets are recognised in other comprehensive income and are not recycled to profit or loss.

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.

Financial liabilities (excluding derivative financial instruments)

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

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, which is reassessed at each reporting period, and any fair value movement is recognised in the income statement.

2. Summary of significant accounting policies continued

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 and hedging activities

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 approved by the Board.

The Group does not use derivative financial instruments for speculative purposes.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. During the year the Group has designated its derivative financial instrument as a cash flow hedge.

At the inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within financing costs.

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss i.e. the gain or loss relating to the effective portion of the interest rate hedging contracts is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

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.

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.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of the cost of meeting this obligation.

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

In the prior year the Group acquired the trade and assets of a portfolio of gyms trading under the easyGym brand. 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 and the fair value of contingent consideration. As indicated in note 13, the only material intangible asset identified related to members lists.

Incremental borrowing rate

The calculation of lease liabilities requires the Group to determine an incremental borrowing rate (IBR) to discount future minimum lease payments. Judgment is applied in determining the components of the IBR used for each lease including risk free rates, the Group's borrowing margin and any lease specific adjustments. The applicable IBR for each lease varies between 3.5% and 8.7%. See note 21 for further detail on the methodology used.

3. Significant accounting judgements, estimates and assumptions continued

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 Consolidated Financial Statements. Details of the useful lives assigned to the Group's property, plant and equipment and intangible assets are included in note 2. The carrying values of such assets are included in notes 14 and 15.

As a consequence of this annual review of useful lives, the useful economic life for the cardio and strength equipment was increased from five and a half and eight years to seven and nine years respectively. See note 4 for further details.

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 15. While the Directors have currently assessed that reasonably possible changes in key assumptions are unlikely to cause an impairment in the carrying value of goodwill, 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.

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 of 2% 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. Management has determined that the likelihood of a liability arising is remote in relation to 149 of the Group's 175 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. If circumstances indicate otherwise the Group will recognise an appropriate provision.

If the future cost of restoration for those sites where a provision is currently recognised was to increase by 10% across these sites, the provision at 31 December 2019 would increase by £130,000. If a provision was required for a site where the Group does benefit from security of tenure, the provision at 31 December 2019 would increase by £50,000 to £150,000, depending on the site concerned. A 10 basis points change in the discount rate would increase/decrease the provision recognised at 31 December 2019 by £11,000.

Details of dilapidation provisions recognised are set out in note 23.

4. New standards adopted

New standards impacting the Group for the year ended 31 December 2019, and which have given rise to changes in the Group's accounting policies are:

IFRS 16 'Leases'

IFRS 16 supersedes IAS 17 Leases, the standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the balance sheet.

The Group adopted IFRS 16 using the full retrospective method of adoption, with the date of initial application of 1 January 2019. The Group elected to use the transition practical expedient to not reassess whether a contract is, or contains, a lease at 1 January 2019. Instead, the Group applied the standard only to contracts that were previously identified as leases applying IAS 17 at the date of initial application. The Group also elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option (short-term leases), and lease contracts for which the underlying asset is of low value (low-value assets). At the date of initial application, the applicable IBR for each lease varied between 3.5% and 8.7%.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

4. New standards adopted continued

Adjustments recognised on adoption of IFRS 16

The effect on the statement of financial position is as follows:

	31 December 2017 under IAS17 £'000	Impact of IFRS 16 £'000	Opening balance at 1 January 2018 £'000
Right of use asset	–	170,262	170,262
Intangible assets	62,536	9,182	71,718
Current assets	9,691	(3,494)	6,197
Deferred tax assets	–	159	159
Other assets	134,187	–	134,187
Total assets	206,414	176,109	382,523
Current liabilities (excluding lease liabilities)	(45,401)	19,332	(26,069)
Finance lease liabilities	–	(197,856)	(197,856)
Deferred tax liabilities	(2,092)	2,092	–
Other liabilities	(38,300)	–	(38,300)
Total liabilities	(85,793)	(176,432)	(262,225)
Net assets	120,621	(323)	120,298
Retained earnings	(15,723)	(323)	(16,046)
Other changes in equity	136,344	–	136,344
Total equity shareholders' funds	120,621	(323)	120,298

	31 December 2018 under IAS17 £'000	Impact of IFRS 16 £'000	Closing balance at 31 December 2018 £'000
Right of use asset	–	218,631	218,631
Intangible assets	76,910	9,250	86,160
Current assets	15,318	(4,216)	11,102
Other assets	164,129	–	164,129
Total assets	256,357	223,665	480,022
Current liabilities (excluding lease liabilities)	(56,957)	22,478	(34,479)
Finance lease liabilities	–	(251,857)	(251,857)
Deferred tax liabilities	(3,248)	3,111	(137)
Other liabilities	(46,310)	–	(46,310)
Total liabilities	(106,515)	(226,268)	(332,783)
Net assets	149,842	(2,603)	147,239
Retained earnings	(9,687)	(2,603)	(12,290)
Other changes in equity	159,529	–	159,529
Total equity shareholders' funds	149,842	(2,603)	147,239

	31 December 2019 under IAS17 £'000	Impact of IFRS 16 £'000	Closing balance at 31 December 2019 £'000
Right of use asset	–	238,702	238,702
Intangible assets	77,134	9,245	86,379
Current assets	17,775	(5,747)	12,028
Other assets	176,134	(120)	176,014
Total assets	271,043	242,080	513,123
Current liabilities (excluding lease liabilities)	(61,296)	27,306	(33,990)
Finance lease liabilities	–	(278,343)	(278,343)
Deferred tax liabilities	(3,035)	2,827	(208)
Other liabilities	(50,419)	–	(50,419)
Total liabilities	(114,750)	(248,210)	(362,960)
Net assets	156,293	(6,130)	150,163
Retained earnings	(3,081)	(6,130)	(9,211)
Other changes in equity	159,374	–	159,374
Total equity shareholders' funds	156,293	(6,130)	150,163

4. New standards adopted continued

The effect on Profit before Tax and Adjusted Earnings is as shown below. Note that the adoption of IFRS 16 as of 1 January 2019 has had a significant impact on the key performance indicators previously adopted by the Group. As there is no impact on Group strategy or cash, the Board has amended the definitions of KPIs, which are non-IFRS GAAP measures, with the aim to have cash-based measures that best reflect the underlying performance of the business and these new definitions as defined below are those used in this document.

- Group Adjusted EBITDA – Pre-IFRS 16 definition of Group Adjusted EBITDA is operating profit (including IAS17 rent costs) before depreciation, amortisation, long term employee incentive costs and exceptional items, and is a non-IFRS GAAP measure. Post IFRS 16 definition of Group Adjusted EBITDA is operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items, and after cash rent costs.
- Adjusted Profit before Tax – is calculated as Profit before Tax before non-IT amortisation and exceptional items.
- Adjusted Earnings – is calculated as the Group's profit for the year before non-IT amortisation, exceptional items, and the related tax effect.

	31 December 2018 as reported £'000	Impact of IFRS16 £'000	31 December 2018 under IFRS16 £'000
Revenue	123,884	–	123,884
Cost of Sales	(1,007)	–	(1,007)
Gross profit	122,877	–	122,877
Depreciation of property, plant and equipment	(19,710)	(13,829)	(33,539)
Amortisation of intangibles	(2,051)	62	(1,989)
Other administration expenses	(89,419)	21,685	(67,734)
Operating profit	11,697	7,918	19,615
Finance income	22	–	22
Finance costs	(1,752)	(10,929)	(12,681)
Statutory Profit before Tax	9,967	(3,011)	6,956

	31 December 2018 as reported £'000	Impact of IFRS 16 £'000	31 December 2018 under IFRS 16 £'000	Impact of new KPI definitions £'000	31 December 2018 Restated* £'000
Revenue	123,884	–	123,884	–	123,884
Cost of sales and admin expenses	(87,071)	21,685	(65,386)	(19,367)	(84,753)
<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: right;">IAS 17 rent costs</div> <div style="text-align: center;">↑</div> <div style="text-align: left;">less: Cash rent payments</div> <div style="text-align: center;">↑</div> </div>					
Group Adjusted EBITDA	36,813	21,685	58,498	(19,367)	39,131
Add back: Cash rent payments				19,367	19,367
Amortisation on IT related assets				(1,013)	(1,013)
Reclassification of amortisation	–	62	62	(62)	–
Depreciation of property, plant and equipment	(19,710)	(13,829)	(33,539)	–	(33,539)
<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: right;">Depreciation of right-of-use assets</div> <div style="text-align: center;">↑</div> </div>					
Long term employee incentive costs	(1,012)	–	(1,012)	–	(1,012)
Finance income	22	–	22	–	22
Finance costs	(1,752)	(10,929)	(12,681)	–	(12,681)
<div style="display: flex; justify-content: space-between; align-items: center;"> <div style="text-align: right;">Lease interest</div> <div style="text-align: center;">↑</div> </div>					
Adjusted Profit before Tax	14,361	(3,011)	11,350	(1,075)	10,275
Tax charge	(2,761)	731	(2,030)	–	(2,030)
Tax effect of above items	(370)	–	(370)	–	(370)
Adjusted Earnings	11,230	(2,280)	8,950	(1,075)	7,875
Adjusted Earnings per share	pence	pence	pence	pence	pence
Basic	8.4	(1.7)	6.7	0.8	5.9
Diluted	8.3	(1.7)	6.6	0.8	5.8

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

4. New standards adopted continued

	31 December 2019 under IAS 17 £'000	Impact of IFRS 16 £'000	31 December 2019 under IFRS 16 £'000	Impact of new KPI definitions £'000	31 December 2019 as reported £'000
Revenue	153,134	–	153,134	–	153,134
Cost of sales and admin expenses	(106,129)	27,448	(78,681)	(25,913)	(104,594)
IAS 17 rent costs		↑		↑	
less: Cash rent payments					
Group Adjusted EBITDA	47,005	27,448	74,453	(25,913)	48,540
Add back: Cash rent payments				25,913	25,913
Amortisation on IT-related assets				(1,936)	(1,936)
Depreciation of property, plant and equipment and impairment	(22,666)	(19,112)	(41,778)	–	(41,778)
Depreciation of right-of-use assets		↑			
Long term employee incentive costs	(1,900)	–	(1,900)	–	(1,900)
Finance income	32	–	32	–	32
Finance costs	(2,050)	(12,852)	(14,902)	–	(14,902)
Lease interest		↑			
Adjusted Profit before Tax	20,421	(4,516)	15,905	(1,936)	13,969
Tax charge	(3,538)	914	(2,624)	–	(2,624)
Tax effect of above items	(1,102)	(28)	(1,130)	359	(771)
Adjusted Earnings	15,781	(3,630)	12,151	(1,577)	10,574
Adjusted Earnings per share	pence	pence	pence	pence	pence
Basic	11.3	(2.4)	8.9	(1.2)	7.7
Diluted	11.1	(2.4)	8.7	(1.2)	7.5

Change in Presentation

Following the adoption of IFRS 16 'Leases' the Group has changed its policy on the presentation of interest paid costs in the cash flow statement and has presented them as financing cash flows rather than operating cash flows as previously. This revised classification better reflects the nature of the interest costs, being substantially in relation to interest on leases and bank loans, whilst also aligning it with the existing classification of interest costs within the income statement.

	31 December 2018 as reported £'000	Impact of IFRS 16 £'000	31 December 2018 under IFRS 16 £'000	Change in presentation £'000	31 December 2018 Restated* £'000
Cash flows from operating activities					
Cash generated from operations	42,290	19,367	61,657	–	61,657
Tax (paid)/refunded	(2,009)	–	(2,009)	–	(2,009)
Interest paid	(1,371)	(8,460)	(9,831)	9,831	–
Net cash flows from operating activities before exceptional items	38,910	10,907	49,817	9,831	59,648
Exceptional items	(2,105)	–	(2,105)	–	(2,105)
Net cash flow from operating activities	36,805	10,907	47,712	9,831	57,543
Cash flows from financing activities					
Dividends paid	(1,637)	–	(1,637)	–	(1,637)
Lease liabilities paid	–	(10,907)	(10,907)	–	(10,907)
Lease interest paid	–	–	–	(8,460)	(8,460)
Bank interest paid	–	–	–	(1,371)	(1,371)
Payment of financing fees	(302)	–	(302)	–	(302)
Drawdown of bank loans	12,500	–	12,500	–	12,500
Repayments of bank loans	(1,500)	–	(1,500)	–	(1,500)
Proceeds of issue of Ordinary shares	24,000	–	24,000	–	24,000
Costs associated with share issue	(804)	–	(804)	–	(804)
Payment of derivative financial instrument	(213)	–	(213)	–	(213)
Net cash flows (used in)/from financing activities	32,044	(10,907)	21,137	(9,831)	11,306

Change in accounting estimate

The Group has reviewed the estimated useful economic life ('UEL') of gym equipment and consequently, has increased their UEL. The impact of this change is to decrease the 2019 depreciation charge by £954,000.

In addition, we reviewed the UEL of Lifestyle gym equipment and reduced the UEL of strength equipment by two years to approximately four years, and cardio equipment by one year to approximately three years. The impact of this is an increase in depreciation of £346k in 2019 and an estimated increase in depreciation of £580k in 2020.

5. Revenue

The main revenue streams are those described in the last annual financial statements; membership income, rental income and other income. The majority of revenue is derived from contracts with customers.

Disaggregation of revenue

In the following table, revenue is disaggregated by major products and service lines and timing of revenue recognition. All revenue arises in the United Kingdom.

	31 December 2019 £'000	31 December 2018 £'000
<i>Major products/service lines</i>		
Membership income	146,782	121,515
Rental income from personal trainers	4,572	875
Other income	1,780	1,494
	153,134	123,884
<i>Timing of revenue recognition</i>		
Products transferred at a point in time	2,550	2,062
Products and services transferred over time	150,584	121,822
	153,134	123,884
<i>Liabilities relating to contracts with customers</i>		
Contract liabilities	(7,961)	(7,112)
<i>Revenue recognised that was included in contract liabilities in the prior year</i>		
Membership income	7,051	5,211
Other income	61	66

Contract liabilities relate to membership fees received at the start of a contract, where the Group has the obligation to provide a gym membership over a period of time. The contract liability balance increases as the Group's membership numbers increase, and therefore has increased between 2018 and 2019.

6. Operating profit

Operating profit is stated after charging / (crediting):

	31 December 2019 £'000	31 December 2018 Restated* £'000
Depreciation of property, plant and equipment (excluding right-of-use asset)	22,571	19,710
Depreciation of right-of-use asset	19,112	13,829
Amortisation of IT intangible assets (included in administration expenses)	1,936	1,013
Amortisation of non-IT intangible assets (included in administration expenses)	1,141	960
Impairment of property, plant and equipment	2,885	—
Impairment of intangible assets	37	—
(Profit)/loss on disposal of property plant and equipment	(112)	72
Cost of inventory recognised as an expense	12	46
Auditors' remuneration		
Fees payable for the audit of the Company's annual accounts	96	102
Audit of the Company's subsidiaries pursuant to legislation	61	64
Audit related assurance services	—	3
Corporate finance services	—	55
Total	157	224

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

7. Exceptional items

	31 December 2019 £'000	31 December 2018 £'000
Remeasurement of contingent consideration	2,988	–
Impairment and other costs arising as a result of site closures	2,688	–
Restructuring costs	410	1,239
Acquisition costs	–	644
Acquisition integration costs	–	460
Total exceptional items in operating expenses	6,086	2,343
Refinancing costs	486	–
Total exceptional items in financing expenses	486	–
Total exceptional items	6,572	2,343

Remeasurement of contingent consideration relates to a change in the probability-based estimate of contingent consideration that will be payable for the acquisition of two easyGym sites in the event the Group is successful in acquiring new leases for these sites. This remeasurement of the acquisition consideration has been recognised in the income statement but has no cash impact in 2019.

Impairment and other costs arising as a result of site closures relate to the closure of three sites during 2019, which arose as part of our estate management in order to optimise group performance; the closures comprised two sites acquired from the Lifestyle and easyGym acquisitions plus one site opened in 2015 for which a 5-year break clause was exercised by the Group. These costs substantially relate to the impairment of right of use assets, leasehold improvements and gym equipment, and the provision for post-closure costs.

Refinancing costs relate to unamortised costs incurred in relation to the previous bank facility that was refinanced in October 2019.

Restructuring costs relate to the costs associated with changing the operating model for the use of personal trainers within the business that was completed in 2019.

8. 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 27).

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 2019, 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 27).

	31 December 2019	31 December 2018 Restated*
Basic weighted average number of shares	137,870,237	133,301,917
Adjustment for share awards	2,561,055	1,569,233
Diluted weighted average number of shares	140,431,292	134,871,150
Basic earnings per share (p)	2.6	3.7
Diluted earnings per share (p)	2.6	3.7

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

Adjusted Earnings per share is based on profit for the year before exceptional items, amortisation of non-IT intangible assets and their associated tax effect.

	31 December 2019 £'000	31 December 2018 Restated* £'000
Profit for the year	3,595	4,926
Amortisation of non-IT intangible assets	1,178	976
Exceptional items	6,572	2,343
Tax effect of above items	(771)	(370)
Adjusted Earnings	10,574	7,875
Basic Adjusted Earnings per share (p)	7.7	5.9
Diluted Adjusted Earnings per share (p)	7.5	5.8

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

9. Employee information

	31 December 2019 £'000	31 December 2018 £'000
Wages and salaries	22,458	14,844
Social security costs	1,876	1,560
Employers' pension costs	508	380
Long term employee incentive costs (note 27)	1,900	1,012
	26,742	17,796

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

	31 December 2019 Number	31 December 2018 Number
Operational	1,314	343
Administration	109	95
	1,423	438

10. Finance income

	31 December 2019 £'000	31 December 2018 £'000
Bank interest receivable	32	22

11. Finance costs

	31 December 2019 £'000	31 December 2018 Restated* £'000
Bank loans and overdrafts	1,848	1,483
Lease interest	12,852	10,929
Unwinding of discount	24	30
Movement in fair value of derivative financial instruments	1	33
Amortisation of financing fees	353	369
Refinancing costs (see note 7)	486	—
	15,564	12,844
Capitalised interest	(176)	(163)
	15,388	12,681

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

Capitalised interest is recognised within leasehold improvements. 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 of 3.2% (2018: 3.1%).

12. Taxation

Tax on profit

	31 December 2019 £'000	31 December 2018 Restated* £'000
<i>Current income tax</i>		
Current tax on profits for the period	2,681	2,457
Adjustments in respect of prior years	(153)	22
Total current income tax	2,528	2,479
<i>Deferred tax</i>		
Origination and reversal of temporary differences	91	(661)
Change in tax rates	—	(28)
Adjustments in respect of prior years	5	240
Total deferred tax	96	(449)
Tax charge in the Consolidated Statement of Comprehensive Income	2,624	2,030

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

12. Taxation continued

Reconciliation of tax charge

	31 December 2019 £'000	31 December 2018 Restated* £'000
Profit before tax	6,219	6,956
Tax calculation at standard rate of corporation tax of 19.0%	1,182	1,322
Expenses not deductible for tax purposes	924	256
Exceptional costs not deductible	666	218
Change in tax rates	–	(28)
Adjustments in respect of prior years	(148)	262
	2,624	2,030

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

Deferred tax

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Share schemes £'000	Other £'000	Total £'000
At 1 January 2018 (restated)	(1,879)	125	(550)	212	2,251	159
Adjustments in respect of prior years	(240)	–	–	–	–	(240)
Acquired in business combination	(878)	–	(130)	–	–	(1,008)
Recognised in equity	–	–	–	133	–	133
Recognised in income statement	(412)	(18)	192	169	859	790
Change in deferred tax rate	40	–	(12)	–	–	28
At 31 December 2018	(3,369)	107	(500)	514	3,110	(138)
Adjustments in respect of prior years	(104)	1	(33)	10	121	(5)
Recognised in income statement	26	(18)	168	155	(420)	(89)
Recognised in equity	–	–	–	24	–	24
At 31 December 2019	(3,447)	90	(365)	703	2,811	(208)

Unrecognised tax losses

The Group has tax losses of £nil (2018: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Change in tax rate

The 2016 Finance Bill announced a reduction in the main rate of corporation tax from 19% to 17% from 1 April 2020. Deferred tax assets and liabilities have been measured at 17% as that is the rate expected to be in effect when the asset or liability reverses.

In the Budget on 11th March 2020, the government announced that the rate of corporation tax will remain at 19%. As the amending legislation has not been substantially enacted as at the date of reporting, no amendment has been made to the valuation of deferred tax assets and liabilities which continue to be measured at 17%.

The Finance Bill 2018-2019 introduced a number of changes to the capital allowances regime. These included the following:

- A temporary increase in the maximum annual investment allowance from £200,000 to £1 million per annum from 1 January 2019 – 31 December 2020;
- The introduction of a new Structures and Buildings Allowance of 2% per annum on certain structural construction, improvements and repairs; and
- A reduction in the rate of relief applying to Special Rate plant and machinery from 8% to 6% from 1 April 2019.

Each of these changes has been considered within the calculation of the tax charge for the year.

Uncertain tax positions

The Group had no material uncertain tax provisions as at 31 December 2019 (2018: £nil).

13. Business combinations

easyGym portfolio

On 4 July 2018 the Group acquired the trade and assets of a portfolio of 13 gyms trading under the easyGym brand for an initial cash consideration of £14.5 million, with an additional £6.1 million deferred consideration payable on completion of lease assignment on three sites and further contingent consideration if lease extensions are agreed on two sites. £4.0 million of deferred consideration was paid shortly after acquisition. At 31 December 2018, deferred and contingent consideration with fair value of £3.0 million was outstanding and recognised within other financial liabilities.

During the year ended 31 December 2019 the remaining deferred consideration of £2.1 million was paid.

During 2019 the Directors reassessed the probabilities of the lease extensions occurring in respect of the two sites concerned and now consider these to be virtually certain. As a consequence the estimated fair value of contingent consideration payable in respect of these lease extensions at 31 December 2019 has increased by £3.0m to £3.9 million (2018: £0.9 million).

The undiscounted settlement value of the contingent consideration could be between £nil and £3.9 million. The contingent consideration has been recognised at its fair value of £3.9 million using an expected value methodology. This is a Level 3 valuation under the fair value hierarchy.

A loss of £3.0 million was recognised in profit and loss during the year in relation to the liability (see note 7). The valuation of the liability will vary between the potential settlement amounts dependent on the likelihood of the contingent consideration becoming payable. In measuring the estimated contingent consideration it has been assumed that the probability of the relevant leases being extended is now 100% (2018: a range of nil to 50% probability). The estimated liability has not been discounted due to the short time frame of any possible pay out.

The acquisition was part-funded by an equity placing of £24.0 million by the Company and an extension of the Group banking facilities of £10.0 million.

Prior to 3 July 2019 the Group also finalised the fair values of the assets and liabilities of these business combinations. The adjustments made in finalising fair values relate to the adjustment of fair value of the gym equipment acquired and the restated 2018 amounts are shown below.

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

	Fair value as previously reported £'000	Adjustments £'000	Total £'000
<i>Net assets acquired:</i>			
Intangibles	768	–	768
Property, plant and equipment	11,705	(836)	10,869
Provisions	(360)	–	(360)
Deferred tax	(1,008)	–	(1,008)
Net assets	11,105	(836)	10,269
Goodwill	10,397	836	11,233
Total consideration	21,502	–	21,502
<i>Satisfied by:</i>			
Cash consideration	14,500	–	14,500
Deferred and contingent consideration	7,002	–	7,002
Total consideration	21,502	–	21,502
		31 December 2019	31 December 2018
<i>Net cash outflow arising from acquisition:</i>			
Deferred consideration paid		2,114	4,000
Cash consideration		–	14,500
Net cash outflow in the year		2,114	18,500

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.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

14. 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 before Right of use assets £'000	Right-of-use asset £'000	Total £'000
Cost								
At 1 January 2018 (as previously reported)	2,368	118,075	9,452	57,719	1,950	189,564	–	189,564
On adoption of IFRS 16	–	–	–	–	–	–	205,431	205,431
At 1 January 2018 (restated)	2,368	118,075	9,452	57,719	1,950	189,564	205,431	394,995
Transfers	(23,412)	16,403	247	6,465	297	–	–	–
Additions	23,409	10,403	827	4,143	519	39,301	62,198	101,499
Business combinations	–	9,165	183	2,357	–	11,705	–	11,705
Disposals	–	(191)	–	(987)	–	(1,178)	–	(1,178)
At 31 December 2018 (as previously reported)	2,365	153,855	10,709	69,697	2,766	239,392	267,629	507,021
Fair value adjustment – see note 13	–	–	–	(836)	–	(836)	–	(836)
At 31 December 2018 (Restated)	2,365	153,855	10,709	68,861	2,766	238,556	267,629	506,185
Additions	24,672	7,462	519	3,968	251	36,872	40,372	77,244
Disposals	–	(157)	–	(580)	–	(737)	–	(737)
Transfers	(23,338)	15,566	655	6,903	214	–	–	–
At 31 December 2019	3,699	176,726	11,883	79,152	3,231	274,691	308,001	582,692
Accumulated depreciation								
At 1 January 2018 (as previously reported)	–	25,944	4,163	24,981	1,114	56,202	–	56,202
On adoption of IFRS 16	–	–	–	–	–	–	35,169	35,169
At 1 January 2018 (restated)	–	25,944	4,163	24,981	1,114	56,202	35,169	91,371
Charge for the year	–	9,868	1,310	8,021	511	19,710	13,829	33,539
Disposals	–	(139)	–	(892)	–	(1,031)	–	(1,031)
At 31 December 2018	–	35,673	5,473	32,110	1,625	74,881	48,998	123,879
Charge for the year	–	12,238	1,308	8,406	618	22,570	19,112	41,683
Disposals	–	(110)	–	(347)	–	(457)	–	(457)
Impairment	–	1,165	24	498	9	1,696	1,189	2,885
At 31 December 2019	–	48,966	6,805	40,667	2,252	98,690	69,299	167,989
Net book value								
At 31 December 2018 (Restated)	2,365	118,182	5,236	36,751	1,141	163,675	218,631	382,306
At 31 December 2019	3,699	127,760	5,078	38,485	979	176,001	238,702	414,703

The impairment charge of £2,885,000 for 2019 includes £2,688,000 in relation to the closure of three sites during 2019. See note 7 for further details.

Right of use assets relate to property leases – see note 21.

15. Intangible assets

	Goodwill £'000	Brand £'000	Customer list £'000	Technology £'000	Contract £'000	Computer software £'000	Total £'000
Cost							
At 1 January 2018 (as previously reported)	55,968	2,219	5,502	776	1,709	4,734	70,908
On adoption of IFRS 16	10,537	–	–	–	(1,709)	–	8,828
At 1 January 2018 (restated)	66,505	2,219	5,502	776	–	4,734	79,736
Additions	–	–	–	–	1,249	3,181	4,430
Business combinations	10,397	–	768	–	–	–	11,165
At 31 December 2018	76,902	2,219	6,270	776	1,249	7,915	95,331
Fair value adjustment – note 13	836	–	–	–	–	–	836
At 31 December 2018 (restated)	77,738	2,219	6,270	776	1,249	7,915	96,167
Additions	–	–	–	–	–	3,333	3,333
Disposals ¹	–	(2,219)	(3,550)	(776)	–	–	(6,545)
At 31 December 2019	77,738	–	2,720	–	1,249	11,248	92,955
Accumulated amortisation							
At 1 January 2018	–	2,032	3,708	776	354	1,502	8,372
On adoption of IFRS 16	–	–	–	–	(354)	–	(354)
At 1 January 2018 (restated)	–	2,032	3,708	776	–	1,502	8,018
Charge for the year	–	185	713	–	78	1,013	1,989
At 31 December 2018	–	2,217	4,421	776	78	2,515	10,007
Charge for the year	–	2	914	–	225	1,936	3,077
Impairment	–	–	–	–	37	–	37
Disposals ¹	–	(2,219)	(3,550)	(776)	–	–	(6,545)
At 31 December 2019	–	–	1,785	–	340	4,451	6,576
Net book value							
At 31 December 2018	77,738	2	1,849	–	1,171	5,400	86,160
At 31 December 2019	77,738	–	935	–	909	6,797	86,379

1. Relates to intangible assets that had been fully amortised and are no longer in use.

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. Since 2018, all the gyms operated under The Gym brand and the Group now operate only as one chain of gym.

Goodwill acquired through business combinations has therefore been allocated for impairment testing purposes accordingly as follows:

	2019 £'000	2018 Restated* £'000
The Gym chain of gyms	77,738	77,738
	77,738	77,738

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

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:

	2019		2018	
	Discount rate	Growth rate	Discount rate	Growth rate
The Gym	9.4%	3.0%	9.6%	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.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

16. Financial assets at fair value through other comprehensive income

	31 December 2019 £'000	31 December 2018 £'000
Unlisted securities		
Equity securities	–	285
	–	285

In addition to the investment of £316,000 made in 2017, the Group made a further investment of £432,000 in the unlisted equity of an operating company. Later in 2018, the fair value was subsequently reduced by £463,000 to £285,000 and in 2019, the fair value was further reduced by £285,000 to £nil.

This is a level 3 valuation under the fair value hierarchy and was determined based on the ongoing uncertainty surrounding the Company's ability to raise sufficient funds to continue trading until it is generating positive net cash flows. The range of sensitivity in the valuation at 31 December 2019 to reasonably possible changes in the assumptions used is not considered to be material. The Directors have determined that the Group's unlisted equity investment should not be accounted for as an associate. Although the Group holds a 17.2% shareholding in the investee, financial and operating policy decisions are governed by a shareholder agreement that provides voting rights based on the number of shareholders rather than the number of shares held. On the basis the Group is one of over 30 shareholders, the Directors consider that the Group does not have significant influence over the investee.

17. Inventories

	31 December 2019 £'000	31 December 2018 £'000
Goods for resale	654	379
	654	379

18. Trade and other receivables

	31 December 2019 £'000	31 December 2018 Restated* £'000
Trade and other receivables	2,447	1,652
Prepayments and accrued income	6,322	6,044
	8,769	7,696
Due in less than one year	8,769	7,696
Due in more than one year	–	–
	8,769	7,696

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

19. 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.

20. Trade and other payables

	31 December 2019 £'000	31 December 2018 Restated* £'000
Trade Payables	10,603	8,034
Social security and other taxes	724	390
Accruals	10,101	10,840
Contract liabilities	7,961	7,112
	29,389	26,376

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

21. Leases

This note provides information for leases where the group is a lessee.

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2019 £'000	31 December 2018 Restated* £'000
<i>Right-of-use asset</i>		
Property leases	238,702	218,631
<i>Lease liabilities</i>		
Current	15,637	13,299
Non-current	262,706	238,558

For adjustments recognised on adoption of IFRS 16 on 1 January 2019, please refer to note 4.

(ii) Amounts recognised in the statement of profit or loss

The statement of profit or loss shows the following amounts relating to leases:

	31 December 2019 £'000	31 December 2018 £'000
<i>Depreciation charge of right-of-use assets</i>	19,112	13,829
<i>Interest expense (included in finance cost)</i>	12,852	10,929

Total cash outflow for leases in 2019 was £25,913,000 (2018: £19,367,000). A maturity analysis of future lease payments is set out in note 24.

(iii) The Group's leasing activities and how these are accounted for

The Group leases gym sites and its head office. Rental contracts are typically made for fixed periods of 10 to 20 years, but may have extension options as well.

Until the 2018 financial year, leases of property, plant and equipment were classified as either finance leases or operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Amounts expected to be payable by the Group under residual value guarantees; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. There are no variable lease payments, residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the group:

- Where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- Uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by The Gym Group, which does not have recent third party financing; and
- Makes adjustments specific to the lease, e.g. term and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

21. Leases continued

(iv) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

22. Borrowings

	31 December 2019 £'000	31 December 2018 £'000
<i>Current</i>		
Revolving credit facility ¹	–	3,000
<i>Non-current</i>		
Facility A	–	10,000
Facility B	–	36,000
Revolving credit facility ¹	50,000	–
Loan arrangement fees	(884)	(835)
	49,116	45,165
Total borrowings	49,116	48,165

1 Prior to the debt refinancing in 2019, the revolving credit facility supported working capital requirements and therefore was classified within current liabilities.

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

In October 2019, the Group successfully refinanced its borrowings, moving from a mix of term loans and RCF to a single committed RCF of £70m with an uncommitted £30 million accordion facility, giving the Group an option (subject to lender approval) to increase its total borrowings under the facility to £100 million. The facility is syndicated to a three lender panel of HSBC, Barclays and Sabadell and matures in 2023. The funds borrowed under the facility bear interest at a minimum annual rate of 1.75% (2018: 2.5%) above the appropriate Sterling LIBOR. The average interest rate paid in the year on drawn funds under the new facility is 2.71% (2018 previous facility: 3.21%). Undrawn funds bear interest at a minimum annual rate of 0.613% (2018: 0.875%). At the year end, the Group had drawn down £50 million (2018: £49 million) on the facility.

The refinancing of the previous facility resulted in its derecognition and a charge to the Consolidated Statement of Comprehensive Income of £487,000 relating to the balance of unamortised financing fees. The fees incurred in connection to the new arrangement were £873,000 and the costs will be spread over the term of the loan using the effective interest method. The facility is recognised at its amortised cost.

Covenants

The RCF is subject to financial covenants relating to leverage and interest cover, which did not change significantly from those under the previous facility. 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:

Total facilities available to the group

	31 December 2019 £'000	31 December 2018 £'000
Facility A	–	10,000
Facility B	–	40,000
Revolving credit facility	70,000	10,000
	70,000	60,000

Facilities undrawn and available are:

	31 December 2019 £'000	31 December 2018 £'000
Facility B	–	4,000
Revolving credit facility	20,000	7,000
	20,000	11,000

The loan maturity is as follows:

	31 December 2019 £'000	31 December 2018 £'000
Within one year	–	3,000
Between two and five years	50,000	46,000
	50,000	49,000

23. Provisions

	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2018	740	917	1,657
Business combinations	143	217	360
New provisions	242	462	704
Utilisation of provisions	–	(917)	(917)
Unwinding of discount	20	–	20
At 31 December 2018	1,145	679	1,824
New provisions	134	161	295
Utilisation of provisions	–	(412)	(412)
Unwinding of discount	24	–	24
Release of provision	–	(76)	(76)
At 31 December 2019	1,303	352	1,655
Due in less than one year	–	679	679
Due in more than one year	1,145	–	1,145
At 31 December 2018	1,145	679	1,824
Due in less than one year	–	352	352
Due in more than one year	1,303	–	1,303
At 31 December 2019	1,303	352	1,655

Other provisions comprise estimated costs arising from the restructuring activities associated with changing the personal trainer operating model within the business and for remedial works associated with the acquired sites.

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of meeting this obligation, but the amount and timing of this is uncertain.

24. Financial instruments

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.

	31 December 2019		31 December 2018	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<i>Held at amortised cost</i>				
Trade and other receivables	2,447	2,447	1,652	1,652
Cash and cash equivalents	2,605	2,605	3,027	3,027
Trade and other payables	(20,704)	(20,704)	(18,874)	(18,874)
Borrowings	(49,116)	(50,000)	(46,000)	(46,000)
<i>Held at fair value</i>				
Financial assets at fair value through other comprehensive income	–	–	285	285
Derivative financial instruments	13	13	169	169
Other financial liabilities	(3,875)	(3,875)	(3,002)	(3,002)

Further details of the measurement of the fair value of the contingent consideration are given in note 13.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

24. Financial instruments continued**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 and excludes lease liabilities. 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:

	31 December 2019 £'000	31 December 2018 £'000
Total borrowings	50,000	49,000
Less: cash and cash equivalents	(2,605)	(3,027)
Non property net debt	47,395	45,973
Total equity	159,488	159,488
Total capital	206,883	205,461
Gearing ratio	23%	22%

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 2019 and 2018. 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 2019 and 2018 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:

	31 December 2019 £'000	31 December 2018 £'000
Change in interest rates of 0.5%	246	230

24. Financial instruments 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:

	31 December 2019				
	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	20,704	–	–	–	20,704
Borrowings	1,660	6,353	47,151	–	55,164
Other financial liabilities	3,875	–	–	–	3,875
Lease liabilities	28,410	29,691	89,407	227,136	374,644
	54,649	36,044	136,558	227,136	454,387

	31 December 2018				
	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	18,874	–	–	–	18,874
Borrowings	4,663	47,524	–	–	52,187
Other financial liabilities	3,002	–	–	–	3,002
Lease liabilities	24,945	26,158	79,368	217,102	347,573
	51,484	73,682	79,368	217,102	421,636

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, unlisted securities and derivative financial instruments. 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.

25. Derivatives and hedge accounting

On 9 November 2018 the Group entered into an interest rate cap with a notional amount of £27.2 million with a term of four years and a strike rate of 1.75% with reference to 3 month GBP LIBOR.

Derivatives are only used for economic hedging purposes and not as speculative investments.

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 23.

The fair value loss during the year was £156,000. £1,000 has been recognised within Financing Costs and £155,000 has been recognised directly in equity in the Hedging Reserve.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group's interest rate cap has similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the cap.

Hedge ineffectiveness will arise from changes in probability of the hedged transactions occurring, or if there are changes in the credit risk of the derivative counterparty.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

26. Issued share capital and reserves

	31 December 2019 £'000	31 December 2018 £'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £0.0001 each	14	14
<i>Own shares held</i>		
Deferred Ordinary shares of £1 each	48	48

The number of Ordinary shares in issue is as follows:

	31 December 2019	31 December 2018
Ordinary shares of £0.0001 each	137,934,293	137,782,695
Deferred Ordinary shares of £1 each	48,050	48,050

In addition, 161,254 Ordinary shares of £0.0001 each are held by an employee benefit trust (2018: 178,170).

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.

Hedging reserve

The fair value movements on the effective portion of hedging instruments.

Retained earnings/deficit

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

27. Share based payments

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

- The Gym Group plc Performance Share Plan
- The Gym Group plc Share Incentive Plan – Free shares
- The Gym Group plc Share Incentive Plan – Matching shares
- The Gym Group plc Restricted Stock Plan
- The Gym Group plc Long Service Award Plan
- The Gym Group plc Savings-Related Share 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 £1,670,000 (2018: £797,000) in respect of the Group's share based payment arrangements and related employer's national insurance of £230,000 (2018: £215,000).

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

Scheme name	Outstanding at 1 January 2018	Granted during the year	Lapsed / cancelled during the year	Exercised during the year	Outstanding at 31 December 2019	Exercisable at 31 December 2019
Performance Share Plan	1,979,940	1,088,402	–	(319,571)	2,748,771	187,229
Share Incentive Plan – Free shares	50,673	–	(4,572)	(12,573)	33,528	33,528
Share Incentive Plan – Matching shares	98,116	39,984	(28,709)	(3,014)	106,377	–
Restricted stock	389,639	363,447	(26,958)	–	726,128	–
Sharesave	–	236,335	(9,306)	–	227,029	–
	2,518,368	1,728,168	(69,545)	(335,158)	3,841,833	220,757

The exercise price of all options under the schemes held during the year is £0.01. 220,757 options were exercisable under the PSP and SIP schemes as at 31 December 2019 (2018: 134,297). No other options were exercisable as at 31 December 2019.

27. Share based payments continued

(a) Performance Share Plan

Following the year end, the Group has modified its reporting of profit KPIs for 2018 and 2019 awards to reflect the impact of the introduction of IFRS16 (leases) and also changes in accounting assumptions regarding the amortisation of IT investments. The related vesting targets of the financial measures (Adjusted EPS and ROIC) have also been subsequently modified to ensure that there is no impact on the vesting outcome of the awards from the adoption of IFRS 16.

The outstanding awards as at 31 December 2019 will all vest within three years, subject to continued employment and the achievement of total shareholder return (TSR) and financial performance measures with each target contributing to 50% of the vesting conditions. Prior to the 2019 awards all of the financial performance measures were based on adjusted earnings per share (EPS) targets, with the 2019 awards split equally between EPS and return on invested capital (ROIC). 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:

	2019	2018
Weighted average share price at date of grant	£2.17	£2.32
Exercise price	£0.01	£0.01
Expected volatility	37.7%	31.4%
Expected term until exercised	3 years	3 years
Expected dividend yield	0	0
Risk-free interest rate	0.67%	0.87%

The weighted average fair value of each award issued under this scheme during the year was £1.77 (2018: £1.92). The weighted average remaining contractual life was 1.3 years (2018: 1.4 years) at 31 December 2019.

(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. No awards were issued in the current or prior year. The weighted average remaining contractual life was 0 years (2018: 0.3 years) at 31 December 2019.

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 £2.33 (2018: £2.66) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.4 years (2018: 1.4 years) at 31 December 2019.

(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 £2.17 (2018: £2.30) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.5 years (2018: 1.8 years) at 31 December 2019.

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

(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 £2.37 (2018: £2.64) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.5 years (2018: 1.8 years) at 31 December 2019.

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

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

27. Share based payments continued**(f) Sharesave Scheme Plan**

Under the Saving-related share scheme, employees are allowed to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. 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 £2.02 (2018: nil) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 2.84 years (2018: nil) at 31 December 2019.

28. Commitments and contingencies

	31 December 2019 £'000	31 December 2018 £'000
Contracted for but not provided	3,461	1,041

29. 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.

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 NW Limited	Fitness operator	United Kingdom	100%
Derwent Fitness GS 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:

	31 December 2019 £'000	31 December 2018 £'000
Closewall Limited	186	98
	186	98
Opening balance	98	36
Purchases	2,120	2,405
Repayments	(2,032)	(2,343)
	186	98
Representing:		
Trade and other payables	186	98

All purchases in the period are in relation to Closewall Limited.

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 in respect of the provision of services.

29. Related party transactions continued

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:

	31 December 2019 £'000	31 December 2018 £'000
Remuneration	2,612	1,890
Company contributions to defined contribution pension scheme	161	124
Share based payment charge	1,186	890
	3,959	2,904

At the year end, £nil (2018: £2,000) was owed by key management personnel in respect of season ticket loans. At the year end, £533,000 (2018: £178,000) 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.

30. Dividends made and proposed

	31 December 2019 £'000	31 December 2018 £'000
Interim dividend of 0.45p per Ordinary share paid and declared (2018: 0.35p)	621	483
Final dividend of 1.15p per Ordinary share proposed (2018: 0.95p)	1,585	1,311
	2,206	1,794

The Board recommends a final dividend of 1.15p per share, giving a proposed full year dividend of 1.60p per share. At this time, as part of our response to Covid-19, we currently do not anticipate putting a resolution to the AGM to pay this dividend.

31. Financing liabilities

	Cash and cash equivalents £'000	Borrowings £'000	Lease liabilities (restated*) £'000	Derivative financial instruments £'000
At 1 January 2018	457	(37,113)	(197,856)	–
Cash flows	2,570	(10,683)	(19,367)	213
Other non-cash movements	–	(369)	(34,634)	–
Changes in fair values	–	–	–	(44)
At 31 December 2018	3,027	(48,165)	(251,857)	169
Cash flows	(422)	(116)	(25,913)	–
Other non-cash movements	–	(840)	(573)	–
Changes in fair values	–	–	–	(156)
At 31 December 2019	2,605	(49,121)	(278,343)	13

* See note 4 for details regarding the restatement as a result of the IFRS 16 adoption.

32. Events after the reporting period

On 3 February 2020, The Gym Group Operations Limited purchased convertible loan notes in Fiit Limited for cash consideration of £1.0 million. Conversion will take place within two years of issue and would give us a small minority stake.

On 20 March 2020 the Group temporarily closed all of its gym sites following the UK Government's announcement that all gyms must close as part of the Government's Covid-19 containment plan. The extent of this period of closure and actions by members once the gyms are reopened are uncertain, but downside scenario forecasting indicates the Group's Adjusted EBITDA in 2020 could reduce by approximately 65% compared to the Board's expectations prior to development of the Covid-19 pandemic. As a precaution against a potential period of disruption to the business resulting from the Covid-19 outbreak, the Group drew the remaining £20.0 million of the revolving credit facility in March 2020. The impact of these matters on the Group's ability to continue as a going concern is set out in note 2. Despite the potential reduction in EBITDA, the Directors do not currently expect an impairment of goodwill, other intangibles, property, plant and equipment and right of use assets, as there was significant headroom when an impairment test was undertaken at the year end.

FINANCIAL STATEMENTS

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2019

	Note	31 December 2019 £'000	31 December 2018 £'000
<i>Non-current assets</i>			
Investments in subsidiaries	4	192,807	191,137
Derivative financial instruments	8	13	169
Trade and other receivables	5	17,000	17,000
Total non-current assets		209,820	208,306
<i>Current assets</i>			
Trade and other receivables	5	8,455	4,438
Cash and cash equivalents		13	3,001
Total current assets		8,468	7,439
Total assets		218,288	215,745
<i>Current liabilities</i>			
Trade and other payables	6	857	432
Borrowings	7	–	3,000
Total current liabilities		857	3,432
<i>Non-current liabilities</i>			
Borrowings	7	49,116	45,165
Total liabilities		49,973	48,597
Net assets		168,315	167,148
<i>Capital and reserves</i>			
Issued capital	9	14	14
Own shares held	9	48	48
Capital redemption reserve	9	4	4
Share premium	9	159,474	159,474
Hedging reserve	9	(166)	(11)
Retained earnings	9	8,941	7,619
Total equity shareholders' funds		168,315	167,148

The notes on pages 124 to 127 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 £1,585,000 (2018: £6,029,000).

These Financial Statements were approved by the Board of Directors on 31 March 2020.

Signed on behalf of the Board of Directors

Richard Darwin
Chief Executive Officer

Mark George
Chief Financial Officer

Company Registration Number 08528493

COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2019

	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2018	12	48	4	136,280	—	2,430	138,774
Profit for the year and total comprehensive income	—	—	—	—	—	6,029	6,029
Capital contributions to subsidiaries	—	—	—	—	—	797	797
Issue of Ordinary share capital	—	—	—	23,998	—	—	23,998
Costs associated with the issue of share capital	2	—	—	(804)	—	—	(802)
Dividends paid	—	—	—	—	—	(1,637)	(1,637)
Changes in the fair value of derivative financial instruments	—	—	—	—	(11)	—	(11)
At 31 December 2018	14	48	4	159,474	(11)	7,619	167,148
Profit for the period and total comprehensive income	—	—	—	—	—	1,585	1,585
Capital contributions to subsidiaries	—	—	—	—	—	1,670	1,670
Dividends paid	—	—	—	—	—	(1,933)	(1,933)
Changes in the fair value of derivative financial instruments	—	—	—	—	(155)	—	(155)
At 31 December 2019	14	48	4	159,474	(166)	8,941	168,315

The notes on pages 124 to 127 form an integral part of the Financial Statements.

Retained earnings include distributable reserves of £4,117,000 (2018: £4,683,000).

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

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.

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.

New standards adopted

The new standard impacting the Group for the year ended 31 December 2019 is:

IFRS 16 'Leases'

The adoption of this standard has not had any impact upon the Company's financial statements.

Going concern

In assessing the going concern position of the Company for the Consolidated Financial Statements for the year ended 31 December 2019, the Directors have considered the Company's cash flows, liquidity and business activities. At 31 December 2019, the Company had cash balances of £13,000 and undrawn financing facilities of £20.0 million which are available for general corporate purposes, including but not limited to funding new sites, working capital and capital expenditure.

Based on the Company'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 Company's 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.

In making this assessment the Directors have made a current consideration of the potential impact of the Covid-19 pandemic on the cash flows and liquidity of the Company over the next 12 month period and those of the Group, in particular its trading subsidiary The Gym Limited ("TGL") on which the company is interdependent. This assessment has taken in to account the current measures being put in place by the Group to preserve cash and reduce discretionary expenditure during a period when TGL has had to temporarily close all of its sites as a result of enforcement action by the UK Government, and potential reductions in revenues resulting from changes in the behaviours of members once gyms are allowed to open. The Group's financial modelling assumes reduced membership and revenue as a result of Covid-19 impacting members behaviours and associated actions by the UK government, more than it would have otherwise expected during the next 12 months both during the period of closure and thereafter. The Directors have considered the impact of additional downside scenarios with a greater length of closure and a more severe impact on TGL's and the Company's cash flows and liquidity as a result of TGL's additional loss of membership and revenue. These downside scenarios assume that Group Adjusted EBITDA in 2020 reduces by approximately 65% compared to the Board's expectations prior to development of the Covid-19 pandemic. At these levels of Group Adjusted EBITDA reductions, when combined with the mitigating actions that are within the Company's and Group's control including reductions in capital and other expenditure by TGL, the Directors currently believe the Company can maintain sufficient liquidity within its £70m debt financing facilities (reflecting the £20m drawdown in March 2020 of the remaining facility) and satisfy its bank covenant levels over the next 12 months.

2. Summary of significant accounting policies continued

The Directors have also assessed the impact of an even more severe effect on TGL and the Company were there to be an even longer period of enforced closure and greater reductions in revenues resulting from changes in members' behaviours. Under certain of these scenarios the Company could breach its bank covenants or have insufficient liquidity within the next 12 months. In considering the impact on the Company's going concern position the Directors have carried out a preliminary assessment of the additional options that may be available to the Company and Group to mitigate the impact on its cash flows and liquidity. In particular Directors have considered (i) additional reductions in expenditure at certain times to improve liquidity; (ii) announcements by the UK Government since 17th March 2020 of measures to assist companies with the impact of the Covid-19 pandemic including a rates holiday for leisure businesses, financial support to pay 80% of wages for staff retained and flexibility on VAT and PAYE payments; (iii) the potential of the Group to access additional debt where the Directors note that the Company's existing £70m revolving credit facility includes a further £30m accordion which requires consent of the banks; (iv) the potential for the Group to agree with its landlords deferrals in the timing of rental payments; or (v) the potential to raise additional funds from third parties.

The Directors have concluded that the potential impact of the Covid-19 pandemic described above and uncertainty over possible mitigating actions represents a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern. Nevertheless, having assessed the combination of these various options and the impact of a potential liquidity shortfall in the event of a longer period of impact from the Covid-19 pandemic the Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the next 12 months. For these reasons, they continue to adopt a going concern basis for the preparation of the Financial Statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company and Group were unable to continue as a going concern.

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 (excluding derivative financial instruments)

The Group measures its trade and other receivables and cash and cash equivalents at amortised cost. 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 (excluding derivative financial instruments)

The Company initially recognises its financial liabilities at fair value and subsequently they are measured at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities

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.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. During the year the Group has designated its derivative financial instrument as a cash flow hedge.

At inception of the hedge relationship, the group documents the economic relationship between hedging instruments and hedged items including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, within other gains/(losses).

Amounts accumulated in equity are reclassified in the periods when the hedged item affects profit or loss i.e. the gain or loss relating to the effective portion of the interest rate hedging contracts is recognised in profit or loss within finance cost at the same time as the interest expense on the hedged borrowings.

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.

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2019

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.

There are no critical accounting judgements or estimates within these Financial Statements.

4. Investments in subsidiaries

	£'000
At 1 January 2018	161,450
Capitalisation of intercompany loans	28,890
Capital contribution to subsidiaries	797
At 31 December 2018	191,137
Capital contribution to subsidiaries	1,670
At 31 December 2019	192,807

On 17 December 2018, 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 27 to the Consolidated Financial Statements.

The Company's subsidiary undertakings are shown in note 29 to the Consolidated Financial Statements.

5. Trade and other receivables

	31 December 2019 £'000	31 December 2018 £'000
Prepayments and accrued income	19	60
Social security and other taxes	157	5
Amounts owed by group undertakings	25,279	21,373
	25,455	21,438
Due in less than one year	8,455	4,438
Due in more than one year	17,000	17,000
	25,455	21,438

6. Trade and other payables

	31 December 2019 £'000	31 December 2018 £'000
Trade payables	250	—
Accruals	607	432
	857	432

7. Borrowings

	31 December 2019 £'000	31 December 2018 £'000
<i>Non-current</i>		
Bank facility A	–	10,000
Bank facility B	–	36,000
Revolving credit facility	50,000	–
Loan arrangement fees	(884)	(835)
	49,116	45,165
<i>Current</i>		
Revolving credit facility	–	3,000

8. Derivatives and hedge accounting

On 9 November 2018 the Group entered into an interest rate cap with a notional amount of £27.2 million and a strike rate of 1.75% with reference to 3 month GBP LIBOR.

Derivatives are only used for economic hedging purposes and not as speculative investments.

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 23 to the Consolidated Financial Statements.

The fair value loss during the year was £155,000. £1,000 has been recognised within Financing Costs and £155,000 has been recognised directly in equity in the Hedging Reserve.

9. Issued capital and reserves

	31 December 2019 £'000	31 December 2018 £'000
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £0.0001 each	14	14
<i>Own shares held</i>		
Deferred Ordinary shares of £1 each	48	48

The number of Ordinary shares in issue is as follows:

	31 December 2019	31 December 2018
Ordinary shares of £0.0001 each	137,934,293	137,782,695
Deferred Ordinary shares of £1 each	48,050	48,050

Refer to note 25 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.

Hedging reserve

The fair value movements on the effective portion of hedging instruments.

Retained earnings

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

FINANCIAL STATEMENTS

FIVE YEAR RECORD

FOR THE YEAR ENDED 31 DECEMBER 2018

For definitions of these key performance indicators refer to pages 12 to 13. The following table sets out a summary of selected key financial information and key performance indicators for the business under IFRS 16.

	2019 £'000	2018 £'000	2017 £'000	2016 £'000	2015 £'000
Revenue	153,134	123,884	91,377	73,539	59,979
Group Adjusted EBITDA	48,540	39,131	30,558	25,377	20,684
Group Operating Cash Flow	40,763	33,972	24,677	24,944	18,616
Expansionary Capital Expenditure	32,504	57,551	52,453	20,922	28,230
Non-Property Net Debt	47,395	45,973	37,543	5,178	7,140
Non-Property Net Debt to Group Adjusted EBITDA	0.98x	1.17x	1.23x	0.2x	0.35x
Total Number of Gyms (number)	175	159	128	89	74
Total Number of Members ('000)	794	724	607	448	376
Average Revenue per Member per Month (£)	16.02	14.89	14.41	14.31	14.08
Number of Mature gyms in operation (number)	109	89	74	55	40
Mature Gym Site EBITDA	48,113	38,967	32,376	26,589	19,490
Return on Invested Capital for Mature Sites	31%	30%	30%	32%	32%

CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2019

Company Secretary

Katy Tucker

Company number

08528493

Registered office

5th Floor
OneCroydon
12-16 Addiscombe Road
Croydon
CR0 0XT

Website

www.tggplc.com

Corporate Advisers

Bankers

HSBC Bank plc

Solicitors

Allen & Overy LLP

Auditor

Ernst & Young LLP

Joint Brokers

Numis Securities Limited
Peel Hunt LLP

Registrar

Link Market Services Limited

THE GYM GROUP PLC

5th Floor
OneCroydon
12-16 Addiscombe Road
Croydon
CR0 0XT

www.tggplc.com
www.thegymgroup.com

the gym.

