

thegymgroup

ANNUAL REPORT AND ACCOUNTS 2021



THE GYM GROUP PLC



In 2021, we again demonstrated the resilience of our business model and culture. We have emerged strongly from the pandemic and are growing again. At a time when exercise and good health have never been more important, we remain committed to breaking down barriers to fitness for all.

OVERVIEW

2021 HIGHLIGHTS

Financial

Revenue

£106.0m

2020: £80.5m

Group Adjusted EBITDA Less Normalised Rent

£5.7m

2020: loss of £(10.2)m

Statutory loss for the year

£(35.4)m

2020: loss of £(36.4)m

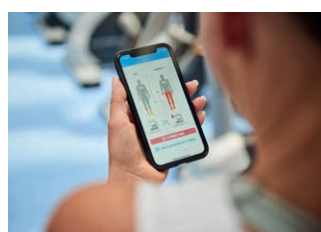
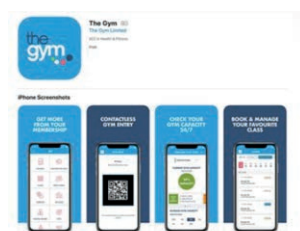
Non-property net debt

£44.1m

2020: £47.3m

Strategic and operational

- Significant increase in membership numbers; total members at 31 December 2021 of 718,000 (Dec 2020: 578,000)
- Average headline price of a standard DO IT membership increased to £19.27 in December 2021 (Dec 2020: £18.81)
- LIVE IT penetration at 31 December 2021 of 27.1% (Dec 2020: 22.5%)
- Cash flow positive in all months when gyms were open
- 19 sites opened in the year; new sites trading well
- Strong operational performance with record member satisfaction scores
- High staff engagement; rated number 25 in Glassdoor Best Places to Work in the UK



SEE STRATEGY IN ACTION
PAGES 18-25

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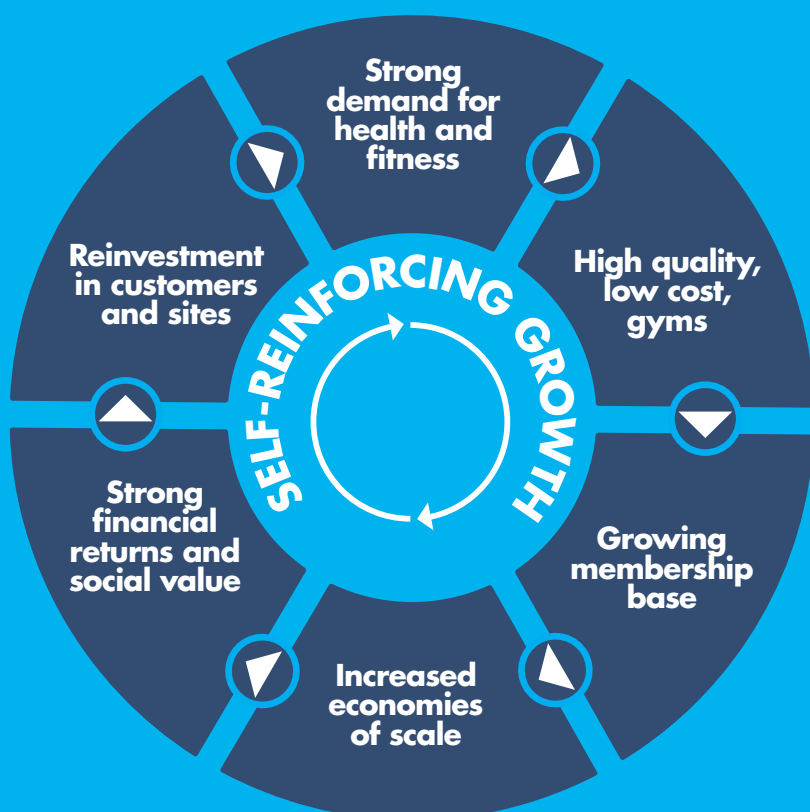
OVERVIEW

INTRODUCTION TO OUR BUSINESS

Our Purpose

BREAKING DOWN BARRIERS TO FITNESS FOR ALL

Our Business Model



Our Strategy

HIGH QUALITY ESTATE

SEE STRATEGY IN ACTION
PAGES 18-19



COMPELLING MEMBER EXPERIENCE

SEE STRATEGY IN ACTION
PAGES 20-21



INNOVATIVE TECHNOLOGY AND MARKETING

SEE STRATEGY IN ACTION
PAGES 22-23



UNIQUE TEAM AND CULTURE

SEE STRATEGY IN ACTION
PAGES 24-25



GROWING SUSTAINABLY

SEE SUSTAINABILITY REPORT
PAGES 28-49



What We Deliver

- **Accessible fitness for all**
32%
of gyms located in 20% most deprived areas of the UK
- **Social value for communities**
£2.5bn
of social value created through member exercise over the last 5 years
- **Sustainable long-term growth**
22%
membership growth per year for the last 10 years with an average of 18 new sites opened per year
- **Strong return on capital**
30%
or above return on capital consistently delivered

Note: Return on capital based on mature site performance pre-COVID, which we expect to return to as the pandemic passes

Our Key Stakeholders

We have worked closely with our stakeholders throughout the COVID-19 pandemic.

SEE STAKEHOLDER INFORMATION
PAGES 52-55



Stakeholders

SHAREHOLDERS

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

EMPLOYEES

Our employees are the driving force behind our purpose and growth. We run a people-first business and consider our unique team and culture to be a vital part of our strategy.

MEMBERS

Satisfied members are what make our gyms successful and they inspire us every day with their achievements. They are the best indicator that we are delivering on our purpose of breaking down barriers to fitness for all.

SUPPLIERS

Our partnerships with our suppliers ensure we source the best value goods and services for the benefit of our members. High standards of ethics and business conduct is an important part of being a responsible business.

COMMUNITIES

Being a valuable part of the communities in which we operate is hugely important to us. Providing safe and affordable facilities to exercise creates social value for the communities we operate in.

ENVIRONMENT

We continually seek out opportunities to improve our environmental performance, including reducing our carbon emissions. Sustainability is at the core of our business.

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.



OVERVIEW

AT A GLANCE

COMPELLING OFFER

We operate high quality, low cost gyms that have wide appeal and strong levels of membership, attracting new gym users to the market and winning market share through affordability, 24/7 opening hours and our no contract model.

Member proposition



MARKET-LEADING
low-price membership



HIGH QUALITY
gym equipment and
exercise facilities



CONVENIENT
locations



24/7
access and
unlimited training



NO
contract



**FRIENDLY,
HELPFUL STAFF**
and access to
personal trainers



FREE
group exercise classes



FREE APP
with on-demand
fitness classes



Multi-gym access, fitness
tracking and bring a friend
all available with
LIVE IT

Strong gym network

As at 31 December 2021, we operated 202 sites across all regions of the UK and we are one of the largest gym operators in Europe in terms of members. There remains significant headroom for future growth and we plan to open 28 new sites in 2022, taking advantage of strong latent demand for affordable fitness and our position as the best capitalised gym business in the UK.



202

Number of gyms

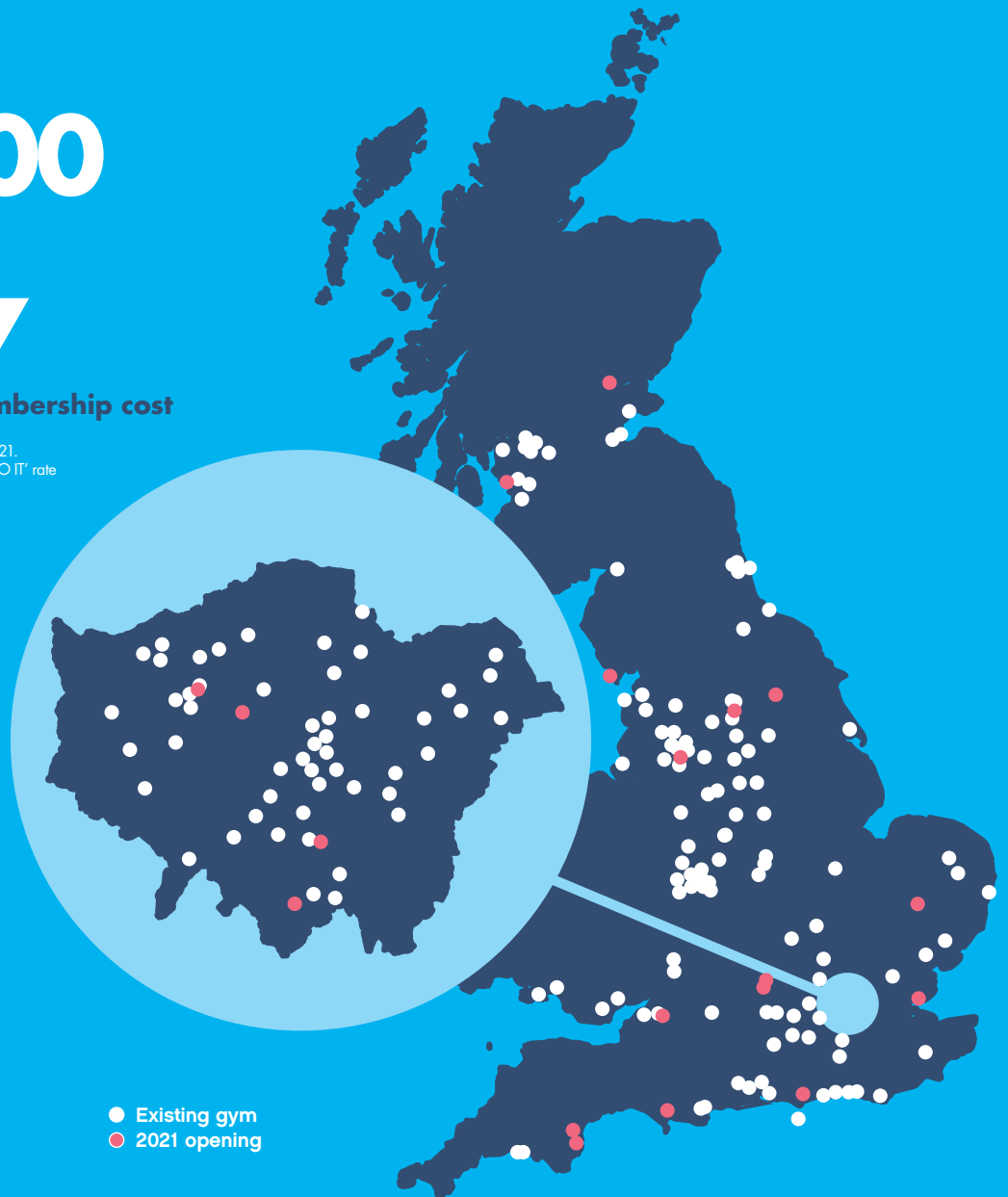
718,000

Number of members

£19.27

Average monthly membership cost

Note: All figures stated as at 31 December 2021.
Average monthly membership cost relates to 'DO IT' rate



● Existing gym
● 2021 opening

STRATEGIC REPORT

CHAIR OF THE BOARD'S STATEMENT

GOOD TO BE RECOVERING

2021 was the second year that the business was severely impacted by the COVID-19 pandemic, with our gyms shut for over 100 days, or 28% of the year. However, the steps we took in 2021 benefitted from our experience of managing the crisis in 2020 and, as a result, we were well-placed to capitalise as restrictions eased and people returned to gyms. We fully expect that 2022 will represent a return to a near normal environment.

Those confident steps have been rewarded with a significant recovery in membership, strong member satisfaction, excellent employee engagement and good engagement with a wide set of stakeholders - from shareholders, banks, suppliers and landlords who have all played an active role in supporting our strong recovery.

Financial results

Whilst full-year results were impacted by the pandemic, significant progress has been made when compared with 2020. Revenues were up 31.7% and Group Adjusted EBITDA Less Normalised Rent was £5.7m, up from a loss of £10.2m in 2020; and the statutory loss for the year was £35.4m, down from £36.4m in 2020. This is a business that has quickly returned to generating free cash flow when open; and with a well-supported £30m equity raise to strengthen the balance sheet, we are now accelerating our growth ambitions with fast organic site rollout, targeting 28 openings in 2022.

Strategic clarity

We have taken the opportunity of recovery to review and refresh our strategy. Providing affordable fitness for all through gym usage is even more important post COVID-19, with an increased desire to



The pandemic has tested us all. We are particularly grateful to our colleagues who have made our gyms such clean, safe and welcoming places for members to return to and enjoy to improve their wellbeing. No one ever regrets a workout!

Penny Hughes CBE
Chair of the Board





improve both physical and mental health through physical activity. Equally, in tougher economic times and periods of inflation, our low cost offering provides great value for money.

We remain ambitious to maximise our UK expansion through accelerated openings, taking advantage of a favourable property market, our strong covenant relative to peers and good reputation with landlords. We are investing to drive membership through greater brand awareness and by improving our offer, notably in group exercise classes which are particularly attractive to female gym users.

We are increasing our commercial sophistication supported by expert resources to make better pricing decisions and focus on driving sales. We have strengthened our digital fitness offer in partnership with Fiit, now offering 200 classes online to all our members for no additional charge. We have also appointed our first Strategy Director to help us explore longer-term opportunities for growth. All these initiatives were developed in 2021 and set the business up well, not just for good recovery, but for realising significant profitable growth in the years ahead.

Our work as a Board

Our Company Secretary, Katy Tucker, went on a period of maternity leave in July 2021, handing over to Nadira Hussein as Interim Company Secretary - and credit to them both, we have not missed a beat! The year has included extensive induction programmes for newly appointed Non-Executive Directors, Wais Shaihta and Rio Ferdinand, and the first year of David Kelly as Chair of the Audit and Risk Committee

and Emma Woods as Chair of the Remuneration Committee and Senior Independent Director. We have also introduced a Sustainability Committee with oversight responsibility for matters relating to ESG, health, safety and wellbeing and equality, diversity and inclusion.

Our Board deliberations are engaged, ambitious and supportive. Our Board effectiveness review was undertaken with the help of external specialist resources for the first time this year and, whilst confirming the Board and its Committees work to a high level, gave us valuable insights to make us fitter for the future. Finding more space for free-flow thinking, utilising in the best way the different perspectives brought by new Directors Rio and Wais, and overtly aligning Directors to aspects of strategic growth are being adopted within our ways of working. We will maintain an active dialogue on succession too. More details on the process of the effectiveness review can be found on page 81.

Early in 2022, we announced that our Chief Financial Officer ('CFO'), Mark George, will leave The Gym Group for a new role with Wickes plc. Mark has played a full role as CFO and Executive Director since joining us in 2018 and he leaves with our thanks and good wishes for the future. Our search for his successor is well underway and Mark's replacement will be announced in due course.

Awards and recognition

I was delighted to be shortlisted for the Non-Executive Director Awards (FTSE All Share). For me, it is the story of The Gym Group that is being recognised. Two years of pandemic in which our normal 24/7 business had to close its doors for repeated

long periods has been an unprecedented shock. However, the actions we have taken together have ensured a good recovery and a positive outlook ahead. We are a strong and relevant leisure business and the opportunity for growth looks as significant now as at any time.

We continue to generate significant social value and have focused the business on helping members to work out at least four times a month, the critical level of exercise that research supports makes a positive health contribution. We have committed to achieving net-zero by 2035 in line with the Science Based Targets initiative ('SBTi'). We were also very pleased indeed to be included at number 25 in Glassdoor's prestigious list of the top 50 Best Places to Work in the UK. Our colleagues care passionately about our members and worked tirelessly to ensure our gyms were clean, safe and welcoming places for members to return to, enjoy and improve their wellbeing. Our focus on all stakeholders sets The Gym Group in position to deliver attractive sustainable growth.

As this Annual Report was being finalised, we have all witnessed the Russian invasion of Ukraine. This is a shocking event at every level and our thoughts are with the Ukrainian people. There have been many global impacts as a result of this but there is no direct impact to our business model, and escalating energy costs are a small proportion of costs in our high margin business. We cannot know how events will unfold but remain confident in our business.

Penny Hughes CBE

Chair of the Board
16 March 2022

MOVING FROM RECOVERY TO GROWTH

2021 has been a significant year of recovery for The Gym Group as we have rebuilt membership following the three lockdowns imposed during the pandemic.

Membership grew from 578,000 in December 2020 to 718,000 at year end. We believe, as a business, that we are better placed to prosper in the years ahead than at any time in our history, and look forward with confidence to further recovery as the operating environment normalises. We are exiting the pandemic with a highly engaged team and member satisfaction scores as high as we have seen. We believe that this is a great launchpad from which to accelerate our expansion.

The market dynamics for our business are very strong. The demand for health and fitness will continue to increase because of the health shock that the pandemic has given to so many people. Within health and fitness, low cost gyms are the part of the market that are growing most rapidly and in the type of sites that are most suitable for us, there is a once in a generation opportunity to expand; and we do so with a relatively unleveraged balance sheet at a time when many of our competitors are more constrained financially.



I am encouraged by the start to the year that we have had and look forward to making further strong progress in the year ahead as we put the challenges of the pandemic behind us.

Richard Darwin
Chief Executive Officer



718,000

Number of members
at 31 December 2021



202

Number of gyms
at 31 December 2021

Throughout the pandemic, we have made the bold decisions to reinforce our market position. At the beginning of the year, we decided to keep our central teams working so that we could make progress on initiatives such as improvements to our technology platform, website and class offering. We also invested in our teams through support via online training to ensure that they were engaged and ready for the re-opening. In July, we were delighted to receive the support of our shareholders to raise £30m to accelerate our rollout with 40 sites to be opened within the 18-month period up to the end of 2022.

By February 2021, our membership number had reduced to 547,000 as we experienced typical levels of attrition without significant acquisition during lockdown. Immediately after re-opening in April, we saw a period of exceptional membership acquisition – the opportunity to go to the gym became an attractive option at a time when there were limited other leisure venues open. As expected, through the second half of the year, the more normal seasonal patterns re-established themselves such that we finished the year with 718,000 members; this is 90% of the pre-COVID-19 December 2019 number. Like-for-like membership numbers are around 82% of these levels given the increase in the size of our estate in the last two years. In the autumn, we saw a pleasing number of students re-joining as university attendance began to normalise.

The recovery has not been uniform across the country or by type of site location. Sites in the North have recovered membership fastest and are now operating at pre-COVID levels of revenue per site. Recovery has been slower in London and the South where people's day-to-day routines have been

slower to return to normal. In the small number of city centre workforce-dependent gyms, the recovery has also been patchy because of the work from home guidance in December 2021 and January 2022 under Plan B restrictions. In contrast, we have seen good levels of recovery in our sites located in suburban locations. In light of these factors, we have been encouraged by the overall growth in member numbers to 825,000 by the end of February 2022 – an increase of 50% versus February 2021.

One of our key strengths is a relatively unleveraged balance sheet with low levels of debt and strong liquidity. At the end of 2021, our Non-Property Net Debt was £44.1m – below the level of December 2020 – reflecting cash outflow from the 19 sites that we have opened in the year but benefitting from the £30m proceeds from the equity raise. This result is also indicative of how quickly post re-opening we reverted to generating free cash flow. Our aim is to return as quickly as possible to a position where our free cash flow generation enables us to self-finance our expansion plans.

One of the most pleasing aspects since re-opening has been how our members have responded to the operating changes we have made, both in terms of cleanliness of the gym as well as developments we have made in group exercise classes ('Group X'). This is reflected in member satisfaction scores higher than pre-COVID-19 levels. Member visits are a key metric for our business, not just in terms of member engagement with the gym but also how it delivers social value to our members and communities. The work that we have done during the year on social value with 4Global demonstrates that we delivered

over £4m social value per gym in 2019. This study showed that social value is driven most significantly when members work out more than four times per month. Throughout 2022 and beyond, a key initiative will be to encourage our members to increase their frequency of workouts. We plan to put in place incentive schemes for our frontline staff to drive this metric.

The financial results in 2021 were, once again, substantially impacted by the periods of closures from January to mid-April 2021 (end of April in Wales and Scotland) although ahead of 2020 when there were more closure days. Revenue was £106.0m (2020: £80.5m) up 31.7%, and Group Adjusted EBITDA Less Normalised Rent was £5.7m compared with a loss of £10.2m in 2020. These results show how the business has bounced back from the periods of closure in 2021 to be able to immediately generate positive EBITDA after rent. The Adjusted Loss for the year was £28.5m and the Statutory Loss was £35.4m.

The distress in the commercial property market caused by the pandemic and shifts in retailing to online, is presenting a once-in-a-generation opportunity for us to accelerate our rollout. When we came into 2021, we were beginning to build the pipeline so that we could recommence our rollout programme once gyms re-opened. In total, 19 sites were opened in the year, including one small box site. This brought our portfolio up to 202 sites at year end and included four sites opened on a single day in December 2021 – a record for the business. Since year end, we have opened a further site in Glasgow, Scotland, bringing the total estate to 203. This size of estate and pace of rollout positions us as the second largest

STRATEGIC REPORT

CHIEF EXECUTIVE'S REVIEW CONTINUED



One of our key strengths is our unique team and culture, and we were delighted to see a 10% increase in our employee engagement score, to 61%, in our annual engagement survey, and to be recognised by Glassdoor as number 25 in their list of the Best Places to Work in the UK.



£106.0m

Revenue in 2021

2020: £80.5m

£5.7m

**Group Adjusted EBITDA Less
Normalised Rent in 2021**

2020: loss of £(10.2)m

operator within the UK health and fitness market by number of sites and we continue to see substantial growth to come as we plan to open 28 sites in 2022. The sites that we have opened have been performing well and in line with pre-COVID-19 patterns of maturity for our estate.

Strategic priorities

As we emerged from the pandemic in the past year, we took the opportunity to review and refresh our strategy to ensure it remained relevant for the post COVID operating environment. Our strategic priorities can be summarised around three key initiatives – (i) rebuilding and extending our membership; (ii) accelerating our UK rollout; and (iii) growing sustainably – and I am pleased with the progress made on each in the past year.

**(i) Rebuilding and extending
our membership**

Key to our recovery is the ability to attract both previous members and new members to our gyms. Where we have seen the most rapid recovery is in sites which are located within the residential areas of large towns and cities, where most of our gyms are located. The slowest recovery has been in the small number of city centre sites that are wholly dependent on workforce. Our property acquisition strategy has been concentrated in residential areas for a number of years and, as a result, we have a limited number of workforce-dependent sites. Our low price point makes us a very attractive proposition to prospective members and continues to underpin the recovery in membership levels that we have seen.

The big seasonal period of demand for our business continues to be January/February; and, as a result of the pandemic, 2022 is the



first normal January/February period of acquisition since 2020. Whilst the first two weeks were impacted by the Omicron variant, we have been encouraged by how we have traded in January and February. With membership at the end of February of 825,000 and 28 sites planned to be opened in 2022, we are well set for a strong recovery in our financial performance in the year to come.

Our focus is also on attracting new members with different characteristics from those in our current membership base. We believe there is an opportunity to increase the number of females who join our gyms, particularly by focusing on group exercise classes. In addition, by reiterating the significant value proposition, there is an opportunity to attract those prospective members who still believe that gyms are expensive. Finally, we plan to increase the communication around sustainability to members as this is an area of strength for The Gym Group and of member interest.

BRAND TRANSFORMATION

2022 will also be the year when we complete a brand transformation project and relaunch our brand. Over the past few months, we have been working on a new visual identity for our brand under the brand name 'The Gym Group', where previously we traded as 'The Gym'. This will drive consistency across the estate and bring the brand name in line with our website URL - historically we have always driven member and non-member traffic to thegymgroup.com. By the end of September, all sites will have new signage reflecting the new visual identity, and the website and other digital collateral will be implemented from the end of September.

By the September/October campaign, all marketing will also be using the updated brand. I am excited by this brand transformation – it is a natural next step for us as a business and we believe it will cement our position as a modern consumer brand in the health and fitness market.

IMPROVING COMMERCIAL SOPHISTICATION

Now that we have expanded above 200 sites, our ability to operate effectively at scale becomes even more important. As we develop a truly nationwide business, we see a particular opportunity to drive pricing and yield from a starting position as the lowest priced gym operator, typically c.£4 cheaper than local competitors. The most important part of this yield growth in recent years has been the growth of our premium multi-site membership, LIVE IT. This has now reached 27% of our membership, particularly helped by the network effect of having more locations where multi-site access is a good option for members. As we continue our growth path, we see the opportunity to offer additional packages with more content in them and to further increase yield through price increases that we expect will more than offset cost inflation. Our Average Revenue per Member per Month ('ARPM') in the second half of the year was £17.60 up 5.9% vs two years ago (H2 2019: £16.62), demonstrating the progress we have already made in this area.

We also see further opportunity in retention. We know that tenure increases when members use the gym more often and will therefore be focusing on initiatives to ensure that members use the gym frequently and at least four times per month in line with our social value goals.

DEVELOPING OUR PRODUCT OFFERING

As we emerge from the pandemic, we see opportunity to drive performance by restarting our refurbishment programme with projects planned to upgrade equipment and improve product layout. A significant focus is on group exercise classes - currently, take-up of our class offering is under 5% of our membership base and, as we have added consistency to the classes we offer, we believe we have the opportunity to increase this.

We have also been seeking to enhance the digital offering to our members. For the last two years, we have had a partnership with Fiit to offer their premium digital classes to members at a discount and for us to trial (in three gyms) in-gym virtual classes using their content. We have now extended the arrangement with Fiit to give members access to 200 high quality classes in The Gym Group app. This arrangement will enable us to offer high quality digital content to our members for no additional charge, further demonstrating the strong value and flexibility we offer to our members.



Our business is as well-positioned as any in our sector to flourish as the economy emerges from the pandemic.



(ii) Accelerating our UK rollout

With the funds secured in July 2021 to recommence our rollout, we have been able to return to our historical levels of site openings with 19 new sites opened in the year, and we are encouraged by their early membership growth. This included several sites that are in target locations where we have been looking for a while such as Cambridge, York and Oxford. There are further new locations for us in our pipeline for 2022. This opportunity has arisen because we are seeing the availability of high quality sites at good levels of rent across the country. We now have several different formats that we can deploy ranging from 7,000 sq. ft to 21,000 sq. ft and our openings have reflected this range of format during the year. We believe that this flexibility will enable us to maximise our rollout opportunity within the UK market and our vision is to double the number of sites over the next few years.

In March 2022, we also agreed to acquire three sites from Fitness First which will enhance our presence in long-standing target locations in London residential areas, where we have traded well historically.

(iii) Focus on sustainability

We believe that we are leading the UK health and fitness sector with our focus on sustainability and have been accelerating the work we have been doing in this area. We undertook an extensive materiality assessment with all our stakeholders and from that feedback we identified the topics that are of high importance to our stakeholders and also had a high impact on our business. These are the areas we are going to focus our sustainability strategy on in 2022 and beyond.



Our work on increasing the social value we are generating has continued and we have created a new KPI linked to driving social value. Our Diversity and Inclusion working group has made great strides towards breaking down more barriers to fitness for all. We are also proud to announce that we are the UK's first carbon neutral gym chain and that we have committed to reducing our 2019 carbon emissions by 50% by 2030 and to being carbon net-zero by 2035, in line with the SBTi. Our full Sustainability Report can be found on pages 28 to 49.

People

One of our key strengths is our unique team and culture, and we were delighted to see a 10% increase in the overall engagement score, to 61%, in our annual employee engagement survey and to be recognised by Glassdoor as number 25 in their list of the Best Places to Work in the UK (the only leisure business placed in the top 50).

Last year I wrote that the support of our teams across our estate and in our central support had been the highlight for me in a difficult year during the pandemic. This year, I believe that we have seen the benefits of the support we gave our people and of a highly engaged team. An example of that was around the time of the 'pingdemic' during the summer when our team went to extraordinary efforts to keep our sites open. The commitment of our teams to ensuring great member service is also enabling us to achieve record Overall Satisfaction ('OSAT') scores.

In January 2022, Mark George, who has been with us since 2018 as Chief Financial Officer ('CFO'), informed the Board of his intention to resign as CFO and Executive Director to take up the position of CFO at Wickes Group plc. Since joining in 2018, Mark has evolved and strengthened the Group's finance function and successfully secured new bank and equity financing to get us through the pandemic, ensuring that the business is well placed to deliver its accelerated growth strategy. I would like to thank Mark for his significant contribution to The Gym Group and wish him well in his future career.

We have started a search to identify and appoint a successor to Mark, who is expected to remain with the Group until July 2022.

Technology

Another key enabler to building a successful business that can operate effectively at scale, is in our technology development. In the second quarter of 2022, we will be relaunching our technology platform with a new website and content management system. It is this development that will enable value-driving improvements such as new product offerings and flexibility in pricing, as well as enhancing our Search Engine Optimisation ('SEO') and performance marketing. This project will also drive new resilience in our core systems, enabling us to take advantage of peaks in demand.

Our business is as well-positioned as any in our sector to flourish as the economy emerges from the pandemic. We have a clear set of strategic priorities that will deliver significant shareholder value and we do so after a good start to 2022 with strong membership growth in January and February despite some initial disruption from Omicron. At the current time there is considerable global uncertainty as a result of the tragic events in Ukraine. However, we are confident that our high margin, low cost model will enable us to withstand the impact of an inflationary environment.

Our purpose is to break down barriers to fitness for all and we are delivering on that goal as we spread into more communities across the country. I am encouraged by the start to the year that we have had and look forward to making further strong progress in the year ahead as we put the challenges of the pandemic behind us.

Richard Darwin
Chief Executive Officer
16 March 2022

SIGNIFICANT OPPORTUNITY IN THE LOW COST GYM MARKET

The UK health and fitness industry has made great strides in its recovery post-lockdown and as the best capitalised operator in the most resilient segment of the market – low cost – The Gym Group is well-positioned to take advantage of growth opportunities.

Young consumers show the highest interest levels in returning to or joining gyms

39% 16-24

36% 25-34

27% 35-44

18% 45-54

11% 55-64

4% 65+

Base: 1,700 internet users aged 16+ who do not currently have a health & fitness club membership or have frozen their membership
Source: Lightspeed/Mintel, June 2021

Consumer demand

The Gym Group was founded during the 2008 financial crisis to offer consumers a value-for-money alternative to traditional fitness and leisure centres without having to commit to long-term contracts during a time of financial uncertainty.

COVID-19 has made people even more aware of the positive impact exercise has on the immune system and general wellbeing. Demand for gyms is highest amongst the 16-24 and 25-34 year-olds and, according to a recent study by Mintel, these age groups have become a lot more financially aware as a result of the pandemic and are therefore more likely to favour cost-effective gym membership options.

The average headline rate for a monthly membership at The Gym Group is lower than at all of our national competitors with the average price difference in directly competing locations being around £4. This demonstrates our commitment to offering best value for money to ever more price-conscious consumers.

With working two to three days a week from home expected to become the norm, it is likely that consumers will increasingly look for gyms that can offer facilities close to both home and the office. With our expansion strategy of developing clusters in metropolitan cities across the UK over the past ten years, we are well-placed to satisfy the demand for multi-site access, with our premium LIVE IT membership, which in 2021 grew to 27.1% of our overall membership.

Average headline rate for a monthly membership (December 2021)

£19.27

2020: £18.81

Average price difference vs Gym Group in competing sites

The Gym Group	£19.27	
JD Gyms	£19.96	+£4.12
PureGym	£22.69	+£4.48
Everlast/Sports Direct	£23.21	+£4.06

Industry supply

Following the acquisition of DW Fitness sites out of administration, Everlast Fitness/Sports Direct increased their membership pricing and no longer meet the criteria for low-cost gyms. JD Gyms have concluded the majority of the conversions of acquired Xercise4Less sites with 11 sites still trading under the original brand following the closure of nine sites. Publicly-funded leisure centres are under threat without further financial support by the Government and a number of sites have remained closed post pandemic.

The consumer demand for high quality, affordable and accessible gyms has been the principal driver of the growth of the industry since we opened the first low cost gym in the UK in 2008. Despite the challenges relating to the pandemic, the UK's low cost segment has continued to expand in 2021 with The Gym Group contributing 40% of new site openings in 2021, driving the wider market forward and increasing market share to 26.7%.

Market share

26.7%

2020: 24.9%

PureGym	274	295
The Gym Group	183	202
énergie Fitness	77	81
JD Gyms/Xercise4Less	72	74
Trugym	12	12
24/7 Fitness	9	10
Simply Gym	9	9
Fitness4Less	8	8
Others	67	65

■ Number of sites for each company at 31 December 2020
■ Number of sites at 31 December 2021, shaded area shows the net growth

Growth potential

The research consultancy Mintel expects that private health and fitness club revenues will recover rapidly in 2022 after enduring financial pressures as a result of closures and restrictions in 2020 and 2021. Providing no further lockdowns causing gym closures, Mintel believes that the market will be one of the fastest to fully recover within the leisure and hospitality industry as consumers prioritise their health and fitness following the pandemic.

A PwC study published in February 2019 into the total market potential for low cost gyms assesses the overall opportunity for low cost gyms to be between 1,200 and 1,400 gyms by 2026. As at December 2021, we estimate the total number of low cost gyms to be 756, resulting in additional growth potential in the market of 450–650 gyms.

Growth potential in the market

450-650

New low cost gyms in the UK market by 2026



Providing there are no further lockdowns causing gym closures, it is expected that the market will be one of the fastest to fully recover within the leisure and hospitality industry as consumers prioritise their health and fitness following the pandemic.

MINTEL

UK HEALTH & FITNESS INDUSTRY 2021

FIT FOR THE FUTURE

Innovative technology and great people enable us to operate a high quality estate, providing a compelling member proposition and sustainable and impactful growth.



HIGH QUALITY ESTATE

SEE STRATEGY IN ACTION
PAGES 18-19



Progress in 2021

- We have continued to grow our gym network with the opening of 19 new sites in 2021 whilst continuing to invest in our existing estate to deliver a great member experience.
- Our adaptable model allowed us to open sites ranging from 7,000 up to 21,000 sq.ft, enabling us to access more locations and therefore expand our addressable market.
- Our strong covenant has helped us capitalise on the current distress in the property market, enabling us to secure a strong pipeline of high-quality assets from which we plan to open 28 new sites in 2022.

Risks

- Scale of change
- Operational gearing

Performance measure

202

Total number of gyms at 31 December 2021

(vs 183 in 2020)

COMPELLING MEMBER EXPERIENCE

SEE STRATEGY IN ACTION
PAGES 20-21



Progress in 2021

- Now more than ever members want flexibility in where, how and when they work out; with no-contract membership, 24/7 access to our gyms and online classes available to follow at home, we have all bases covered.
- Increasingly, members are also seeing the benefits of our LIVE IT premium membership, which offers access to all of our 200+ sites, with 27.1% of our members now signed up to LIVE IT.
- Despite having to navigate additional restrictions in our gyms post-reopening, by focusing on service levels our teams delivered the highest ever member service score.

Risks

- Member experience
- Reputation, brand and trust

Performance measure

64%

of members rated us outstanding

(5 out of 5) for staff friendliness

INNOVATIVE TECHNOLOGY AND MARKETING

SEE STRATEGY IN ACTION
PAGES 22-23



Progress in 2021

- We demonstrated the power of our marketing and electronic customer relationship management ('eCRM') capability in 2021 with record numbers of new joiners after being locked down for more than three months at the beginning of the year.
- We also invested in new digital marketing platforms to improve the quality of our online advertising, resulting in reduced cost per acquisition ('CPA') and increased sign-ups.
- During the year we also laid the foundations for the launch of a new brand and a new website in 2022.

Risks

- Reputation, brand and trust
- IT dependency
- Data protection

Performance measure

55%

**more re-joiners
in April-Dec 2021**

versus the same period in 2019

UNIQUE TEAM AND CULTURE

SEE STRATEGY IN ACTION
PAGES 24-25



Progress in 2021

- Our Reset and Recharge programme focused on re-energising our teams ahead of re-opening our gyms; and our LeadWELL programme trained employees on topics such as resilience, psychological safety and financial planning.
- This year we also launched our Equality, Diversity and Inclusion Pledge, which provides clear targets and actions for achieving greater gender and cultural diversity representation across our business.
- We were thrilled to be recognised by Glassdoor as one of the top 50 Best Places to Work in the UK and that our colleague support programme was awarded the 'Most Innovative Response to COVID-19' at the annual Engagement Excellence Awards.

Risks

- Reputation, brand and trust
- Our people

Performance measure

#25

**ranked company in
Glassdoor's 50 Best Places
to Work**

in the UK and the only leisure
business to be listed

GROWING SUSTAINABLY

SEE SUSTAINABILITY REPORT
PAGES 28-49



Progress in 2021

- This year we completed a materiality assessment with key stakeholders – including members, employees and shareholders – to understand which sustainability issues were most important to them and we're now using this feedback to help set priorities for 2022 and beyond.
- In 2021, we delivered £485 million of social value in communities across the UK with work-outs in our low cost, accessible facilities contributing to the improved health, wellbeing and educational development of our members.
- We have set ambitious targets for reducing the carbon impact of our business: reducing by 50% by 2030 and to net-zero by 2035.

Risks

- Reputation, brand and trust

Performance measure

£485m

**of social value
created in 2021**

STRATEGIC REPORT

STRATEGY IN ACTION

HIGH QUALITY ESTATE

We have continued to grow our gym network with the opening of 19 new sites in 2021 whilst continuing to invest in the existing estate to deliver a great member experience. Our adaptable model allowed us to open sites ranging from 7,000 up to 21,000 sq.ft in 2021 whilst our rigorous standards and maintenance regimes continue to provide a safe environment and deliver the high standards our members have come to expect.

Great locations

Good relationships with landlords and our strong financial covenant continue to enable us to secure prime locations. Be it retail parks, office conversions or high streets, in the residential areas of cities or in smaller towns, our adaptable format and flexibility enables us to operate in a wide variety of locations.

The repurposing of buildings also brings a new lease of life to sites that may have been empty for some time, providing facilities for local communities and regenerating the area.

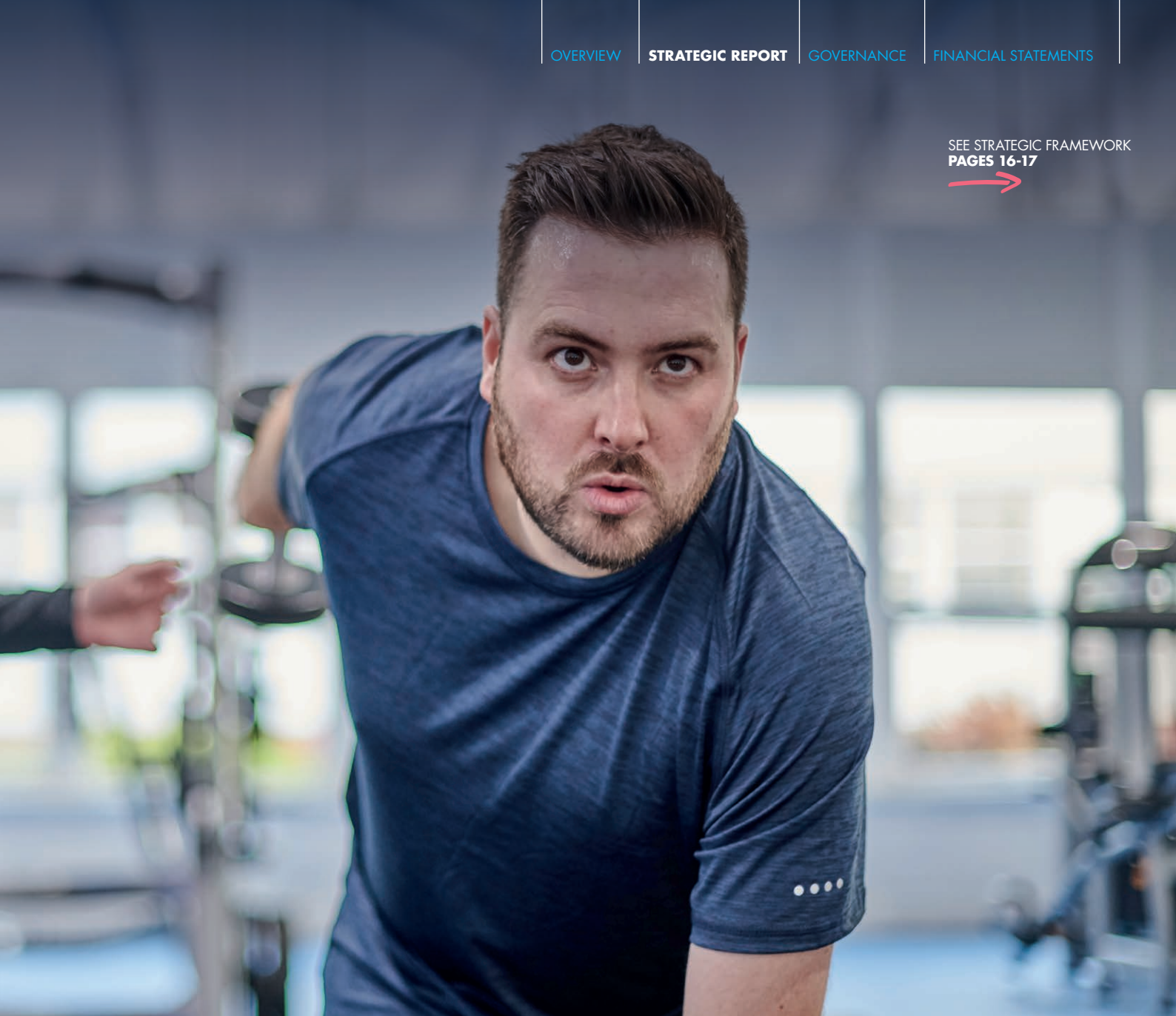


Leeds Headingley



Dorchester



SEE STRATEGIC FRAMEWORK
PAGES 16-17

Top class facilities

Our facilities are high quality and all available at low cost. We continue to evolve and adapt our gym formats with design and data-driven insight to exceed member expectations. 2021 saw us trial three new hybrid studios combining both virtual and live classes, making top-quality and visually immersive group exercise accessible to all.



Oxford Street London



Leeds Headingley

Low carbon sustainable development

We continue to drive forward on our sustainability agenda, expanding the use of heat pump technology and the development of control systems to improve efficiency. Our new gym in Cambridge incorporates PV solar panels and rainwater recovery for flushing of WCs. Our gyms deliver measurable social value into the communities they serve and we typically occupy existing buildings, often repurposed for gym use.



Cambridge

STRATEGIC REPORT

STRATEGY IN ACTION CONTINUED

COMPELLING MEMBER EXPERIENCE

As gym-goers continued to face the challenges and uncertainty of COVID-19 in 2021, our 24/7, no-contract, low cost gyms offered flexibility, value for money and a safe and friendly environment in which to train.

Group exercise

We offer free unlimited classes to all our members and ensure that inclusivity, motivation, hard work and lots of fun are at the heart of every class. We have delivered over 110,000 classes since May 2021 and continuously train our team to ensure that the best member experience is delivered at all times. We continue to innovate with the launch in selected sites of our new 'Class Collective' range of seven signature pre-choreographed classes delivered by our team following specialist training – guaranteed to take the member experience to the next level.



Great instructor, classes are brilliant, lovely environment

Member satisfaction survey January 2022 – Perth



Member satisfaction

We measure how satisfied our members are by gaining regular online feedback and measuring against an Operations Satisfaction score ('OSAT'). Despite having to navigate additional restrictions in our gyms post-reopening, by focusing on service levels, our teams delivered the highest ever OSAT score with 57% of members surveyed telling us that they are highly satisfied (5 out of 5) with our service. Our teams are central to this and with a friendliness score of 64% we are always aiming to deliver a friendly, welcoming and social environment.

64%
friendliness score



Ultimate flexibility

Now more than ever members want flexibility in where, how and when they work out. With no-contract membership, 24/7 access to our gyms and online classes available to follow at home, we have all bases covered. Increasingly, members are also seeing the benefits of our LIVE IT premium membership – which offers access to all of our 200+ sites – with 27.1% of our members now signed up to LIVE IT.

27.1%
members signed
up to LIVE IT
at 31 December 2021



Member app

Improvements made to the app this year include a complete visual redesign, upgrades to popular features, including Gym Busyness, and the restructuring of functionality to make it easier to find and use. These member-facing changes have been coupled with several performance improvements and, as a result, the app experience has improved significantly, resulting in higher member engagement and a record 4.7 out of 5 rating on the Apple App Store.

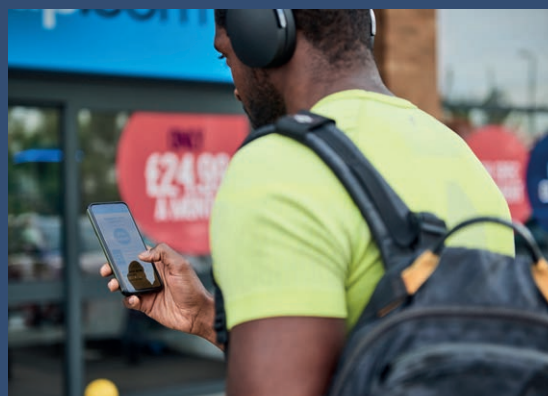


4.7
out of 5 rating
on Apple App
Store



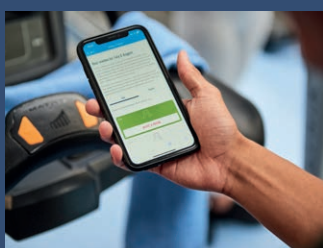
INNOVATIVE TECHNOLOGY AND MARKETING

We demonstrated the power of our marketing capability in 2021 with record numbers of new joiners as we recovered our membership after being locked down for more than three months. During the year, we also laid the foundations for the launch of a new brand and a new website in 2022.



Digital experience

A primary focus in 2021 has been the redevelopment of our online digital platform and website. The new website, launching in Spring 2022, will enable us to improve online merchandising, be more agile in proposition delivery, optimise key member journeys, deliver more content to members and scale easily to support rapid member growth. These changes will increase our presence in digital channels, provide an improved joiner experience and deliver higher rates of sales conversion.

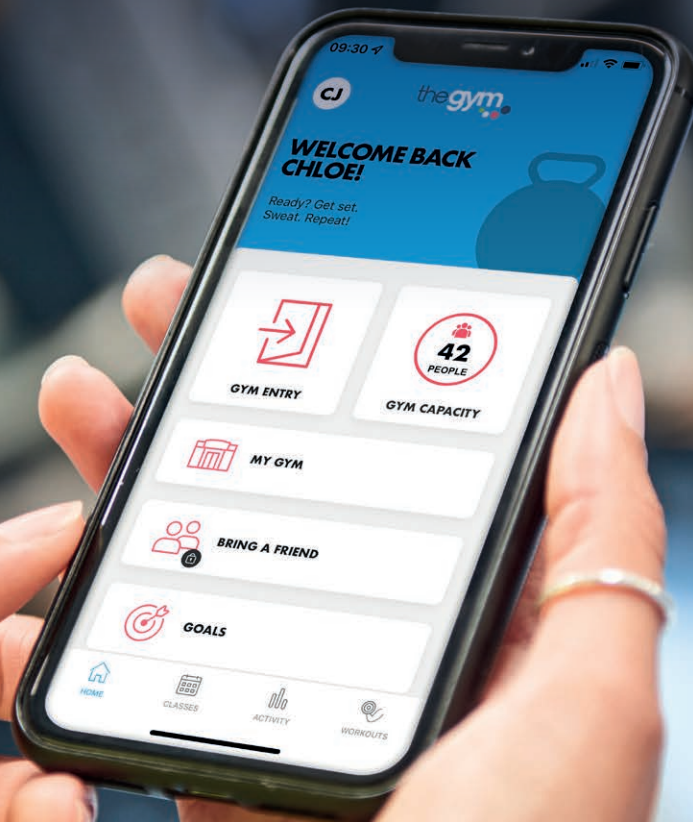


Driving membership recovery

We used our digital Customer Relationship Management ('CRM') platform to capitalise on significant appetite to return to the gym to deliver record re-joiner numbers in 2021. By effectively targeting our millions of former members across multiple channels, we delivered 55% more re-joiners in April–Dec 2021 versus the same period in 2019. We also invested in new digital marketing platforms to improve the quality of our online advertising and our audience targeting, resulting in reduced cost per acquisition ('CPA') and increased sign-ups.

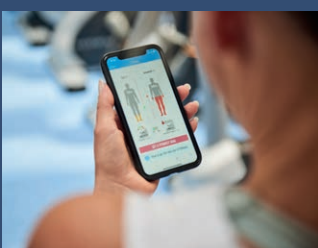
55%

more re-joiners in April–
December 2021 compared
with the same period in 2019



Data-driven insight

We continued to build a powerful analytics and insight capability in 2021. Sophisticated models and insight are used increasingly to assess new property locations, build membership profiles and forecasts, target marketing spend to key audiences, make pricing changes to maximise yield, operate our gyms more effectively and identify trends in member behaviour, allowing us to target communications, improve acquisition efficiency and improve retention.



A new brand and visual identity

Having identified that brand awareness in the market for our trading brand 'The Gym' was low, our task was clear: create a new identity system to express our brand which creates meaning and stands out. In 2022, we will be launching a new brand identity that represents the purpose of our business: to break down barriers to fitness for all. At the core of our design system, a new wordmark will bring to life our new name – 'The Gym Group'. To drive brand distinction and bolster awareness, a suite of corresponding assets will be established: a brand icon, a primary colour palette, a custom brand typeface, iconography and a photographic style.



UNIQUE TEAM AND CULTURE

Our friendly, inclusive and people-centred culture continues to be a key part of our success. Throughout 2021, we continued to put our unique set of values at the centre of decision-making, ensuring our colleagues were re-energised, re-connected and re-focused post lockdown. Prioritising a holistic approach to wellbeing and personal development contributed to our high engagement scores and being externally recognised for our innovative response to COVID-19.

Response to COVID-19 during 2021

Our colleague response focused on staying connected, supporting mental health and encouraging learning and development. Our Reset and Recharge programme focused on re-energising our teams through a schedule of weekly activities as well as training to support social, physical and mental wellbeing ahead of re-opening our gyms. We also launched our LeadWELL programme in partnership with Outliers, providing employees with bespoke training covering topics on resilience, psychological safety and financial planning. Our overall colleague programme was awarded the 'Most Innovative Response to COVID-19' at the annual Engagement Excellence Awards.

Creating new opportunities

We have continued to enjoy huge success with our involvement in the UK Government Kickstart Scheme which provides opportunities for 16-24-year-olds on Universal Credit to gain employment and training. Since inception of the Scheme, we have onboarded 182 Kickstart trainees, of which 84 completed the programme in 2021 with 64 moving into permanent Fitness Trainer roles. A further 58 trainees are yet to complete their training. In November 2021, we extended our commitment, providing a further 20 placements within our gym support function. We are also proud to have partnered with the Rio Ferdinand Foundation supporting community programmes that provide young people with valuable employability skills, training and the opportunity to pursue a career in fitness.

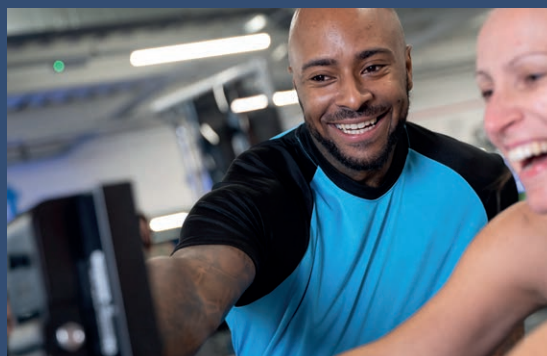


84

Kickstart trainees supported to complete the programme in 2021

Diversity and inclusion

This year we strengthened our Diversity and Inclusion ('D&I') commitments through the launch of our Equality, Diversity and Inclusion Pledge, which provides clear targets and actions for achieving greater gender and cultural diversity across our business. We also launched our Breaking Down Barriers project focused on identifying the barriers that exist at The Gym Group across five areas: Age, Gender, Cultural diversity, LGBTQI+ and Disability.



Employee engagement and wellbeing

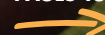
Having successfully embedded our employee engagement surveys in 2020, we are proud to have received an incredible 85% response rate to our 2021 survey and have seen a 10% increase in our overall engagement score of 61%. We attribute this to initiatives such as our Inclusive Workspace which has reshaped our approach to work/life balance; the introduction of our Coaching for Performance programme facilitating effective conversations and performance discussions; and the success of our employee reward and recognition programme.

Glassdoor award

We are proud of our people-first approach and unique culture and were thrilled for this to be recognised by Glassdoor who rated The Gym Group as number 25 in their ranking of the Best Places to Work in the UK. We were the only leisure business to be listed.



SEE STRATEGIC FRAMEWORK
PAGES 16-17



STRATEGIC REPORT

KEY PERFORMANCE INDICATORS ('KPIs')

MOVING FORWARD

We use a number of financial and non-financial KPIs to measure our performance over time. We select KPIs that demonstrate the financial and operational performance underpinning our strategic drivers. During the year, we added two new non-financial KPIs (Members that visit 4+Times in a Month and Employee Engagement Score) as these closely align with our strategic goals in respect of

our members and our people. At the same time, we removed the Financial KPI relating to Expansionary Capital Expenditure as we believe Group Operating Cash Flow and Return on Invested Capital of Mature Sites are appropriate measures of investment performance. Details on Expansionary Capital Expenditure can be found in the Financial Review on pages 56 to 61.

Non-financial

Total Number of Gyms +10.4%

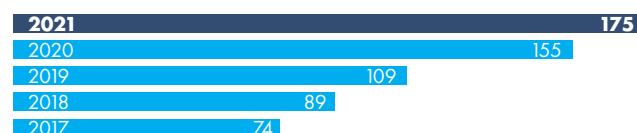


[Link to strategic goals](#)
High quality estate

2021 performance

The total number of sites grew by 10.4% during 2021 with 19 organic site openings, one of which was a small box gym.

Number of Mature Gyms +12.9%



Definition

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

[Link to strategic goals](#)
High quality estate

2021 Performance

The number of mature gyms increased to 175 in 2021. However, due to the various COVID-19 lockdowns, many of the gyms that were opened in 2019 and 2020 have yet to reach maturity in terms of financial performance and membership levels.

Total Number of Members '000 +24.2%



Definition

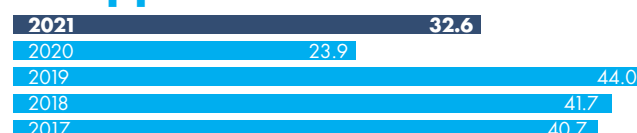
Total number of members reflects gym memberships at the year end.

[Link to strategic goals](#)
Compelling member experience
Growing sustainably

2021 performance

The total number of members has increased year on year partly reflecting the additional sites opened in the year. Our membership number reduced to 547,000 during the lockdown. We then saw a period of exceptional membership acquisition immediately after opening before returning to more normal seasonal patterns in the second half of the year.

Members that visit 4+ Times in a Month % +8.7ppts



Definition

This is a new KPI for the Group in 2021 and is defined as the percentage of total members that have visited the gym 4+ times in a month, calculated as a rolling 12 month average.

[Link to strategic goals](#)
Compelling member experience
Growing sustainably

2021 performance

The number of members visiting the gym 4+ times per month has increased in 2021 but remains below target due to the COVID-19 disruption. Research shows that people who visit the gyms 4+ times per month are more likely to continue their membership and gain significant health benefits from it.

Average Revenue per Member per Month £ +2.3%



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.

[Link to strategic goals](#)
Innovative technology and marketing

2021 performance

Average revenue per member per month has increased by 2.3%, driven by a £0.46 increase in the average headline price and an increase in the take-up of our premium product, LIVE IT (from 22.5% of total members in 2020 to 27.1% in 2021).

Employee Engagement Score +10ppts



Definition

This is a new KPI for the Group in 2021 and is calculated as the proportion of those employees that responded 'Strongly Agree' to the engagement survey questions.

[Link to strategic goals](#)
Unique team and culture

2021 performance

The employee engagement score in 2021 increased by 10 ppts vs 2020 with the completion rate also increasing. This reflects the progress made in the year in building an inclusive work environment that has strong relationships within teams who recognise each other for their commitment to The Gym Group.

* Note that in order to provide better year-on-year comparability for yield, the figures presented for 2021 and 2020 have been adjusted to exclude the impact of UK Government-enforced closure periods as a result of the COVID-19 pandemic. The 2021 figure is calculated for the period from July 2021 to December 2021 when all gyms were fully open and trading had returned to normal. The 2020 figure is calculated on a site-by-site basis and excludes days where the sites were required to be closed due to Government restrictions.

* Data prior to 2020 not available.

Financial

Revenue £m

+31.7%

2021	106.0
2020	80.5
2019	153.1
2018	123.9
2017	91.4

Definition

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

Link to strategic goals

High quality estate
Compelling member experience
Innovative technology and marketing

2021 performance

Revenue in the year increased by 31.7% reflecting the increased number of open trading days compared to the prior year (72% vs 55%). New gyms opened in the year also contributed to the increase in the Group revenue figure.

Group Operating Cash Flow £m

+£22.6m

2021	6.3
2020	-16.3
2019	39.2
2018	34.0
2017	24.7

Definition

Group operating cash flow is calculated as Group Adjusted EBITDA Less Normalised Rent plus movement in working capital and maintenance capital expenditure.

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

Link to strategic goals

High quality estate
Compelling member experience
Innovative technology and marketing

2021 performance

Group operating cash flow has increased by £22.6m as a result of the improved profitability and working capital benefits from resumed trading and growth.

Mature Gym Site EBITDA £m

+£18.6m

2021	22.5
2020	3.9
2019	48.1
2018	39.0
2017	32.4

Definition

Mature gym site EBITDA is calculated as Group Adjusted EBITDA Less Normalised Rent contributed by mature sites.

Link to strategic goals

High quality estate
Compelling member experience
Innovative technology and marketing

2021 performance

Mature gym site EBITDA increased significantly in 2021 as a result of the higher proportion of open trading days. However, it is still below pre-COVID levels as trading has yet to recover fully. We expect to see the figures trending back towards pre-COVID levels in 2022.

Return on Invested Capital of Mature Sites* (%)

18%

2021	18
2020	18
2019	31
2018	30
2017	30

Definition

Return on invested capital of mature sites is calculated as Mature Gym Site EBITDA divided by total capital initially invested in the mature sites.

Link to strategic goals

High quality estate
Compelling member experience
Innovative technology and marketing

2021 performance

Return on invested capital of mature sites was 18% in 2021 as trading has yet to recover fully from COVID-19. We expect to see the figure trending back towards pre-COVID levels in 2022.

Group Adjusted EBITDA Less Normalised Rent £m

+£15.9m

2021	5.7
2020	-10.2
2019	48.5
2018	39.1
2017	30.6

Definition

Group Adjusted EBITDA Less Normalised Rent is calculated as operating profit before depreciation, amortisation, long-term employee incentive costs and non-underlying items and after deducting normalised rent. Normalised rent is the contractual rent that would have been paid in normal circumstances without any agreed deferrals, recognised in the monthly period to which it relates.

Link to strategic goals

High quality estate
Compelling member experience
Innovative technology and marketing

2021 performance

Group Adjusted EBITDA Less Normalised Rent increased by £15.9m in the year reflecting the increased site profitability as a result of the higher proportion of open trading days, and grant income received, partially offset by the investment in support functions.

Non-Property Net Debt £m

-£3.2m

2021	44.1
2020	47.3
2019	47.4
2018	46.0
2017	37.5

Definition

Non-property net debt is calculated as bank and non-property lease debt less cash and cash equivalents.

Link to strategic goals

High quality estate
Compelling member experience
Innovative technology and marketing

2021 performance

Non-property net debt has reduced slightly as capital expenditure was more than offset by the net proceeds of £30.3m from the equity placing and cash inflows from operations.

Non-Property Net Debt to Group Adjusted EBITDA

7.74x

2021	7.74x
2020	-4.64x
2019	0.98x
2018	1.17x
2017	1.23x

Definition

Non-property net debt to Group Adjusted EBITDA is defined as Non-property net debt as a proportion of Group Adjusted EBITDA Less Normalised Rent.

Link to strategic goals

High quality estate
Compelling member experience
Innovative technology and marketing

2021 performance

Non-property net debt to Group Adjusted EBITDA has improved in the year as a result of the return to profitability and the improved net debt position.

* Note that in order to provide better year-on-year comparability for ROIC, the figures presented for 2021 and 2020 have been adjusted to exclude the impact of UK Government-enforced closure periods as a result of the COVID-19 pandemic. The 2021 figure is calculated for the period from July 2021 to December 2021 when all gyms were fully open and trading had returned to normal. The 2020 figure is calculated to exclude those months when sites were required to be closed due to Government restrictions.

SUSTAINABILITY AT THE GYM GROUP

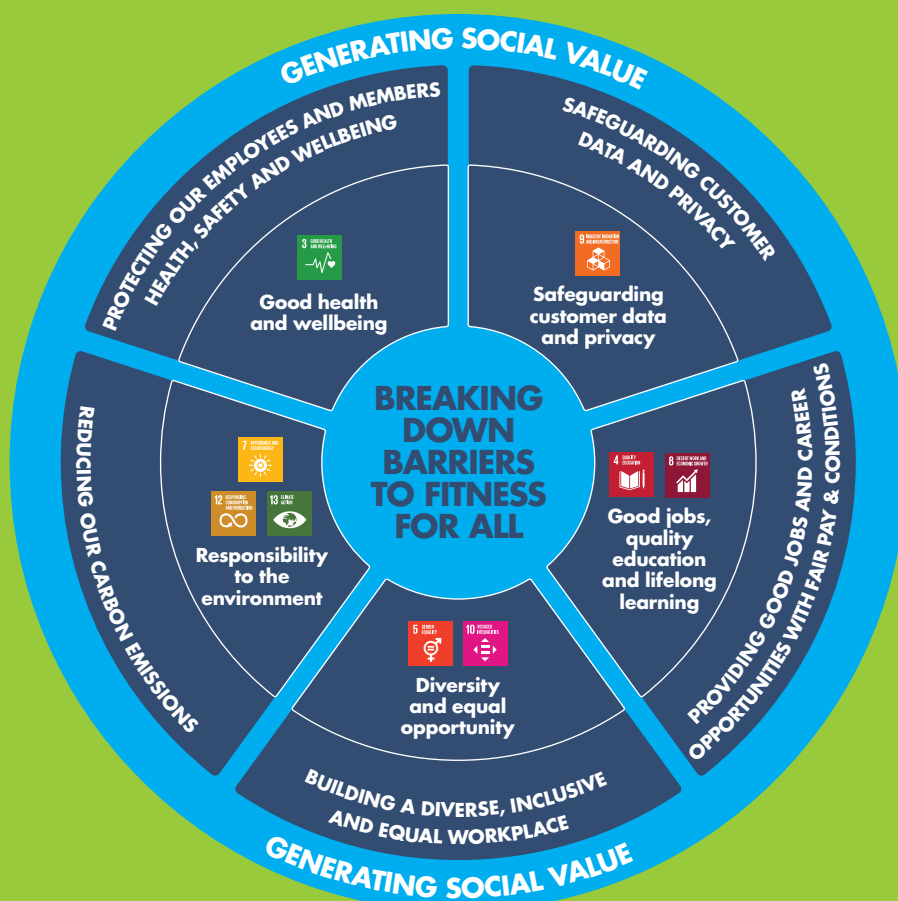
At The Gym Group, our purpose is to break down barriers to fitness for all and our ambition is to deliver this in an entirely sustainable way, enabling people to live healthier, more rewarding lives within the natural balance of the planet. We actively place sustainability at the core of our business and in 2021 we advanced on this agenda by forming a dedicated Sustainability Committee with the objective of continuously improving our sustainability performance.

Even though we continued to be impacted by the pandemic, we still enabled over 33 million visits to the gym in 2021. We made further progress on measurement of the social value generated by our members exercising in our gyms, achieving £485 million in the year. A metric designed to drive this value has been introduced as a key performance measure and incentive for executive performance.

COP26 concluded in November with nearly 200 countries agreeing to the Glasgow Climate Pact to keep 1.5°C alive. The latest report from the Intergovernmental Panel for Climate Change ('IPCC') indicates urgent action is required if this is to be achieved. During the year we undertook an extensive carbon audit of our operations and supply chain to establish a 2019 baseline carbon footprint leading to the launch of our Net-Zero commitment, with a target 50% carbon reduction before 2030¹ and achieving net-zero by 2035. We have also chosen to off-set emissions on our journey to net-zero and become the UK's first carbon neutral gym chain in alignment with The CarbonNeutral Protocol.

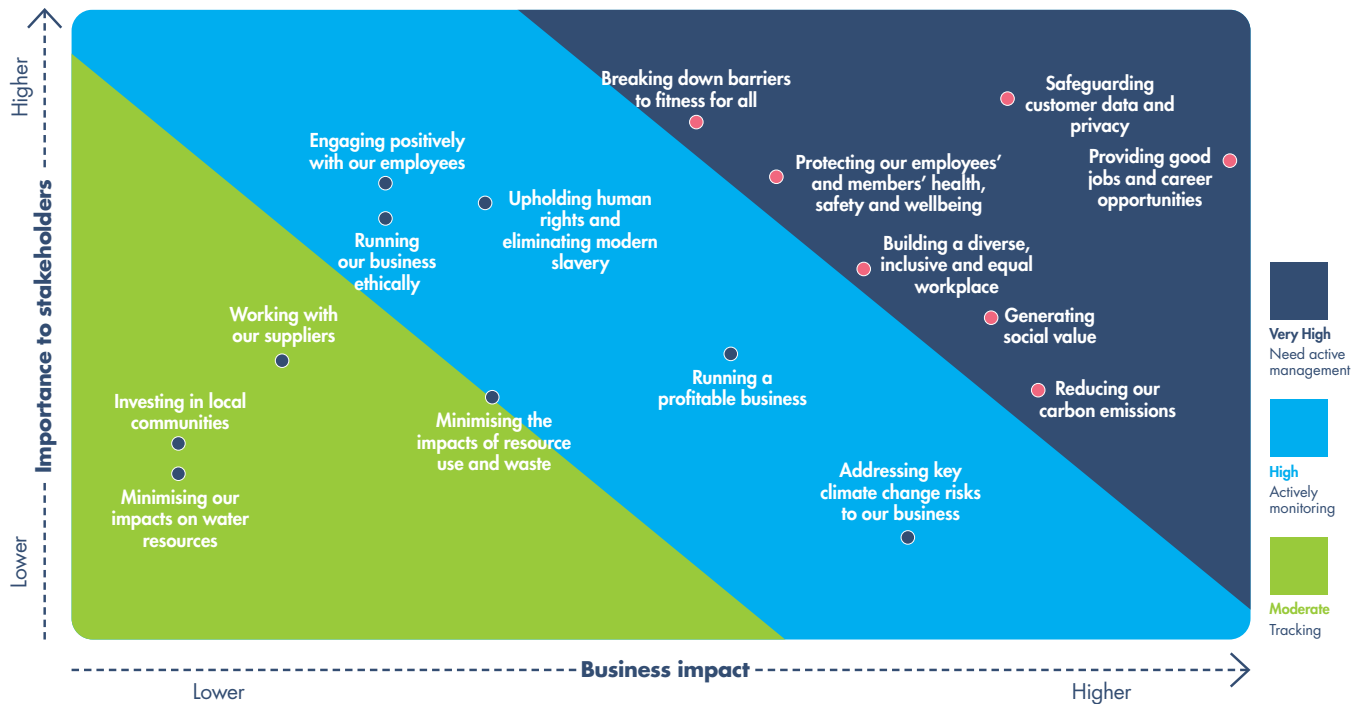
Our internal and external stakeholders are key to the success of our business and following best practice set out in the Global Reporting Initiative ('GRI'), we conducted an extensive materiality assessment with all stakeholders to identify significant issues and impacts that matter most to them, including members, investors, suppliers and our people.

The materiality matrix demonstrates the findings of the assessment, identifying the sustainability topics that are key priorities for The Gym Group. In the diagram opposite, we have aligned our material topics to our priority areas. Note that 'Safeguarding customer data and privacy' is specifically addressed in the GRI Index. Further information on our approach and performance on each of these topics is provided within this report.



¹ Compared to 2019 on a like-for-like basis of operating estate.

Identifying our material topics



Sustainability governance

Robust governance practices are a fundamental foundation for a sustainable business.

Our Sustainability Committee reports to The Gym Group plc Board to ensure sustainability is at the core of our business and shares oversight of corporate responsibility for sustainability, reviews sustainability targets and commitments and oversees the assessment of climate-related risks and opportunities, including the requirements of the Task Force on Climate-Related Financial Disclosures ('TCFD'). The Committee receives reports from three key workstreams:

- Equality, Diversity & Inclusion ('EDI')
- Environmental, Social & Governance ('ESG')
- Health, Safety & Wellbeing

Our Board shares The Gym Group's passion for a sustainable business and the delivery of affordable fitness for all. The participation of Executive members in the Sustainability Committee demonstrates our commitment to integrating sustainability into the heart of our business decisions.



Reporting for the 2021 financial year

We continually review and improve our reporting processes. In 2019, we began to align to the GRI standards for our sustainability reporting and we have continued to report in accordance with these standards (Core Option). In addition, for 2021 we have further developed our reporting to align with the Sustainability Accounting Standards Board ('SASB') standards.

We have also made a submission to the Workforce Disclosure Initiative ('WDI') and the Science Based Targets Initiative ('SBTi').

We were delighted to be a founding member of the All-party Parliamentary Group for ESG and look forward to contributing to further development of the UK's ESG strategy.

In aligning with global standards, we ensure that we continue to provide our varied stakeholders with clear, concise information that demonstrates how we are progressing with our material topics. The GRI content index can be found on our website.

David Melhuish
Chief Development and Sustainability Officer

GOOD JOBS AND QUALITY EDUCATION



Engagement survey

85%

participation rate
(increase of **20%** from 2020)

Overall level of engagement across the business

61%

(increase of **10%** from 2020)



Hydrate & Chat catch-ups
are fantastic to build trust
and develop the team

2021 engagement survey feedback



Our approach

Our people-first culture plays a key part in our success and over the past year, despite the challenges, we have continued to ensure that nurturing our people and our culture remains a key business focus.

The materiality assessment we carried out during 2021 highlighted that 'providing good jobs and career opportunities with fair pay and conditions' was a topic of high importance to our stakeholders. Throughout the challenges posed by government restrictions over the past two years, our priority has been to provide a workplace where our people can thrive personally and grow professionally. The strength of our values and culture has enabled us to support our people effectively throughout this time.

One of our key focuses in 2021 has been to safely reopen our gyms for our members, whilst ensuring that our employees are fully supported as we do so. Our focus on people aligns with, and contributes to, the United Nations Sustainable Development Goals ('SDGs'), as we strive for Quality Education (SDG 4) and Good Jobs and Economic Growth (SDG 8).

At The Gym Group we believe it is vital to provide regular opportunities for our people to share their experiences, ideas and feedback. We continued with our engagement surveys to gain thoughts on energy levels, recognition, and our response to the challenges of the COVID-19 pandemic. We achieved an 85% participation rate (an increase of 20% from 2020) and our overall level of engagement across the business increased by 10% to 61%. Feedback highlighted particular satisfaction with the support provided for balancing life and work, and the focus on wellbeing that is offered by The Gym Group.



One of our key focuses in 2021 has been to safely reopen our gyms for our members, whilst ensuring that our employees are fully supported as we do so.

Employment

Through our participation in the UK Government Kickstart Scheme, we continued to provide job placement opportunities for 16 to 24-year-olds on Universal Credit who are at risk of long-term unemployment. Our first cohort of 30 Kickstart Fitness Trainees started in December 2020 and during 2021 we welcomed a further 147 trainees. So far 84 have qualified as personal trainers after completing our Kickstart programme and we welcomed 64 as new employees.

During 2021, we further expanded the Kickstart Scheme, introducing five new trainees into our gym support functions with a further 13 placements approved in partnership with The Princes Trust. We plan to fully participate in the government scheme until this ceases in March 2022.

We continue to review our employee reward and wellbeing offering. This year we introduced a new Salary Sacrifice Pension Scheme, a Life Assurance Programme, an Electric Car Salary Sacrifice Scheme, and enhanced our Company Maternity Pay for employees.

During 2021, we further developed our communication and engagement platform – CORE – extending the Mental Wellbeing Hub to include content focused on women's health, men's health, and family wellbeing. We continue to engage and discuss with our employee forums to enable feedback on key business decisions.



It's fantastic to see the Gym Group brilliantly backing the Kickstart Scheme – helping our next generation of workers really get on track and enable them to excel in the fitness industry.

Mims Davies
Minister for Employment

Training and development

This year we launched our LeadWELL programme in partnership with Outliers Wellbeing. The six-week programme included training on financial wellbeing and psychological safety, focusing on empowering our leadership teams and supporting mental resilience. In addition, we relaunched our Coaching for Performance programme, providing a framework for managers to assess the performance and potential of their teams, and facilitate effective development and progression discussions. We have also continued our six-monthly talent map reviews to establish what career development plans are required for 2022.



182

Kickstart Trainees onboarded since 2020

84

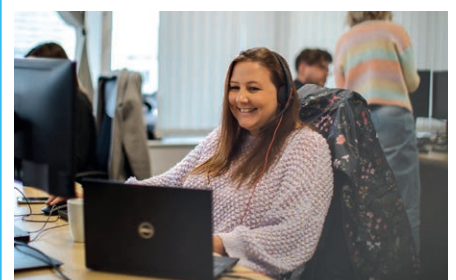
qualified as personal trainers in 2021

64

as new employees

58

further trainees due to complete programme





We are delighted to have partnered with the Rio Ferdinand Foundation in 2021 to launch the new Find Your Future programme.



In our communities

We are delighted to have partnered with the Rio Ferdinand Foundation in 2021 to launch the new Find Your Future programme. This new community-focused 12-month programme commenced in November 2021 and will create opportunities for up to 150 young people in South London via an employment skills programme and the Community Sports Leadership Award. The activities will be delivered in youth centres across South London and will utilise The Gym Group's local gym facilities for a realistic on-the-job experience. Our teams will deliver both practical and theory-based knowledge on fitness, helping participants develop their employability skills for meaningful careers in the sports and fitness sector and the wider world of work.

In 2022, we will formally launch Grow Your Own, The Gym Group's own talent development scheme. This scheme will provide an opportunity for those who have completed the Find Your Future programme and wish to start their career in the fitness industry. The scheme will deliver further training, education, experience and the certifications necessary for becoming a qualified Personal Trainer.

As our business expands, it is vital that we prioritise providing good jobs and career opportunities, whilst protecting our employees' and members' health, safety, and wellbeing. As our numbers increase and teams expand, we will concentrate on growing our own talent from within our communities. Our Emerging Talent scheme will be relaunched and we will continue to gather employee feedback and adjust our work practices accordingly, to ensure we always put our people first.



Human rights, anti-bribery and anti-corruption

We conduct our business honestly and ethically wherever we operate. We recognise the risks of modern slavery and take active steps to assess and manage them. We comply with the Modern Slavery Act and our statement, including further information on our activity to mitigate risks related to modern slavery, can be found on our website: www.tggplc.com/modern-slavery.

We also have a detailed Anti-Bribery and Corruption Policy, which is available to all employees via our intranet.





CASE STUDY

BUILDING A REWARDING CAREER

Isla McIntosh, Construction Manager, tells us about her career journey at The Gym Group and the incredible support she received.

I started working for The Gym Group in Edinburgh City Centre back in 2013 as a Personal Trainer. I love working in the fitness industry and with my passion and drive to develop, I naturally moved on to an Assistant General Manager role in the same gym. I love the company, the ethos, and the wider team at The Gym Group.

With training and support from my manager and regional manager, I was promoted to General Manager at the new Edinburgh Murrayfield Gym. During the

fit-out, I had an opportunity to be involved with the contractors on-site, and found managing these partnerships and the construction aspect of the job really interesting. Expressing my interest, I was able to shadow project managers in their daily job and learned more about development practices. This led to me successfully moving into a role within the Property team.

To support my role, I studied a Master's Degree in Project Management in Construction at Edinburgh Napier University, which The Gym Group supported financially. In July 2021, an opportunity came up within the Property team and I've now been in my role as

Construction Manager for a little over six months and I'm loving it! My next educational journey is already lined up as I am working towards becoming a chartered member of RICS over the next few years.



My career achievements were only possible with the support of my employer.

ISLA MCINTOSH

GOOD HEALTH AND WELLBEING



Social value

+31%

in 2021 compared with 2020

70%

of social value generated in our gyms by our members through exercise comes from direct NHS cost savings and mental wellbeing benefits to our members



Social value is a reflection of the positive contribution our business is making to the communities we operate in. It is aligned with our purpose and with our commercial success.

Our approach

Regular physical activity benefits both the body and mind. It can reduce symptoms of depression and anxiety as well as contribute to preventing and managing a host of health conditions, including cardiovascular diseases, cancer and diabetes. Throughout 2021, the persistence of the COVID-19 pandemic and the continuation of government restrictions, has highlighted the crucial importance of exercise for both mental and physical health.

Our purpose at The Gym Group is to break down barriers to fitness for all. Through the provision of affordable, high-quality, safe, 24/7 facilities and a wide-ranging and growing gym network, we are breaking down those barriers to fitness. In doing so, we are supporting the UK Government's vision to get the nation active and directly contribute to target 3.4 of Sustainable Development Goal 3 – Good Health and Wellbeing: to reduce premature mortality and promote mental health and wellbeing.

Staying true to our purpose, we launched a Group-wide initiative to identify the physical and perceived barriers that may prevent people from either becoming members of, or working at, The Gym Group. This insight will inform how we work to become ever more accessible and is discussed on page 39, within the Diversity and Equal Opportunity section.

The social impact of The Gym Group

Building on our work in 2020, we once again commissioned 4Global, a UK-based data, services and software company, to determine the social impact of our business over the previous five years. This involved using a model created by Sheffield Hallam University that determines the social value to communities created through regular exercise. The methodology (see diagram opposite) was updated in 2021 to reflect the latest scientific research and is used extensively by Sport England, local authorities and the UK Government.

As a result of national restrictions, our gyms were closed for extended periods in both 2020 and 2021, causing a significant reduction of social value in both years. Despite this, we were able to grow social value by 31% in 2021 and are aiming in 2022 to exceed the £700 million generated in 2019.

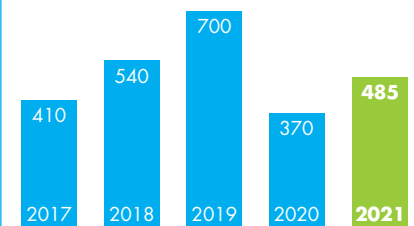
70% of the social value generated in our gyms by our members through exercise comes from direct NHS cost savings and mental wellbeing benefits to our members.

As a business, we are dedicated to generating social value and therefore have introduced a new KPI for the Executive Committee, with the core purpose of driving social value. The performance measure is linked to executive pay and is based on the percentage of members who visit our gyms at least four times a month and thereby contribute to the social value generated in our gyms. This KPI is aligned with our members' motivation for joining our gyms and will be a Group-wide initiative. Our target for 2022 is to return to pre-COVID levels.

One of the major factors in social value generation is the socio-economic status of our members. Individuals from more deprived communities are more likely to suffer from chronic conditions and therefore the social benefit to keeping these members active will be more significant. With 19 new gyms opening during 2021, 32% of The Gym Group's estate continues to be located in the 20% most deprived areas in the UK – reinforcing our commitment to tackling inactivity in disadvantaged communities.

Social value generated by The Gym Group in the past five years (£m)

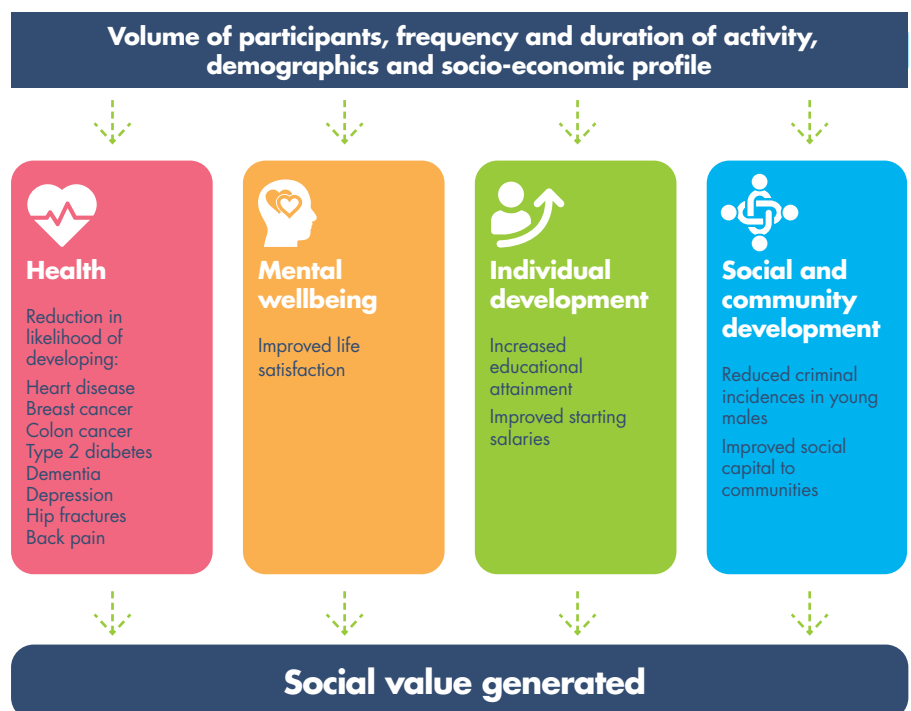
£2.5bn



Social value generated in 2021 (£m)

£485m

The Social Value Calculator Model



STRATEGIC REPORT

SUSTAINABILITY REPORT CONTINUED

Access to our gyms

Making gyms accessible is central to our purpose at The Gym Group. Our network of over 200 operating sites in the UK affords access to 49.5% of the UK population. Our 24/7 operation allows members to use the gym when it suits their lifestyle. The average monthly headline rate of £19.27 makes The Gym Group the best value, high-quality proposition in the market, and with our 'no contract' model, members need only pay for the months they intend to use the gym.

Our 2021 programme on identifying and removing further barriers that may prevent individuals from accessing our gyms is described on page 39.

Safety at our gyms

The safety of our members and staff is 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 compliant and mitigate risk, whilst remaining functional and easy to use. Our external health and safety auditors deliver a consistent and transparent review of performance at site level, including the physical safety of equipment and facilities, as well as audits of our wider safety and building maintenance systems.

Our main objective in 2021 was to improve central visibility of health, safety and compliance across the Group, and produce improved data and reporting to support ongoing, focused risk reviews. We launched our digital health, safety and compliance portal which provides central visibility of compliance, as well as advanced reporting and management data to support us in quickly identifying and responding to health and safety trends. With this new set of data we can initiate detailed risk reviews and set clear actions which will have a positive impact on overall accident frequencies. We aim to reduce accident frequencies in 2022 by focusing on areas where we see opportunity to improve risk mitigation.

During the year we also appointed Wakefield Council as our Primary Authority partner to provide regulatory advice on our health and safety management system and liaise with other enforcing and regulatory bodies across the UK. The Council benefits from extensive experience in dealing with other multi-site leisure companies and large national supermarkets.

In 2022, we will continue to develop our health and safety management system with an aim to conform to ISO 45001, the international health and safety standard. Certifying our management system to ISO 45001 will provide the business with another layer of reassurance that our health and safety processes, procedures and culture are effective and, where they are not, ensure they are challenged and reviewed.

Our network affords access to

49.5%

of the UK population

32%

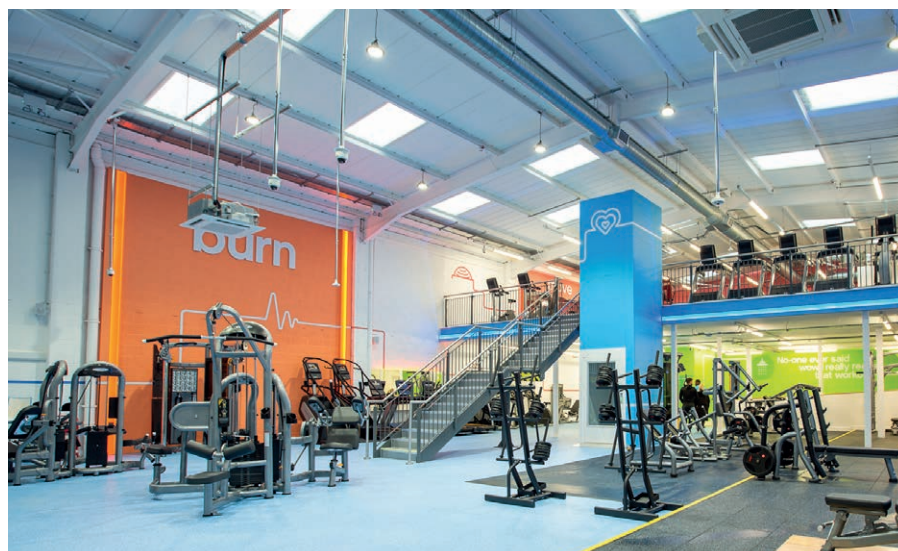
of our estate in the 20% most deprived areas of the UK

Our average health and safety audit result for 2021 was

97%



Our main health and safety objective in 2021 was to improve central visibility and compliance across the Group and produce improved data and reporting to support ongoing, focused risk reviews.





DIVERSITY AND EQUAL OPPORTUNITY



Reduced Gender Pay Gap to

1.62%

Aiming for

50/50

gender balance by

2030

(2021: 29.2% FEMALE)



We want our staff and members to be reflective of the diversity of the local communities in which we operate.

Our approach

Equality, diversity and inclusion remain fundamental to our culture, values and decision-making. We are committed to achieving our purpose of breaking down barriers to fitness for all and ensuring that The Gym Group is a place where everyone is welcomed, accepted for who they are, and has equal opportunities to succeed. To truly achieve this, it is vital for us to understand the barriers that exist within our business.

Our Diversity & Inclusion strategy focuses our actions on three core pillars: Insights, Talents and Culture. By delivering our strategy, we are contributing to SDG 5 - Gender Equality, and SDG 10 - Reduced Inequalities.

Collaboration is an important part of our culture and we remain active members of Women in Hospitality, Travel and Leisure ('WiHTL'), regularly contributing to cross-industry discussions and initiatives. In addition, as signatories of the Business in the Community Race at Work Charter, we continue with our commitment to its five 'calls-to-action' for businesses to prioritise activity on race and improve equality of opportunity in the workplace. Our Chief Sustainability and Development Officer, David Melhuish, was recognised as an Inclusive Leader within the 2021 Role Models for Inclusion Index from WiHTL and The MBS Group, demonstrating our leadership commitment. Colleagues from The Gym Group were also featured within their Women to Watch Index.

In relation to wellbeing and flexible working, we were shortlisted for two Top Employer Awards through WM People, one for Best in Flexible Working and the other for Best in Mental Health, demonstrating external recognition of our progress in these areas.

Inclusion at The Gym Group

At the end of 2020, we launched our Diversity and Inclusion Manifesto, providing transparency on our commitments to improving diversity, inclusion and equality within the business. Our Executive Committee pledged their personal commitment and accountability to this agenda by signing The Gym Group Equality, Diversity and Inclusion Pledge, which sets out the principles, ambitions, and targets for 2021. We have made great strides towards the actions in our 2021 pledge and have stretched our 2022 targets to highlight our longer-term goals for improved inclusion and diversity at The Gym Group.

On page 41 we set out where we are currently in relation to the targets set in 2021 and our targets for 2022 to 2030.

Despite the challenges of the pandemic and the temporary closure of our gyms, we remained committed to staying connected, driving inclusion and wellbeing, and improving flexibility. We are proud to have launched our 'Inclusive Workspace' for our gym support colleagues, which has cemented our new flexible approach to working – creating an environment of trust, work/life balance and a culture where people can perform at their best.

In January and March 2021, we launched our lockdown-focused Reset & Recharge ('R&R') programme, providing employees with weekly social and wellbeing activities to energise and connect teams ready for returning to the office and gyms.

In addition, we were proud to provide colleagues with diversity and inclusion and unconscious bias training. As we build an inclusive and diverse workforce, we continue to deliver communications supporting national awareness events to raise the profile and discussions around inclusion and share examples of how our teams are driving diversity and inclusion within their gyms.

Identifying barriers

In 2021, our Chief Development and Sustainability Officer, David Melhuish, was appointed our Executive sponsor for the Diversity & Inclusion Group, and has played a crucial role in raising the agenda for discussions and positive action on diversity. In 2021, the group launched a project focused on identifying the barriers that exist for both employees and members at The Gym Group.

Workstreams formed of colleagues from across the business focused on identifying the barriers that exist across five areas of diversity: age, cultural diversity, disability, gender and LGBTQI+. The research identified a number of barriers and potential solutions to support us in achieving our purpose of breaking down barriers to fitness for all. Key themes identified were around Perception of the Gym Sector, Accessibility, Gymtimidation, Visibility & Representation, and Education & Understanding. Moving forward, our workstreams will continue to raise awareness and work as ambassadors for diversity and inclusion.

In response to some of the key barriers highlighted, we introduced several new policies during 2021: our Dignity at The Gym Policy, Transgender Inclusion Policy and Transition Action Plan, and Menopause Policy. In addition, we have begun delivering informal training sessions with our gym managers to encourage discussions on how to facilitate inclusive environments in the gym.

For 2022, we will review the information and recommendations collected from this research and the insights provided will inform our diversity and inclusion plans going forward.

Our five areas of diversity





CASE STUDY

SUPPORT AT THE GYM GROUP

Caroline and Natacha, and their care worker Rachel, tell us about the support they have received since joining The Gym Group in 2021.

'Lockdown was an extremely tough time for us mentally due to being stuck indoors at home. We wanted to find fun activities in an environment that felt safe. Since joining The Gym Group, Paul (Assistant Manager at Exeter Marsh Barton) has taught us how to adapt and push through any barriers, teaching us to try new things and educating us and our carers on safe and effective use of the equipment. We get fitter and stronger week by week; we have fun every time we visit and get the support to push ourselves safely. The staff at The Gym Group have been incredibly supportive since day one, finding ways to enable us to

do things we wouldn't normally try. Paul's willingness to learn and communicate with us through sign and the level of interaction we receive, you just wouldn't get anywhere else!'

– Caroline and Natacha.

Rachel adds: "The care agency researched and visited every gym in the area to assess which gym would offer the best personal service. After speaking to various managers and visiting every gym in the area, Paul was highly recommended by our staff. The personalised attention at The Gym Group is just one of a kind. Natacha and Caroline get full attention every time they visit and we have never received this level of attention anywhere else."



I feel stronger, fitter and happier. The Gym Group has given us a place to feel safe.

NATACHA



The Gym Group gives us something to focus on and look forward to each week.

CAROLINE

Equality, Diversity & Inclusion Pledge 2022 – 2023

We would like our staff and members to be reflective of the diversity of the local communities in which we operate. And we aspire to achieve a gender, balanced workforce by 2030 and for our senior leaders to be 40% female by 2025. Below we state our performance against this target over the past three years. We will continue to take positive action to address gender balance and report monthly to the Board of Directors on our progress.

We promoted the importance of capturing ethnicity data during the course of the year and significantly increased the employee population identifying their ethnicity. Our population identifying as ethnically white has increased by 2.7% but remains below the UK average in both gym support and operational groups.

Gender pay gap

The fitness sector has historically struggled to attract women which we have addressed through our Diversity & Inclusion Manifesto and Pledge, brand awareness, improved standardised recruitment practices, unconscious bias training and targeted recruitment strategies.

We are pleased to have achieved a reduction in our mean gender pay gap from 5.48% in 2020 to 1.62% in 2021. Our median gender pay gap has also reduced since last year. The majority of our employees undertake the same role, and are therefore on the same pay rate, regardless of whether they are male or female.

Ethnicity pay gap

Throughout 2021, we continued to collect and record ethnicity data for our workforce, and we are pleased to see that our colleagues feel increasingly comfortable with sharing this information with us.

For the first time, we have chosen to report on our ethnicity pay gap. Our mean ethnicity pay gap as of April 2021 is 16% and our median ethnicity pay gap is 0%.

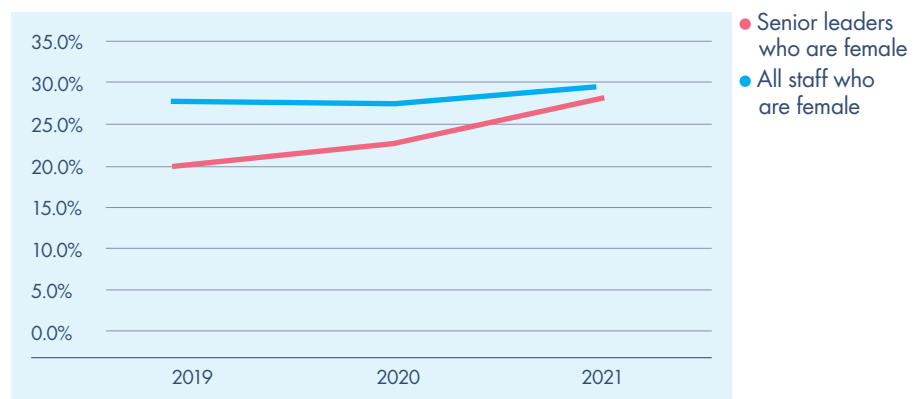
We recognise we have to make progress in addressing this gap and during 2022 we will focus on actions to reduce this.

Our full ethnicity and gender pay gap reports provide further detail on our figures and the actions we are taking to address this and are available on our website www.tggplc.com.

Performance against our 2021 EDI Pledge

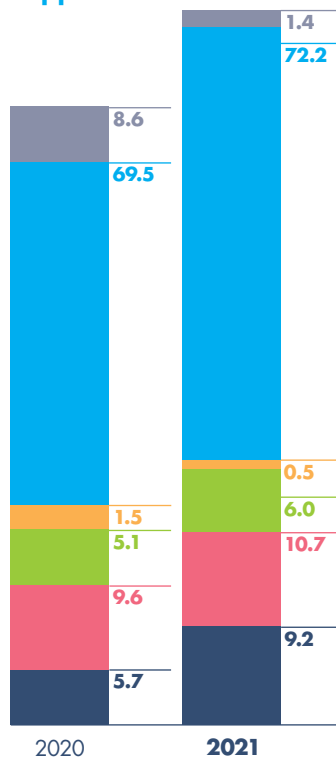
	2021 target %	2021 actual %
Senior leaders from UK ethnic minority groups	15	16.1
Senior leaders who are female	25	27.4
Members from our operations team who are from UK ethnic minority groups	30	29
Members from our operations team who are female	30	28.4

Addressing gender balance

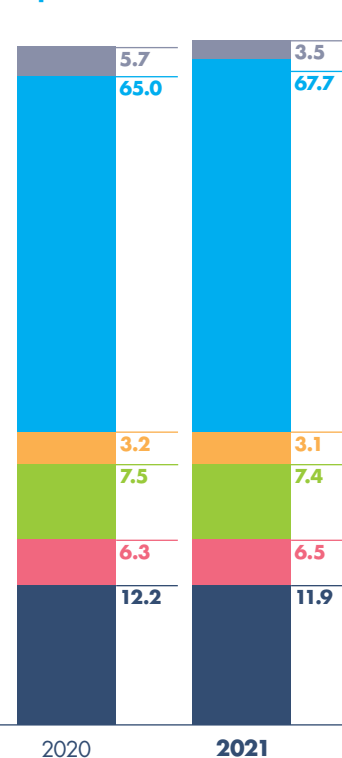


Capturing ethnicity data

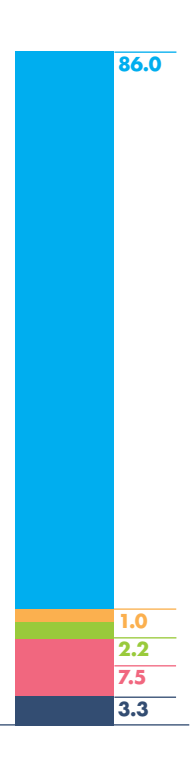
Gym Support %



Gym Operations %



UK 2011 Census %



● Black, African, Caribbean ● Asian ● Mixed ● Other ● White ● Not disclosed

RESPONSIBILITY TO THE ENVIRONMENT



Purchasing

100%
renewable energy

95%
of waste diverted
from landfill

Carbon neutral since

2021



Our responsibility to the environment is a significant way in which we align and contribute to the sustainable development goals.

Our approach

Climate change is the most pressing challenge of our time, and beyond the potential financial impact this could have on our business in the longer-term, it threatens our ability to provide accessible fitness for all. 2021 saw COP26 conclude with nearly 200 countries signing the Glasgow Climate Pact, which renews their commitment to meet the Paris Agreement and limit global warming to 1.5°C through collective action. We recognise the importance of this commitment and the individual responsibility of each and every one of us to achieve this goal. The Gym Group is committed to championing environmental action and welcomes the UK's net zero Strategy and Ten Point Plan for a Green Industrial Revolution.

We will take a proactive, strategic approach to reducing our environmental impacts by leading the way within the health and fitness sector. We continue to reduce our carbon emissions and environmental impact and are investing in the energy-efficient design of our new sites, as well as investing in our existing estate with schemes such as extending the use of air source heat pumps for hot water generation. We are also working to reduce waste from our operations and improve the operational efficiencies of our gyms, however, we continue to face the challenge of increased cleaning regimes due to COVID-19.

Our responsibility to the environment is a significant way in which we align and contribute to the Sustainable Development Goals. Our efforts to procure renewable energy and increase the energy efficiency of our gyms align with SDG 7 – Affordable and Clean Energy; our efforts to reduce waste align with SDG 12 – Responsible Production and Consumption; and our approach to address our carbon risk aligns with SDG 13 – Taking Urgent Action to Combat Climate Change.

Climate and carbon

The world is facing a critical moment in tackling climate change. As a multi-site operator with over 200 gyms across the UK, we have an obligation to our stakeholders to minimise the impact of our operations. Our most significant carbon impact comes from the energy we use in our gyms.

We are proud to have procured 100% renewable energy since October 2019 for all of our sites where we directly control the purchase of energy. In doing so, we are directly contributing to SDG target 7.2 ('By 2030, increase substantially the share of renewable energy in the global energy mix')¹. In 2021, the renewable fuel mix of our power supplier is certified by EcoAct. We acknowledge that we are on a journey towards net-zero and are committed to taking action to reduce our emissions whilst understanding and managing the risks posed by climate change.

Our carbon emissions through electrical power consumption will reduce with the decarbonisation of the National Grid and natural gas will eventually become our principal source of direct carbon emission. We now have 13 sites operating successfully without gas for water heating and are continuing to roll out electric heat pumps to obviate the requirement for gas.

We understand that as our business grows in terms of the number of sites and members, our emissions will also grow. This will require a comprehensive approach towards maintaining progress to meet our net-zero target.

Committed to achieving

NET-ZERO

carbon by 2035

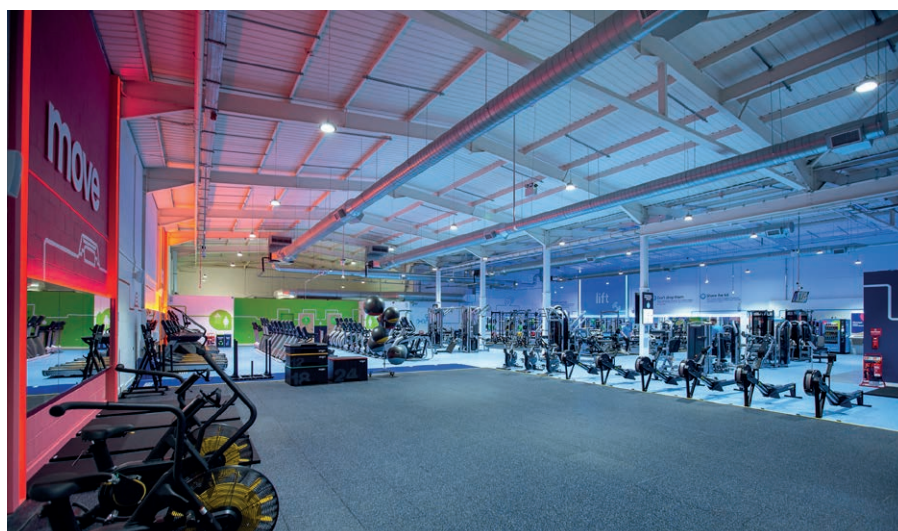
50%

reduction in emissions
by 2030¹



SCIENCE
BASED
TARGETS

BUSINESS
AMBITION FOR 1.5°C



¹ Compared to 2019 on a like-for-like basis of operating estate.

STRATEGIC REPORT

SUSTAINABILITY REPORT CONTINUED

We commissioned site-level energy audits at five sample sites in 2021 to identify potential energy reduction initiatives that might be applied across the estate. The uniformity of our estate enables opportunities to be realised in multiple locations when identified in a typical sample. There were no new issues identified and we continue with our programme of upgrading and networking building control systems as the main driver for energy reduction. Our strategy of delivering energy efficiency by exemplary design and high-quality maintenance of services remains in place. 95% of our gyms now have full LED lighting with the remaining ten sites programmed for conversion in 2022.

We have now submitted our net-zero commitment to the Science Based Target initiative ('SBTi'), joined the Business Ambition for 1.5°C and the UN Race to Zero. In line with SBTi requirements we are developing our pathway with a near-term target of 50% reduction in baseline emissions before 2030¹, and a long-term target of net-zero by 2035.

We have also chosen to offset emissions on our journey to net-zero and have become the UK's first carbon neutral gym chain. Our carbon offset projects are carefully chosen and certified by internationally recognised bodies:



The UK's first carbon neutral gym chain

1 Compared to 2019 on a like-for-like basis of operating estate.

Offsetting project

Community reforestation, Ghana:


The project is restoring degraded forest reserves in Ghana with teak, indigenous trees and natural forest in riparian buffer zones, following the principles and criteria of the Forest Stewardship Council ('FSC'). The areas have been degraded due to overexploitation, bush fires and conversion to agriculture. The project works closely with local farmers, some of whom are employed by the project and others are able to grow crops, via intercropping, within the reforested area, benefitting from the improved soil conditions.

A group of people, including men and women, are standing in a lush green forest. Some are looking at a small tree in the foreground, while others are looking towards the camera. The forest appears to be a mix of natural growth and planted trees.

Location	Certification
Ghana	Verified Carbon Standard

Efficient cookstoves; creating jobs and transforming lives

In Ghana, more than 80% of the population use solid fuels for cooking. The project introduces a more efficient cookstove which cooks food more quickly and requires 46% less fuel and is less smoky - cutting carbon emissions and reducing exposure to toxic fumes. Cutting fuel requirements saves families as much as \$100 annually, at the same time protecting Ghana's forests.

A woman wearing a white headscarf and a patterned dress is sitting on a stool, cooking with a large metal pot on a traditional wood-burning cookstove. She is holding a wooden spoon and stirring the contents of the pot. The background shows a simple building and some outdoor items.

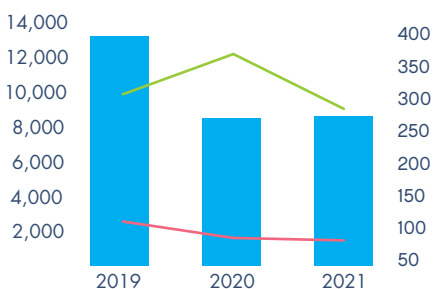
Ghana	Gold Standard
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Carbon emissions

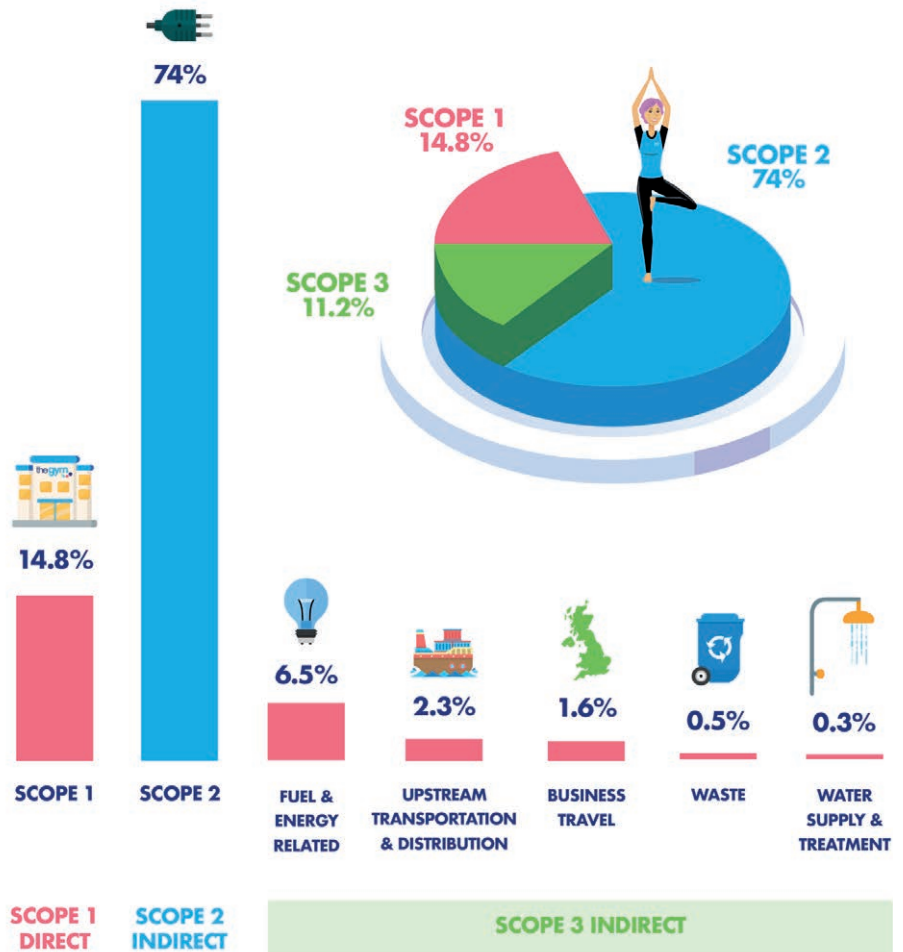
Carbon emissions for the year ending on 31 December 2021 have been measured as required under the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013. In 2021, we further developed our carbon auditing process to understand our Scope 1, 2 and 3 emissions and set our ambitious target to achieve net zero carbon emissions by 2035. The main activity which creates carbon emissions for The Gym Group is the purchase and use of gas and electricity to power our gyms. We have also re-stated our Scope 3 emissions for 2019 and 2020 to increase the boundary in line with 2021 data to include emissions from water use, business travel, waste and upstream transportation. We have used the Greenhouse Gas ('GHG') Protocol Corporate Accounting and Reporting Standards (revised edition 2015) and data gathered to fulfil the requirements under the Carbon Reduction Commitment Energy Efficiency scheme to calculate the disclosures.

Due to the closure periods as a result of the restrictions from the COVID-19 pandemic, our overall energy consumption and subsequent emissions appear lower than previous years. However, to ensure fair and balanced reporting we have included comparative carbon intensity metrics of tCO₂e per trading gym and, tCO₂e per million-member visits.

Total Emissions and Intensity Metrics



- Total emissions
- Intensity metric tCO₂e per million member visit
- Intensity metric¹ tCO₂e per gym



Total emissions (tCO ₂ e)	2019	2020	2021
Direct Emissions from Operation (Scope 1)	2,035	1,602	1,282
Purchased Electricity and Heat (Scope 2)	9,544	5,895	6,420
Indirect Emissions in Value Chain (Scope 3)	1,629	1,088	978
Total Emissions (tCO₂e)	13,208	8,585	8,680
% Change from base year		-35%	-34%
Intensity Metric ¹ (tCO ₂ e per gym)	74	47	43
% Change from base year		-37%	-42%
Intensity Metric (tCO ₂ e per million member visit)	283	349	259
% Change from base year		23%	-9%

Total consumption (kwh)	2019	2020	2021
Scope 1 (Gas)	11,071,196	8,710,907	6,999,558
Scope 2 (Electricity)	34,409,373	25,272,315	30,216,391
Scope 2 (Heat)	10,907	18,405	22,450
Total (kWh)	45,491,477	34,001,627	37,238,399

STRATEGIC REPORT

SUSTAINABILITY REPORT CONTINUED

Waste

In 2021, we reduced our waste to landfill from 10% in 2020 to 5% in 2021.

Due to a mixture of increased trading days in 2021 compared to 2020 and new gym openings, waste collection increased by 105%. This presents an area for environmental performance improvement and we will continue to drive down waste consumption.

'Blue roll' is still the major contributor to the increased volumes as we continue to ensure the highest cleaning and hygiene standards are maintained in our gyms at all times. We are exploring how we can reduce the use of blue roll through new dispensers and the quantity of dispensers in each gym, but only as and when it is safe to do so. Blue roll is considered a recyclable product but is not recyclable when sprays are added to it. This has resulted in a larger volume of waste categorised as general waste with the subsequent material being diverted to waste-to-energy.

Landfill diversion 2020

No. of Gyms serviced

128

Percentage increase

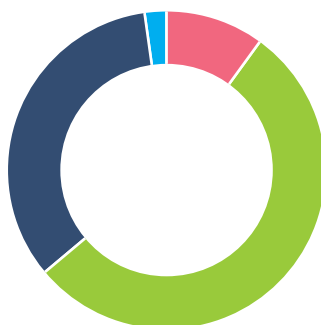
N/A

Percentage of estate

70%

Total tonnage collected

443



- Landfill 10%
- Recycled 54%
- Waste-to-energy 34%
- Anaerobic digestion 2%

Average Tonnes per gym

3.5

Landfill diversion 2021

No. of Gyms serviced

157

Percentage increase
(vs 2020)

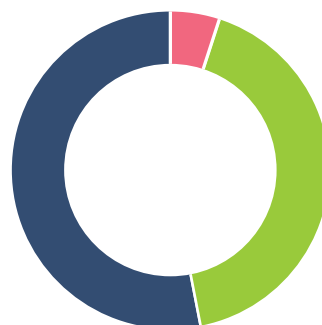
23%

Percentage of estate

77%

Total tonnage collected

942



- Landfill 5%
- Recycled 42%
- Waste-to-energy 53%
- Anaerobic digestion 0%

Average Tonnes per gym

6.0

Water

The use of water at our sites is typically confined to shower, toilet, washbasin and cleaning requirements. All taps and showers are either non-convulsive or electronic for timed operation, reducing misuse and waste.

Prior to the pandemic, we operated a small number of saunas and steam rooms, located in acquired gyms. The facilities were closed due to COVID-19 pandemic restrictions and have been fully decommissioned except at one location. We do not operate swimming pools or other similar 'wet' facilities.

During 2021, we carried out site water auditing across all gyms to provide insight into how water is used across the estate, to identify wastage, and to initiate a monitoring and targeting programme. Whilst our data of historical water consumption does not present a holistic yearly picture for reporting, we now have systems in place to collect water data and we will report on water consumption moving forward. This will allow us to better monitor and manage our water consumption and therefore reduce the environmental impact from our resources.





CASE STUDY

LOW CARBON GYM EXPANSION

Newton Abbot Gym

Newton Abbot is a small market town located between the edge of Dartmoor and Torquay, with a population of just 27,000 people. Previously, this would not be a typical location for a low cost gym operation; however, development in our smaller format model and improvements in operational efficiency enabled us to open a new 8,500sq.ft gym in the town in 2021.

The property identified had been unoccupied for several years, was in poor condition and had a varied history, being used for car sales and more recently by a carpet and flooring distributor.

When we took on the building it was in a poor state of repair, with roof leaks, damp and some structural issues. We were able to significantly invest into the building fabric to

bring it up to modern standards, transforming a long-unloved dilapidated building. The works included the removal of asbestos, overhauling and insulating roofs, repairing a failed wall bounding a river and resurfacing the car park, to name a few of the enabling works.

Once the building fabric was brought up to standard, we then applied our 'best-in-class' mechanical and electrical systems, including high efficiency air-conditioning and ventilation systems, with smart control systems to best manage the flow of fresh air and the internal temperature.

Being able to reuse, reduce and recycle is key to our approach:

- We reuse the condensate water from our A/C systems to flush toilets;

- We reduce our energy consumption by using high efficiency LEDs for lighting;
- We use heat created from cooling and recycle it to heat water for showers

In addition to the repurposing and regeneration of the building, this site has created a facility that the community did not previously have access to. An affordable, accessible and high quality gym environment that didn't exist in the locality before, breaking down barriers to fitness for many in the town.

It is estimated that member participation at the gym will create between £1.5 million and £2.0 million of social value directly into the community each year.

STRATEGIC REPORT

SUSTAINABILITY REPORT CONTINUED
TASK FORCE ON CLIMATE-RELATED FINANCIAL DISCLOSURES

At The Gym Group, we are committed to tackling both the immediate and long-term impacts of climate change on our business and the people we serve.

We are responding by embracing the Task Force on Climate-Related Financial Disclosures ('TCFD') and developing our disclosures in line with the Task Force's recommendations across four thematic areas: governance, strategy, risk management, and metrics and targets.

The recommendations support the identification and assessment of our climate-related risks and opportunities; informing how we respond to the physical risks of climate change and the transition risks associated with the UK progressing to a low-carbon economy. These recommendations will also aid our strategy to achieve our target of net-zero carbon by 2035 with an aim of a 50% reduction in emissions by 2030¹, from a 2019 baseline. This is our first year reporting against the TCFD disclosures and recommendations, and we will continue to refine and develop our approach as we progress our understanding of our climate-related financial risks and opportunities to meet the recommendations in full.



We are proud to have procured 100% renewable energy since October 2019 for all of our sites where we directly control the purchase of energy. In doing so, we are directly contributing to SDG target 7.2.

TCFD governance

The Gym Group Board and Executive Committee are fully committed to identifying and addressing the immediate and longer-term risks that climate change poses to our business. In 2021, we strengthened our approach to the governance of climate-related risks and opportunities through the establishment of a new Sustainability Committee ('Committee'), chaired by Non-Executive Director Wais Shaifta, reporting directly to the Board. Climate-related risks and opportunities will be a standing agenda item for the Committee, and through the Committee, regular Board level governance of climate-related issues is provided. To further bolster our climate change governance, our Chief Development and Sustainability Officer, David Melhuish, has taken on responsibility for sustainability and now leads the management and oversight of the Group's response to carbon.

Through the Committee and our focused ESG workstream we will incorporate financial impact assessments of the risks and opportunities identified.

TCFD strategy

We position the environment as a key stakeholder alongside shareholders, employees, members, suppliers, communities, and lending banks. As a business, we have pledged to become net-zero by 2035 and submitted our net-zero strategy to SBTi. Responding to the risks and opportunities from climate change and the transition to a low carbon economy is therefore a clear priority. Our process to managing climate risks is embedded within 'Responsibility to the Environment', a core pillar of our strategic approach to sustainability. We are working collaboratively with our key stakeholders to both enhance the resilience of our business against climate-related risks and maximise the opportunities that arise with a transition to net-zero.

TCFD risk management

Our risk management process has been developed in line with our TCFD Scenario Analysis Report, ensuring our processes are informed by robust climate science. This allows us to credibly identify, evaluate and mitigate risks to the business. In line with TCFD disclosure recommendations, we have identified and assessed our climate-related financial risks against two recognised climate scenarios, known as representative concentration pathways ('RCP's'), RCP 4.5 and RCP 8.5: a 2°C scenario and a 4°C scenario. We have selected two scenarios, as defined by the Intergovernmental Panel on Climate Change ('IPCC'), to present a sharp contrast between potential futures and allow for a comprehensive assessment of risks and opportunities.

Climate scenario	Definition
RCP 4.5	The 2°C climate scenario, represented by RCP 4.5, describes a pathway of moderate to high emission mitigation, reflecting a transition to a lower carbon economy.
RCP 8.5	The 4°C climate scenario, represented by RCP 8.5, describes a pathway where greenhouse gas emissions continue to grow unmitigated.

We assess climate-related risks through our TCFD Risk Register, and communicate the findings to our Management team, Executive Committee, and the Board. The Risk Register facilitates a robust assessment of the current and future business impact of climate-related physical and transition risks and opportunities, identified through our climate scenario analysis, over short (2030), medium (2050), and long-term (2080) timeframes. This allows the business to identify and prioritise the most significant risks and inform our planning for current and future risk mitigation. Risks and opportunities are reviewed regularly in line with evolving policy, forthcoming legislation, and the latest climate science.

¹ Compared to 2019 on a like-for-like basis of operating estate.

Metrics and targets

As a business, we are committed to significantly reducing our carbon emissions. We measure, monitor and disclose the annual greenhouse gas emissions intensity metrics per gym and per million member visits to measure and

accelerate our progress on our target to be net-zero by 2035. Refer to the 'climate and carbon' sub-section of the 'Responsibility to the Environment' section on pages 42 to 47 for further information on our disclosure of climate-related metrics and targets.

The table below provides references to the Annual Report and Accounts 2021 sections containing the relevant information on the internal processes in place to address each of the 11 TCFD recommended disclosures.

Disclosure recommendation	Section reference	Page
Governance		
a) Describe the Board's oversight of climate-related risks and opportunities	Sustainability Report – Responsibility to the Environment – Taskforce on Climate-related financial disclosures ('TCFD governance') Strategic Report – Sustainability Governance Governance – Report of the Sustainability Committee	Page 48 Page 29 Page 85
b) Describe management's role in assessing and managing climate-related risks and opportunities	Sustainability Report – Responsibility to the Environment – Taskforce on Climate-related financial disclosures Governance – Report of the Sustainability Committee	Page 48 Page 85
Strategy		
a) Describe the climate-related risks and opportunities the organisation has identified over the short, medium and long-term	Sustainability Report – Responsibility to the Environment – Taskforce on Climate-related financial disclosures	Page 48
b) Describe the impact of climate-related risks and opportunities on the organisation's businesses, strategy and financial planning	Sustainability Report – Responsibility to the Environment – Taskforce on Climate-related financial disclosures Strategic Report – Strategy in Action	Page 48 Page 19
c) Describe the resilience of the organisation's strategy, taking into consideration different future climate scenarios, including a 2°C or lower scenario	Sustainability Report – Responsibility to the Environment – Taskforce on Climate-related financial disclosures	Page 48
Risk		
a) Describe the organisation's processes for identifying and assessing climate-related risks	Sustainability Report – Responsibility to the Environment – Taskforce on Climate-related financial disclosures Strategic Report - Principal Risks and Uncertainties	Page 48 Pages 62-68
b) Describe the organisation's processes for managing climate-related risks	Sustainability Report – Responsibility to the Environment – Taskforce on Climate-related financial disclosures Strategic Report – Principal Risks and Uncertainties	Page 48 Pages 62-68
c) Describe how processes for identifying, assessing and managing climate-related risks are integrated into the organisation's overall risk management	Sustainability Report – Responsibility to the Environment – Taskforce on Climate-related financial disclosures Strategic Report – Principal Risks and Uncertainties	Page 48 Pages 62-68
Metrics		
a) Disclose the metrics used by the organisation to assess climate-related risks and opportunities	Sustainability Report – Responsibility to the Environment – Climate and carbon	Pages 43-45
b) Disclose Scope 1, Scope 2 and, if appropriate, Scope 3 greenhouse gas emissions and the related risks	Sustainability Report – Responsibility to the Environment – Climate and carbon: Carbon emissions	Page 45
c) Describe the targets used by the organisation to manage climate-related risks and opportunities and performance against targets	Sustainability Report – Responsibility to the Environment – Climate and carbon	Pages 43-45

NON-FINANCIAL INFORMATION

The table opposite 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	28-49	Our environmental strategy is set out on page 43.
Employees	Sustainability Report	28-49	The Group 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 and inclusivity policies and all work-related policies, are available to all employees on the intranet.
	Chief Executive's Statement	08-13	
	Principal Risks and Uncertainties – Our people	65	
Human rights	Sustainability Report	28-49	It is prohibited for any employee or person working on our behalf to offer, give, request or accept any bribe. The Group has an Anti-Bribery and Corruption Policy which sets out the relevant procedures, as described on page 32. The Company also has a Whistleblowing Policy.
	Modern Slavery Statement		
Social matters	Sustainability Report	28-49	Our approach to diversity and equal opportunity and promoting wellbeing are set out on pages 38 to 41. Our Diversity and Inclusion Manifesto can be found on our website at www.tggplc.com
Business model	Business Model	02	An explanation of the Group's business model can be found on page 02.
Principal risks	Principal Risks and Uncertainties	62-69	The Board has a process for considering the principal risks as set out on page 62.
Non-Financial KPIs	Key Performance Indicators	26	The Board approves relevant KPIs for use in the Strategic Report, as on page 26.
Relationships with suppliers, members and others	Stakeholder Information	52-55	The Company has a number of policies and procedures underpinning its commitment to high standards of business conduct, which are available to all staff on the intranet.

STAYING ENGAGED



Working with our stakeholders

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, balancing the interests of our stakeholders. 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 ongoing disruption of the COVID-19 pandemic has required us to work more closely with our stakeholders than ever, and we have set out in the table opposite who we consider to be our key stakeholders, some key engagement areas in 2021, the outcomes of that engagement, and examples of how our stakeholders' interests influence the way we do business. In addition to our engagement processes, we also receive and respond to feedback on an ongoing basis regarding issues relevant to stakeholders, and consider how we can ensure they are kept updated on issues that are relevant to them. Where appropriate, we use this feedback to inform content of the Annual Report and Accounts 2021.

The Board has reserved certain matters for its own decision and these can be found on our website. For more information on Board decision making, see pages 75 to 78.

How we consider our stakeholders

Since the outbreak of COVID-19 in the UK in March 2020, we have kept our key stakeholder groups updated with information regarding the actions we are taking and how it affects them. We have also considered the interests of stakeholder groups in our decision-making and actions throughout the pandemic. We have included details of our stakeholder groups, the Board's activities in 2021 and the outcomes of engagement in the table opposite, including where the action taken was related to disruption from the COVID-19 pandemic.

Who they are and why they matter	What matters to them	How we engaged during 2021	Outcomes of that engagement	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, and measures taken to mitigate the financial impact of COVID-19 Opportunities for engagement with management Remuneration Policy Information on ESG performance 	<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 reports from brokers on market trends; Reporting to the Board as a whole on investor matters; Preparation of investor materials. <p>In 2021, the Chair of the Remuneration Committee met with many of our top shareholders to discuss their views on the proposals contained in the Company's new Remuneration Policy.</p>	<p>We provided information and regular updates on our response to COVID-19 to our shareholders throughout the year, issuing market updates and press releases in addition to the normal results cycle updates.</p> <p>Our shareholders supported us in the equity placing in July 2021 in which we issued a further 11,350,000 shares to accelerate the roll-out of new sites.</p> <p>The Board did not recommend any dividends in respect of the financial year 2020 and does not recommend any in respect of financial year 2021 either.</p> <p>We have made further progress in ESG reporting by establishing a Sustainability Committee to further strengthen our governance around our sustainability commitment.</p>	<p>The Board is kept informed of all responses received as part of shareholder consultations by management and the brokers.</p> <p>The Board's 2021 dividend position can be found on page 60.</p> <p>The Board welcomes questions from our shareholders at our Annual General Meeting ('AGM'). The arrangements for our 2022 AGM will be confirmed in the 2022 Notice of Meeting. In addition, Penny Hughes, the Chair of the Board, is also available to shareholders and has met several of the Company's shareholders during the year.</p> <p>The Board has committed to ongoing improvements in sustainability reporting and our Sustainability Report can be found on pages 28 to 49 and on our website, www.tggplc.com.</p>
Employees Our employees are the driving force behind our purpose and growth. We run a people-first business and consider our unique team and culture to be a vital part of our strategy.	<ul style="list-style-type: none"> Regular, relevant, clear information Opportunities to provide feedback Opportunities to develop careers and skills Engagement with management Attractive salary and benefits, including participation in share schemes 	<p>We continued to utilise our Communications and Engagement platform CORE during furlough to support effective communication and engagement with our colleagues. We also launched our LeadWELL programme focused on personal wellbeing, resilience and empowerment.</p> <p>In addition to communications tools, our Executive Committee regularly visited our sites (when open) to update our employees on key changes and to support re-opening plans and see the COVID-19 secure protocols in action.</p> <p>We continued to deliver regular employee engagement and pulse surveys, the results of which were fed back to the Board and action plans instigated.</p> <p>Throughout 2021, we expanded our Kickstart programme and welcomed 147 trainees; a scheme supported by the UK Government to encourage 16-24 year-olds into new employment opportunities and training.</p>	<p>Our market-leading operating model for personal trainers, enabled us to furlough our Fitness Trainers when the Coronavirus Job Retention Scheme ('CJRS') was in place, providing stability for our teams.</p> <p>CORE has enabled us to launch wellbeing initiatives to support our teams affected by lockdowns and host a bespoke Wellbeing Hub for our colleagues.</p> <p>The outputs of the employee engagement surveys were considered by the Board and Executive Committee and actions identified.</p> <p>We launched a further invitation to join our Sharesave in 2021, enabling employees to share in the success of the Group. We developed our Kickstart programme to welcome more colleagues, extending opportunities for development within our Gym Support functions.</p>	<p>The Board has met regularly to consider, oversee and review progress on people-related actions.</p> <p>All Directors visit several of our sites each year and did so once sites were permitted to reopen within COVID-19 secure protocols to support our teams.</p> <p>In November 2021, we held our annual employee conference, bringing together circa 500 colleagues from across the business and enabling our Directors to engage and energise our teams.</p> <p>The Board has appointed one of its members as the Non-Executive Director who is responsible for understanding the views of the workforce and ensuring that these are fed into the Board's decision making process.</p>

STRATEGIC REPORT

STAKEHOLDER INFORMATION CONTINUED

Who they are and why they matter	What matters to them	How we engaged during 2021	Outcomes of that engagement	How the Board considers the interests of our stakeholders
<p>Members</p> <p>Satisfied 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 our purpose of breaking down barriers to fitness for all.</p>	<ul style="list-style-type: none"> Value for money: flexible, 24/7, no contract and low cost Excellent service and equipment Accessibility and inclusivity Safe and friendly environment in which to work out 	<p>When gyms were closed we kept our members updated through clear communications and we offered 'free freeze' on memberships so they didn't pay whilst gyms were closed.</p> <p>A key part of our strategy and business model is to ensure we achieve high levels of member satisfaction in our gyms. We measure this through Operations Satisfaction scores ('OSAT').</p> <p>A primary focus in 2021 has been the redevelopment of our online digital platform and website with the latter launching in spring 2022. More detail on our digital offering can be found on pages 22 to 23.</p> <p>We continue to clearly communicate our COVID-19 secure protocols on our website and in the gyms.</p> <p>Promoting wellbeing is also a key part of our Sustainability strategy as set out on pages 34 to 36.</p>	<p>All our members have access to free unlimited classes. In 2021, we launched three new studios which combine virtual and live classes.</p> <p>Despite social distancing restrictions following the re-opening, we achieved our highest ever member satisfaction OSAT score of 57%.</p> <p>Our COVID-19 secure protocols were developed in consultation with the Advanced Wellbeing Research Centre at Sheffield Hallam University and rolled out to all our sites.</p>	<p>We regularly review our member satisfaction scores at Board meetings.</p> <p>Directors use member feedback to identify ways in which our member journey can be improved or enhanced.</p> <p>The Board has overseen the technology developments, receiving reports on progress of initiatives. It considers technology a strategic priority alongside driving membership recovery, developing our member value proposition and securing a high quality pipeline of great sites for our members.</p>
<p>Suppliers</p> <p>Our partnerships with our suppliers ensures 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 in dealing with suppliers and carrying out our property management commitments Strong, listed company covenant Responsible tenants Open and clear communication 	<p>We commenced close engagement with landlords to discuss revisions to terms and payment schedules at the time of national lockdowns.</p> <p>Our strong, listed company covenant continues to be highly attractive to landlords.</p> <p>We actively manage our supplier relationships and have worked with our major suppliers through the pandemic to minimise costs and disruption.</p> <p>The Company has in place whistleblowing arrangements which enable employees to raise concerns should they suspect wrongdoing or unethical conduct.</p> <p>We publish our Payment Practices Report twice a year and it is available to download from Companies House.</p>	<p>We have received positive feedback for our practices in engagement with our landlords during the COVID-19 disruption – we conducted clear and timely discussions and demonstrated flexibility in our approach.</p> <p>We maintained helpful and positive relationships with major suppliers, including our cleaning firms, equipment suppliers, contact centre operators and vending suppliers, who all furloughed staff to ensure that contractual costs were minimised.</p> <p>We maintain our properties to a high standard, maintaining good relationships with property management companies and acting as responsible tenants.</p>	<p>The Board is committed to high standards of ethical business conduct.</p> <p>The policies and procedures relevant to business conduct are available to all employees.</p> <p>Executive Directors, on behalf of the Board, have worked with key suppliers to develop plans in accordance with business needs.</p> <p>The Board takes a zero-tolerance approach to bribery and corruption. It also reviews the Group's Modern Slavery Act Statement annually.</p>

Who they are and why they matter	What matters to them	How we engaged during 2021	Outcomes of that engagement	How the Board considers the interests of our stakeholders
Communities Being a valuable part of the communities in which we operate is hugely important to us. Providing safe and affordable facilities for exercise creates social value for the communities in which we operate	<ul style="list-style-type: none"> • Being a responsible corporate citizen • Contributing positively to the local community • Being inclusive and accessible • Supporting local and national charities 	<p>Our low price model enables fitness to be affordable for all and supports those accessing a gym for the first time.</p> <p>We have launched the Gym Group community project aimed at fundraising in the gym's local community.</p> <p>We have worked closely with local authorities to support the safe inspection of our gyms.</p>	<p>Our COVID-secure protocols were developed in consultation with Sheffield Hallam University Advanced Wellbeing Centre.</p> <p>In 2021, we launched our Equality, Diversity and Inclusion Pledge, which further enhances our diversity and inclusion commitments with targets focused on improving our gender and cultural diversity across the business and within our senior leadership teams.</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> <p>The Board's position on diversity is set out on page 80. The Board considers diversity to be a focus for succession planning.</p>
Environment We continually seek out opportunities to improve our environmental performance, including reducing our carbon emissions. Sustainability is at the core of our business.	<ul style="list-style-type: none"> • Reducing our carbon emissions • Protecting health and wellbeing • Running our business ethically • Minimising the impact of resource use and waste • Addressing climate change risks 	<p>During the year, we undertook an extensive programme with all key stakeholder groups to identify and prioritise ESG material issues.</p> <p>We also expanded the remit of our Sustainability Working Group and continued to enhance reporting. We have also established a Sustainability Committee to further strengthen governance in this area.</p> <p>Our Sustainability Report details our environmental strategy, activity and initiatives. This can be found on pages 28 to 49.</p>	<p>We have aligned the outcome of the materiality assessment to our priority areas and published our approach and performance on each of these topics in this report.</p>	<p>The interests and priorities of our stakeholders on environmental matters has been considered in our approach to sustainability.</p> <p>We have established a Sustainability Committee of the Board to provide strategic direction and monitor progress on performance against the stakeholder priorities.</p>
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.	<ul style="list-style-type: none"> • Regular and clear reporting that demonstrates Group performance is meeting agreed covenant targets • Regular engagement with management to understand business strategy and risks 	<p>During the year, we provided regular updates on the Group's financial performance against Plan and also performance against agreed debt covenants.</p> <p>At the time of the equity placing in July 2021, we discussed the accelerated rollout plan with our lenders and sought their agreement to a number of changes to the capital expenditure and finance lease restrictions.</p>	<p>By maintaining open communication throughout the year, and in particular throughout the closure period at the start of the year, we were able to keep the banks updated on our expected debt and covenants position. As a result, and in light of the national lockdown in the early part of the year, the banks agreed a waiver of the March 2021 and June 2021 covenant tests.</p> <p>In July 2021, at the same time as the equity placing, we agreed an amendment to the Group's existing Revolving Credit Facility ('RCF') such that certain restrictions around capital expenditure and finance lease debt were relaxed to facilitate the Group's accelerated rollout plan.</p>	<p>Management holds regular meetings/calls with lending banks during the year to enable them to be updated on the progress and performance of 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>

INVESTMENT IN FUTURE GROWTH

Presentation of results

This financial review uses a combination of statutory and non-statutory measures to discuss performance in the year. The definitions of the non-statutory Key Performance Indicators can be found in the 'Definition of Non-Statutory Measures' section on page 166. To assist stakeholders in understanding the financial performance of the Group, aid comparability between periods and provide a clearer link between the Financial Review and the Consolidated Financial Statements, we have also adopted a three-column format to presenting the Group Income Statement in which we separately disclose underlying trading and non-underlying items. Non-underlying items

are income or expenses that are material by their size and/or nature and that are not considered to be incurred in the normal course of business. These are classified as non-underlying items on the face of the Group Income Statement within their relevant category. Non-underlying items include restructuring and reorganisation costs (including site closure costs), costs of major strategic projects and investments, impairment of assets, amortisation and impairment of business combination intangibles, profit/loss on disposal of assets and businesses, revaluation gains or losses on borrowings, and refinancing costs. Further details on non-underlying items are provided later in this report.



2021 has again been challenging overall for The Gym Group as a result of the COVID-19 pandemic, but we have navigated the challenges well and taken a number of actions to mitigate the impact on our results.

Mark George
Chief Financial Officer



Summary

2021 has again been challenging overall for The Gym Group as a result of the COVID-19 pandemic, with Government-enforced gym closures in the first three and a half months resulting in the loss of almost 30% of trading days. Whilst this has had an inevitable detrimental impact on our overall financial performance in the year, we have navigated the challenges well and taken a number of actions to mitigate the impact of the lost revenue, including reducing costs and capital expenditure to conserve cash. In addition, we continued to receive UK Government support in the form of business rates relief, furlough payments and local authority grants.

Gyms re-opened in England on 12 April, followed by gyms in Scotland on 26 April and in Wales on 3 May. Following an initial period of above-expected demand immediately after re-opening, where we saw strong membership recovery and an increased average number of visits per member, trading returned to a more normal seasonal pattern in the second half of the year. Despite the challenges of the pandemic, we opened 19 new gyms in the year, taking our total estate to 202 gyms as at 31 December 2021. The new site openings in the second half of the year were funded by the £30m equity raise we completed in July 2021. The gyms that opened in the year are performing well.

	Year ended 31 December 2021	Year ended 31 December 2020	Movement
Total number of gyms at year end	202	183	10.4%
Total number of members at end of period ('000)	718	578	24.2%
Revenue (£m)	106.0	80.5	31.7%
Group Adjusted EBITDA (£m)	35.4	16.8	110.7%
Group Adjusted EBITDA Less Normalised Rent (£m)	5.7	(10.2)	n/a
Adjusted Loss before Tax (£m)	(36.8)	(46.5)	20.9%
Adjusted Loss for the year (£m)	(28.5)	(35.4)	19.5%
Statutory Loss before Tax (£m)	(44.2)	(47.2)	6.4%
Statutory Loss for the year (£m)	(35.4)	(36.4)	2.7%
Group Operating Cash Flow (£m)	6.3	(16.3)	n/a
Free Cash Flow (£m)	2.0	(16.6)	n/a
Non-Property Net Debt (£m)	(44.1)	(47.3)	6.8%

Results for the year

	Year ended 31 December 2021			Year ended 31 December 2020		
	Underlying result £m	Non-underlying items £m	Total £m	Underlying result £m	Non-underlying items £m	Total £m
Revenue	106.0	–	106.0	80.5	–	80.5
Cost of sales	(1.7)	–	(1.7)	(2.1)	–	(2.1)
Gross profit	104.3	–	104.3	78.4	–	78.4
Other income	7.3	–	7.3	0.4	–	0.4
Operating expenses before depreciation, amortisation and impairment	(79.1)	(2.3)	(81.4)	(62.7)	0.5	(62.2)
Depreciation, amortisation and impairment	(52.7)	(4.2)	(56.9)	(48.0)	(2.5)	(50.5)
Operating loss	(20.2)	(6.5)	(26.7)	(31.9)	(2.0)	(33.9)
Finance costs	(16.6)	(0.9)	(17.5)	(14.6)	1.3	(13.3)
Loss before tax	(36.8)	(7.4)	(44.2)	(46.5)	(0.7)	(47.2)
Tax credit/(charge)	8.3	0.5	8.8	11.1	(0.3)	10.8
Loss for the year attributable to shareholders	(28.5)	(6.9)	(35.4)	(35.4)	(1.0)	(36.4)
Loss per share						
Basic and diluted (p)	(16.7)		(20.7)	(22.5)		(23.1)

STRATEGIC REPORT

FINANCIAL REVIEW CONTINUED

Revenue

Revenue in the year increased by 31.7% to £106.0m (2020: £80.5m), reflecting the increased number of open trading days compared to the prior year (72% vs 55%).

In the periods of Government-enforced closure, we earned close to zero revenue as we 'froze' members' accounts so they did not pay their subscription whilst gyms were closed. Ancillary income (e.g. vending) and rental income from our Fitness Trainers were also lost during these closure periods.

Whilst the number of trading days was higher year on year, average membership numbers in 2021 were lower than in 2020 due to the extended periods of closure during 2020 and early 2021. From a peak in February 2020 of 891,000, membership decreased to 547,000 by the end of February 2021. When gyms re-opened in April 2021, we saw stronger demand than expected, with member numbers increasing to 730,000 by the end of June 2021, before falling back in line with seasonal norms to end the year at 718,000. The 'free freeze' option for members was removed on re-opening which ensured that revenue recovered strongly from the re-opening date.

Since re-opening, we have been able to maintain a good yield per member. The average headline price of a standard DO IT membership increased to £19.27 in December 2021 compared with £18.81 in December 2020 and the proportion of members taking our premium LIVE IT membership increased to 27.1% in December 2021 compared with 22.5% in December 2020. As a result of the increased headline prices and LIVE IT penetration, Average Revenue Per Member Per Month ('ARPM') in the second half of the year was £17.60, up 5.9% on H2 2019.

Cost of sales

Cost of sales at £1.7m (2020: £2.1m) was £0.4m lower than the prior year despite the increase in revenue and reflects improved stock management.

Other income

Other income in the year amounted to £7.3m (2020: £0.4m) and predominantly reflects income received under the various COVID-related Government grant schemes.

Underlying operating expenses before depreciation, amortisation and impairment

Underlying operating expenses before depreciation, amortisation and impairment are made up as follows:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Site costs before Normalised Rent	60.2	49.2
Add: Normalised Rent	29.7	27.0
Site costs including Normalised Rent	89.9	76.2
Central support office costs	16.0	12.8
Long-term employee incentive costs	2.9	0.7
	108.8	89.7
Less: Normalised Rent	(29.7)	(27.0)
Underlying operating expenses before depreciation, amortisation and impairment	79.1	62.7

Site costs including Normalised Rent

Site costs including Normalised Rent increased to £89.9m (2020: £76.2m), reflecting the higher level of variable operating costs and lower levels of Government support as gyms were open for more trading days of the year. We also invested more in marketing year on year to stimulate demand following re-opening. In addition, the increase in the gym portfolio also contributed to the site costs increase year on year.

During periods of closure, management continued to control operating costs and take advantage of Government support in the form of the Coronavirus Job Retention Scheme ('CJRS') and business rates relief. We also continued to negotiate COVID-related rent concessions with landlords. Across our gyms and central support, we furloughed approximately 95% of our staff during closure periods. The total support claimed from the CJRS during the year was £3.4m (2020: £6.1m) and has been netted off against staff costs within Underlying operating expenses in the Group's income statement. When gyms re-opened, furlough support ended and staff costs returned to more normal levels.

Business rates relief amounted to £8.2m in the year (2020: £9.6m). In addition to significant rent deferrals, we also agreed a further £1.6m of rent concessions in the year (2020: £0.7m) which have been included as a credit within Underlying operating expenses and a reduction in the lease liability, in line with the IASB practical expedient for COVID-19-related rent concessions in relation to IFRS 16 Leases.

Cleaning and maintenance costs also increased in the run-up to and following re-opening as we worked to ensure a safe and welcoming gym environment for both members and staff. Despite many of the COVID-secure regulations falling away following re-opening, we made the decision to continue with many of our enhanced cleaning protocols to keep members safe. This has contributed to a significant increase in membership satisfaction scores compared to pre-COVID levels.

Normalised Rent costs, which are defined as the contractual rents that would have been paid in normal circumstances without any agreed deferrals, recognised in the monthly period to which they relate, amounted to £29.7m in the year (2020: £27.0m). The increase year on year reflects the growing gym portfolio.

Central support office costs

Central support office costs increased in the year to 31 December 2021 to £16.0m (2020: £12.8m) as we continued our investment in people and technology to ensure we emerge strongly from the pandemic and well-equipped for growth.

Long-term employee incentive costs

Long-term employee incentive costs in the year amounted to £2.9m (2020: £0.7m). The increase year on year reflects the fact that there was an adjustment in the prior year to reverse certain historical charges following an assessment that financial targets in relation to the 2018 and 2019 schemes would not be met.

During the year, the Group granted further shares under the Performance Share Plan ('PSP'), the Share Incentive Plan ('SIP') and the Restricted Stock Option Plan 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 met relating to 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. The shares vest after three years subject to continuous employment.

Underlying depreciation and amortisation

Underlying depreciation and amortisation charges in the year amounted to £52.7m (2020: £48.0m). The increase year on year reflects the increased gym portfolio as well as accelerated depreciation and amortisation on some technology and signage assets that will be replaced when the new consumer website and brand are launched later this year.

Group Adjusted EBITDA Less Normalised Rent

The Group's key profit metric is Group Adjusted EBITDA Less Normalised Rent as the Directors believe that this measure best reflects the underlying profitability of the business. Group Adjusted EBITDA Less Normalised Rent is reconciled to the statutory operating loss as follows:

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Operating loss	(26.7)	(33.9)
Non-underlying operating items	6.5	2.0
Long-term employee incentive costs	2.9	0.7
Underlying depreciation and amortisation	52.7	48.0
Group Adjusted EBITDA	35.4	16.8
Normalised Rent	(29.7)	(27.0)
Group Adjusted EBITDA Less Normalised Rent	5.7	(10.2)

Group Adjusted EBITDA Less Normalised Rent was £5.7m in the year (2020: loss of £10.2m) and reflects the increased site profitability as a result of the higher proportion of open trading days and grant income received, partially offset by the investment in support function costs.

Underlying finance costs

Underlying finance costs in the year amounted to £16.6m (2020: £14.6m). The implied interest relating to the lease liability under IFRS 16 was £14.0m (2020: £12.7m). Finance costs associated with our bank borrowing facilities were £2.6m (2020: £2.0m) comprising interest costs and fee amortisation.

Non-underlying items

Non-underlying items are costs or income which the Directors believe, due to their size or nature, are not the result of normal operating performance. They are therefore separately disclosed on the face of the income statement to allow a more comparable view of underlying trading performance.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Affecting operating expenses before depreciation, amortisation and impairment		
Costs of major strategic projects and investments	1.8	–
Restructuring and reorganisation costs (including site closures)	0.5	0.3
Adjustment to net assets acquired in business combinations	–	(0.2)
Gain on reduction of lease term	–	(0.6)
	2.3	(0.5)
Affecting depreciation, amortisation and impairment		
Impairment of property, plant and equipment, right-of-use assets and intangible assets	4.0	1.6
Amortisation of business combination intangible assets	0.2	0.9
	4.2	2.5
Affecting finance costs		
Remeasurement of borrowings	0.8	(1.3)
Refinancing costs	0.1	–
	0.9	(1.3)
Total all non-underlying items before tax	7.4	0.7
Tax on non-underlying items	(0.5)	0.3
Total all non-underlying items	6.9	1.0

STRATEGIC REPORT

FINANCIAL REVIEW CONTINUED

Non-underlying costs affecting operating expenses before depreciation, amortisation and impairment amounted to £2.3m in the year (2020: credit of £0.5m).

Costs of major strategic projects and investments in the year of £1.8m includes the costs incurred to date in respect of the brand transformation project. Also included here are the costs incurred in relation to the exploration of a potential strategic investment and the costs associated with the acquisition of the trade and assets of a portfolio of three sites trading under the Fitness First brand name, details of which are included in note 30 of the Consolidated Financial Statements.

Restructuring and reorganisation costs in the year include the costs of restructuring the Group's marketing department, together with the costs associated with the previously announced closure of one of the Group's gyms.

Non-underlying costs affecting depreciation, amortisation and impairment in the year amounted to £4.2m (2020: £2.5m) and comprised £4.0m of site impairment in relation to four city centre workforce-reliant gyms that have struggled to recover post-COVID as a result of the shift to working from home. Also included is £0.2m of amortisation of business combination intangibles.

Non-underlying items affecting finance costs amounted to £0.9m in the year (2020: credit of £1.3m) and largely reflect the remeasurement of the Group's Revolving Credit Facility ('RCF').

Taxation

The underlying tax credit in the year was £8.3m (2020: credit of £11.1m), representing an effective tax rate on underlying loss before tax of 22.6% (2020: 23.9%).

The effective tax rate on the statutory loss before tax was 19.9% (2020: 22.9%).

Earnings

As a result of the factors discussed above, the statutory loss before tax for the year was £44.2m (2020: loss of £47.2m) and the loss after tax for the year was £35.4m (2020: loss of £36.4m).

Adjusted loss before tax is calculated by taking the statutory loss before tax and adding back the non-underlying items. Adjusted loss before tax in the period was £36.8m (2020: loss of £46.5m). Adjusted loss after tax was £28.5m (2020: loss of £35.4m).

The basic and diluted loss per share was 20.7p (2020: loss of 23.1p), and the basic and diluted adjusted loss per share was 16.7p (2020: loss of 22.5p).

Dividend

As set out in the Group's Annual Report and Accounts 2020, it is a condition of the £30m New Bank Facility that the Company shall not declare or pay a dividend. Although this facility currently remains undrawn, the Directors would like to continue to have access to it as necessary and, as a result, the Directors are not proposing a final dividend in respect of 2021.

Cash flow

Our focus during the extended lockdown period was to manage cash, ensuring we exited lockdown with a good level of liquidity, ready to grow the business and take advantage of the opportunities in the property market. During lockdown periods, the typical net cash outflow for the Group was c.£5m per month. In open months, the Group was cashflow positive before expansionary capital expenditure.

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Group Adjusted EBITDA Less Normalised Rent	5.7	(10.2)
Rent working capital	(2.9)	3.7
Movement in other working capital	7.4	(2.4)
Maintenance capital expenditure	(3.9)	(7.4)
Group operating cash flow	6.3	(16.3)
Non-underlying items	(2.2)	(0.9)
Bank interest paid	(2.0)	(1.8)
Taxation	(0.1)	2.4
Free cash flow	2.0	(16.6)
Expansionary capital expenditure funded by leases	(7.2)	–
Expansionary capital expenditure funded by other sources	(21.8)	(21.8)
Refinancing fees	(0.1)	(0.4)
Net proceeds from issue of ordinary shares	30.3	39.9
Other financial assets purchased	–	(1.0)
Cash flow before movement in debt	3.2	0.1
Net increase in finance lease indebtedness	6.4	–
Net (repayment)/drawdown of borrowings	(6.0)	1.0
Net cash flow	3.6	1.1

The Group operating cash inflow in the year was £6.3m (2020: outflow of £16.3m), reflecting the Group's return to profitability at the EBITDA level.

Following the introduction of Government relief measures on VAT, we deferred a £1.9m VAT payment relating to Q1 2020 that was due to be paid in March 2020. This deferred VAT has been repaid equally over an eight-month period, with the first instalment being made in June 2021. As at 31 December 2021, £0.2m of deferred VAT remained outstanding which was paid in January 2022. Despite this, there was a net inflow on working capital (excluding rent) in the year of £7.4m (2020: outflow of £2.4m) which reflects the business returning to more normal creditor levels following the re-opening of gyms in April.

The above inflows were partially offset by a net outflow on rent working capital of £2.9m (2020: inflow of £3.7m), reflecting the unwind of deferred rents from 2020 and a general return to more normal rental payment patterns. As at 31 December 2021, £2.1m of rent deferrals remained outstanding (31 December 2020: £3.8m). In addition, for a number of sites, we were able to establish deals with landlords to extend the leases or take out a lease break in exchange for rent-free periods; the cash flow benefit of these rent-free periods in 2021 was £2.6m (2020: £1.4m).

Fixed asset additions in respect of maintenance capital expenditure remained relatively low in the year at £4.7m (2020: £6.1m) as we focused only on repairs required for health and safety reasons to conserve cash where possible in the first half of the year. Adjusting for the movement in capital creditors, the cash flow from maintenance capex was £3.9m (2020: £7.4m). We expect expenditure on maintenance to return to more normal levels in 2022.

Fixed asset additions in respect of expansionary capital expenditure in the period amounted to £29.4m (2020: £18.5m) and relate to the Group's investment in the fit-out of new and acquired gyms and technology projects. The fit-out costs are stated net of contributions towards landlord building costs. During the year, we opened 19 new sites and completed work on a further site which was opened in January 2022, spending a total of £24.2m. The investment in technology in the year of £5.2m relates largely to enhancements made to the member experience, including improvements to the Group's website and new functionality in the app. Adjusting for the movement in capital creditors, the cash flow from expansionary capital expenditure was £29.0m (2020: £21.8m), including £7.2m funded by finance leases (2020: £nil).

On 2 July 2021, the Group's balance sheet and liquidity was further strengthened by an equity placing. The Gym Group plc issued 11,350,000 new ordinary shares and raised gross proceeds of £31.2m. The costs directly related to the transaction amounted to £0.9m. At the same time as the equity placing, certain restrictions in the Group's banking facilities around capital expenditure and finance lease debt were relaxed.

Following the share issue, the total number of shares in issue was 177,560,022. The proceeds of the share issue are being used to accelerate the Group's site rollout programme.

Balance sheet

	Year ended 31 December 2021 £m	Year ended 31 December 2020 £m
Non-current assets	549.9	521.9
Current assets	14.8	10.5
Current liabilities	(57.4)	(43.1)
Non-current liabilities	(355.2)	(334.9)
Net assets	152.1	154.4

Non-current assets increased in the year by £28.0m to £549.9m due to the opening of 19 additional sites in the year which resulted in an increase in the right-of-use assets. The deferred tax asset also increased as a result of the increased losses in the year and the impact of the change in UK corporation tax from 19% to 25%, following substantive enactment of the Finance Act 2021.

Current assets increased in the year by £4.3m, reflecting a higher cash balance at year end.

Current liabilities increased in the year by £14.3m as we saw a return to more normal trade payables as sites were fully open this year end. Lease liabilities were also higher, reflecting the new site openings.

Non-current liabilities largely comprise the long-term element of the Group's lease liabilities and drawn bank debt. The increase in the year of £20.3m reflects the inception of new leases on the new sites, partly offset by £5.0m lower bank borrowings.

At 31 December 2021, the Group had Non-Property Net Debt of £44.1m (31 December 2020: £47.3m) comprising drawn facilities of £45.0m and finance leases of £6.4m, less cash of £7.3m. Deferred rent and VAT at the balance sheet date amounted to £2.1m and £0.2m respectively. During the year, the Group agreed with its lenders a waiver for both the March and June 2021 covenants as a result of the extended lockdown period.

In March 2022, the Group obtained credit committee approval from its banks for certain changes to its RCF facility. These included a one-year extension of Facility A (£70m) to October 2024; the cancellation in full of the temporary Facility B (£30m) and replacement with a new £10m facility to October 2024; and further relaxation of finance lease restrictions.

Going concern

The Board has reviewed the financial forecasts and downside scenarios of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2023. As a result, the Directors continue to adopt the going concern basis in preparing the Consolidated Financial Statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Group's current and forecast liquidity position; the continued positive momentum with regards the COVID-19 situation and success of the UK booster vaccination programme; the support

received to date from our lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios. Further detail is provided in note 2 of the Consolidated Financial Statements.

Trading update and outlook

In the first two months of the year, membership levels increased by 14.9% to 825,000 at 28 February 2022, despite the Omicron variant temporarily interrupting the improving consumer confidence. Sites in the North and in suburban locations are recovering more quickly than locations in the South and in city centres, reflecting both the Omicron-related work from home guidance and more disrupted working routines in those areas. This pattern gives us confidence that, as the normalisation of routines occurs across the country, we will see stronger recovery in the rest of our estate.

Taking this uneven pattern into account, we expect that, on a like-for-like basis, mature sites will be at pre-COVID levels of revenue per month by Q4 2022 and higher in 2023. This will be driven by a combination of the momentum in membership numbers and price increases in 2022 as we seek to optimise revenue through yield management, whilst retaining price leadership in the market. In the current inflationary environment, we are seeing inflation in our operating cost base which is expected to be 4-6% overall (driven notably by a c. £2m increase in utility costs in the second half). Whilst these increases will not be fully offset through price rises and operational efficiency in 2022, we expect that by 2023 they will be offset as the full benefit of the price rises starts to come through.

We plan to open 28 new sites in 2022, of which 20 leases have already been exchanged. Maintenance capital expenditure is expected to return to more normal levels of 6-7% of revenue (c.£12m) in 2022 in order to maintain our high quality gym experience; and expenditure on technology capital expenditure is expected to be c.3% of revenue. The new technology platform that will be launched in Q2 is expected to drive online conversion and member experience. The brand transformation project, the rollout of which is expected to commence in spring 2022, will increase brand awareness and marketing effectiveness and will require a £7m one-off investment in 2022 (of which £5m will be capital expenditure).

Mark George

Chief Financial Officer
16 March 2022

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

MANAGING OUR RISK

Our robust risk management process is integral to delivering the Group's strategic and operational objectives.

Approach to risk management

The Board and senior management take very seriously their responsibility for risk management and internal controls, and for reviewing their effectiveness at least annually. An effective risk management process balances risk and reward and is dependent on the judgement of the likelihood and impact of the risk involved. The Board has overall responsibility for ensuring there is an effective risk management process in place which is designed to identify the principal risks that the business faces and to provide reasonable assurance that they are fully understood and managed.

Risk appetite

The Gym Group seeks to optimise a high level of return whilst achieving appropriate risk versus reward performance in line with our growth strategy. Our commitment to delivering a compelling member experience means that we have no appetite to lose our price competitiveness or our commitment to operational excellence. We are willing to accept the risk of partnering with third parties to deliver our core business activities. However, contracts and relationships with critical suppliers must be well monitored, value for money and regularly reviewed. In addition, third parties must comply with appropriate regulatory and ethical standards.

We seek to provide a great place to work and balance costs and risks to ensure our colleagues are engaged and have the capability to deliver our strategy. We have no tolerance for harm (physical or mental) to individuals and actively promote diversity and inclusion. We also have no appetite for the loss of, or otherwise unauthorised or accidental disclosure of, member or other sensitive data and no appetite to knowingly breach the spirit or letter of the laws that apply to us. In areas of uncertainty, we will have a robust justification and clear rationale for the choices we make. Where possible, high priority projects must be delivered on time, to budget, to expected quality and in a way that safeguards the wellbeing of our colleagues working on the project. However, cost overruns and delays will sometimes be tolerated to achieve the desired outcome.

Risk management process

The Group's risk management process is designed to measure, evaluate, document and monitor risks within all areas of the business.

Each functional area of the business maintains an operational risk register in which senior management identifies and documents the risks that their business area faces. A review of the functional risk registers is performed at least annually by the Senior Management Team ('SMT') – made up of the Executive Committee and other senior management - and by the Audit and Risk Committee (on behalf of the Board).

In addition, the Board and SMT also consider and identify strategic risks at least annually – i.e. those risks that they believe would have a significant impact on our ability to achieve our strategic goals.

The Group principal risk register is made up of those strategic risks (top down) and functional risks that are believed would have the greatest impact on our operations (bottom up).

Each risk is evaluated against three criteria with equal weighting to arrive at an overall score:

- **Likelihood** – the likelihood of occurrence.
- **Financial impact** – the financial implications.
- **Control environment** – the strength of controls mitigating the risk.

In assessing the risks, consideration is given to 'what can go wrong', i.e. what could make the risk become realised. For each risk identified, current and future mitigations are developed and documented.

Key roles and responsibilities

The roles and responsibilities for designing, monitoring and operating the system of risk management are set out below.

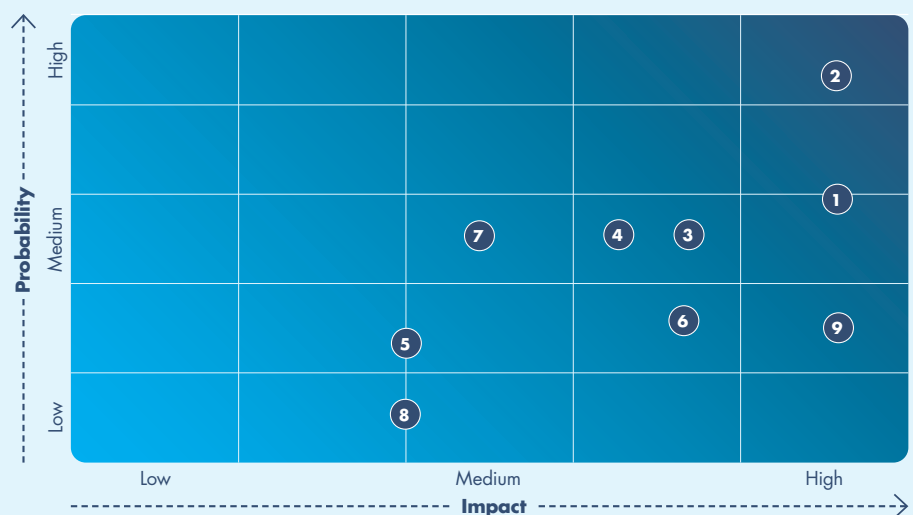
Board	Audit and Risk Committee	Senior Management Team ('SMT')	Functions and employees
Third line of defence		Second line of defence	First line of defence
<ul style="list-style-type: none"> Has overall responsibility for strategy, governance, performance, internal control and risk management Sets the "tone" and culture for managing risk and embedding risk management controls, providing strategic direction on the appropriate balance between risk and reward Ensures the most significant risks facing the Group are properly managed Evaluates the risk implications of planned investments 	<ul style="list-style-type: none"> Monitors and reviews the overall effectiveness of the Group's system of internal control and risk management Makes recommendations to the Board for improvements or developments Defines and reviews the Group's risk appetite Monitors compliance with internal control systems and oversees the external audit 	<ul style="list-style-type: none"> Promotes and supports the embedding of risk management throughout the business Ensures there is active management of identified and emerging risks Formally reviews the functional and strategic risk registers on a regular basis Reports to the Audit and Risk Committee on the internal control environment 	<ul style="list-style-type: none"> Manage day-to-day risk in their own areas guided by Group policies, procedures and control frameworks Identify and report on functional risks to the SMT and ensure mitigations are in place Deliver the actions associated with managing risk

Principal risks

The Board and Senior Management Team have identified nine principal risks which are set out below and on the next pages. These are the risks 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 our 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.

For each of the principal risks set out below, we have included a link to the Group's strategic priorities, movement in risk trend and examples of relevant controls or mitigating factors. Those principal risks which have been included in the assessment of the Group's long-term viability have also been highlighted.

Risk heat map







Key

- | | |
|-------------------------------------|-------------------------------------|
| 1 Significant business interruption | 6 Information technology dependency |
| 2 Operational gearing | 7 Scale of change |
| 3 Member experience | 8 Data protection |
| 4 Trading environment | 9 Reputation, brand and trust |
| 5 Our people | |

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key

Risk movement in 2021:  Risk increase  No change  Risk decrease  Included in Viability assessment, see page 69





Principal risk	Description and impact	Mitigations and controls	Strategic link
1 Significant business interruption  	<p>This risk remains highly relevant today despite the significantly reduced likely impact on operations of the COVID-19 pandemic.</p> <p>Other causes of significant disruption or widespread closure of our estate include, for example:</p> <ul style="list-style-type: none"> • A major health scare in relation to gym usage. • The failure of a key supplier, impacting our ability to operate our gyms. • Climate change resulting in an increase in the likelihood and severity of environmental disasters such as storms or droughts. <p>Given the relatively fixed cost base of the Group, any prolonged period of closure would lead to a decrease in membership and substantial loss of revenue and profitability which could in turn lead to a material uncertainty in the Group's ability to continue as a going concern.</p>	<ul style="list-style-type: none"> • Business continuity procedures and risks are monitored and refreshed regularly. • Management has identified proven measures to preserve cash and reduce discretionary spend during periods where all, or a large proportion of, the Group's sites are closed, and is able to re-open quickly to minimise revenue loss as demonstrated during the COVID-19 lockdowns. • A review of all key suppliers has been undertaken and plans are being put in place to mitigate critical supplier failure. • As part of our response to the TCFD recommendations, we have reviewed the risks of climate change on our business and identified adaptation action required. Further information can be found in the Sustainability Report on pages 28 to 49. 	<p>High quality estate</p> <p>Compelling member experience</p> <p>Growing sustainably</p>
2 Operational gearing  	<p>The high operational gearing of the business, as a result of the largely fixed cost base, limits the number of corrective actions that could be made to mitigate any underperformance in membership numbers, which could adversely impact profitability.</p> <p>This was evidenced during the COVID-19 lockdowns which caused a significant drop in revenue which was only partially mitigated by cost management measures.</p>	<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 the Executive Committee and the Board. • Management has identified proven measures to reduce operating costs, preserve cash and reduce discretionary spend where necessary. • Option to slow down expansion to preserve cash. • During COVID-19 lockdowns, government support was taken in the form of business rates relief and wages support for furloughed staff. 	<p>High quality estate</p>
3 Member experience 	<p>Failure to provide members with a high quality product and service could result in a loss of membership and reputational damage.</p> <p>In addition, the confidence of prospective members being in a gym environment has been impacted by concerns over COVID-19 and other anxieties. Whilst confidence is increasing, the return to pre-COVID levels of membership may not take place immediately.</p> <p>A decrease in membership numbers as a result of a fall in actual or perceived customer service or confidence would adversely impact revenue and profitability.</p>	<ul style="list-style-type: none"> • Continue to monitor gym utilisation and member satisfaction scores through enhanced monitoring and feedback processes. • Ongoing review of equipment usage and appropriate investment in repairs and maintenance to ensure we meet member requirements. • Continue to explore further innovations to improve the member experience. • Enhanced cleaning and sanitation protocols remain in place to reduce the risk of COVID-19 transmission and increase member confidence. • Gym 'busyness' tracker helps nervous members to visit at quieter times. • Strong member communication plan in place which focuses on our commitment to COVID-19 cleanliness protocols (#safewithus), the community, overcoming anxiety to exercise, and tackling the reasons for increased 'Gym-timidation'. 	<p>Compelling member experience</p>




Principal risk	Description and impact	Mitigations and controls	Strategic link
4 Trading environment  	<p>We operate in a competitive market during a time of economic uncertainty, primarily driven by the COVID-19 pandemic. The speed and scale of recovery post-COVID is uncertain, so we need to respond appropriately to external market conditions whilst maintaining focus on delivering our strategic objectives.</p> <p>During these uncertain times, members may choose to cancel their membership due to financial hardship, impacting revenue and profitability.</p>	<ul style="list-style-type: none"> • We are very well placed to operate successfully in a challenging economic environment as we are one of the lowest priced gym operators in the UK market with an average monthly subscription which is £1-4 per month lower than most competitors in the low cost gym sector and significantly lower than rates charged by mid-market and premium operators. • Although some of our members may choose to cancel their subscription due to financial hardship, we would also expect to benefit from others 'trading down' from the mid-market or premium gyms. • We continue to combine our low cost operating model with innovative technology and scalable infrastructure, to ensure we can retain price leadership. • We continue to focus on choosing the best sites in a geographical area. • We continue to invest in the member proposition. 	<p>High quality estate</p> <p>Compelling member experience</p>
5 Our people  	<p>The success of the business is dependent on talent attraction, development and retention, as well as a healthy culture and focus on wellbeing.</p> <p>A lack of experienced and motivated staff will have a detrimental impact in all areas of the business, from operations to central functions.</p> <p>Increased demand and competition for employed gym staff could impact on our ability to support the gyms and deliver a good member experience.</p> <p>Lack of adequate succession planning and dependency on a small number of key staff could result in loss of knowledge and weakening of supplier relationships, which in turn could impact operational performance.</p>	<ul style="list-style-type: none"> • The Group uses a variety of tools to attract, retain and motivate staff at all levels of the business, including: <ul style="list-style-type: none"> – Competitive remuneration and benefits packages – Opportunity to own shares in the Company – Opportunities for training and progression – Short, clear reporting lines – Succession planning – Engagement surveys providing staff with the opportunity to provide feedback and ideas – Launched e-learning platform and internal communication and recognition platform, CORE – Kickstart and 'Grow your own' PT programmes – Employee forums. • Wellbeing Programme and Wellbeing Hub in place. • Employee Assistance Programme providing 24/7 telephone counselling service. • Employee Diversity and Inclusion Group. • Growth of the central functions and changes to the way we run the business are reducing dependencies on key individuals by spreading knowledge more widely. 	<p>Unique team and culture</p>

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Key

Risk movement in 2021:  Risk increase  No change  Risk decrease  Included in Viability assessment, see page 69

Principal risk	Description and impact	Mitigations and controls	Strategic link
6 IT dependency 	<p>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.</p> <p>In addition, innovation introduced as part of our re-opening plan post-COVID (including the gym 'busyness' tracker and contactless entry), has fundamentally changed the digital relationship with members and the volume of digital interaction.</p> <p>Whilst this is a long-term opportunity, it has introduced additional load and complexity to our member-facing technology platforms.</p> <p>Disruption to our critical IT systems could negatively impact member experience and/or our ability to collect revenue.</p>	<ul style="list-style-type: none"> Our primary data systems are hosted by specialist hosting providers in suitable data centres. Our primary IT infrastructure is fully managed by specialist IT companies which provide best-practice architecture and support. All membership and business information is backed up regularly using third party locations. Robust disaster recovery and business continuity plans are in place. Additional capacity has been added to our infrastructure to cope with large spikes in usage. Regular programme of load testing on critical member-facing platforms. 	<p>Innovative technology and marketing</p> <p>Compelling member experience</p>
7 Scale of change  	<p>The business is working on a number of significant projects in relation to technology and branding, as well as the accelerated site rollout plan.</p> <p>In addition, we may consider inorganic expansion as opportunities arise.</p> <p>All of these could see resources stretched and distracted from performing their core roles. There is also the risk that projects are not delivered on time or on budget or that they do not deliver what they set out to, resulting in business interruption and/or financial loss.</p> <p>In addition, a change in market conditions and/or increased competition for sites could lead to site scarcity or sub-optimal site selection. A lack of, or significant increase in the cost of, available resources (manpower and materials) could also delay the execution of the rollout plan and/or lead to sub-optimal financial returns and under-performance against our growth plans.</p>	<ul style="list-style-type: none"> Appropriate project governance in place for all significant projects. Project timelines reflect complexity and include contingency and staged deliveries to reduce risk. Third party consultancies are engaged to support and advise our internal resources with these projects where appropriate. Internal resources are regularly reviewed and increases implemented where appropriate (e.g. additional and/or dedicated team members in Property Acquisition, Estates, Technology and Marketing added this year). All potential new site openings and related financial assumptions are reviewed by the Executive Committee prior to sign-off. Our highly experienced Property team is focused on site selection and sourcing the best deals to deliver a strong pipeline. The diversity of our operating model helps to penetrate town and small town market locations. The business continues to adhere to a strict site selection process to ensure all sites selected have met current criteria and all site appraisals are thoroughly reviewed by the Executive Committee prior to instructing solicitors. We continue to monitor and investigate all M&A opportunities to supplement organic site rollout. Should an acquisition take place, due diligence is performed proportionately based on the scale, price and perceived risk of the acquiree. 	<p>High quality estate</p> <p>Compelling member experience</p> <p>Innovative technology and marketing</p> <p>Unique team and culture</p>

Principal risk	Description and impact	Mitigations and controls	Strategic link
8 Data protection 	<p>The Group holds business critical and confidential information electronically. A breach of security or data protection regulations as a result of unauthorised access, loss or disclosure of this information could lead to legal claims, regulatory penalties, disruption of operations and/or reputational damage.</p> <p>Data protection legislation brings potentially wide-reaching effects and consequences for all business, with penalties for breaches attracting fines of up to 4% of annual turnover, or €20million – whichever is the higher.</p>	<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. • We have implemented industry-leading authentication management software. • Data Protection Manager in place to oversee and optimise our control environment in this area. 	<p>Innovative technology and marketing</p>
9 Reputation, brand and trust 	<p>The Gym Group brand is built on trust, inclusion and strong sustainability credentials.</p> <p>A health and safety or other serious incident in any of our gyms or an inappropriate social media post by a member of staff which is interpreted as a Gym Group view, could have a widespread impact on our brand and reputation, leading to loss of membership.</p> <p>In addition, in a year when we are transforming and relaunching our brand, there is a risk that the new brand is not adopted successfully or that the project does not deliver what it set out to do.</p>	<ul style="list-style-type: none"> • Our Group policies and procedures set out the expectations and behaviours that enable all colleagues to make the right decisions and communicate appropriately. • We listen to our members and stakeholders as part of our communication and engagement programmes. We reflect their needs in our plans, which include health, community, climate and sustainability initiatives. • We have a robust business response plan in place to deal with brand and reputational issues, including the retention of a specialist PR agency and media training for key Executives. • We have appropriate project governance and timelines in place and the use of both dedicated internal resources and specialist third party consultancies to support. 	<p>Innovative technology and marketing</p> <p>Compelling member experience</p>

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Changes in principal risks in 2021

In 2020, 'Regulatory' risk was included as a Principal risk. However, the Board believes that improvements in internal processes and controls, as well as stability in the external regulatory and legal landscape, has resulted in this risk no longer being considered a Group principal risk by the Board.

In addition, 'Competition' risk in relation to competitor pricing was also separately included in 2020. However, the Board now believes that the likelihood of irrational competitor pricing decisions has reduced such that this no longer meets the definition of a Principal risk.

In both cases, whilst these are no longer included in the Group's Principal risks, we do continue to monitor them and ensure appropriate mitigations are in place as part of our ongoing risk management process.

Other changes from 2020 include the replacement of 'Organic rollout' with the broader risk around 'Scale of change' and the inclusion of 'Reputation, brand and trust' reflecting the increasing use of social media in all aspects of society.

Risks and uncertainties relating to COVID-19

The impact of COVID-19 and resulting risks continued to be a significant feature in 2021 with gyms closed for the first three and a half months of the year. Whilst the business has been able to trade largely as normal for the last few months and the likelihood of further lockdowns becomes ever more remote, we do continue to monitor developments and guidance around the pandemic and our priority remains the safety of our staff and members. In addition to the direct impact of COVID-19 and specifically periods of closure, there remains some uncertainty about the longer-term economic impact of the pandemic and resulting government actions which we have sought to capture in the 'Trading environment' risk above.

Emerging risks

In addition to the principal risks set out in the previous pages, the Senior Management Team and Board also considered emerging risks. These are risks that, whilst not currently believed to be principal risks to the Group, are clearly important to us and could have a significant impact on the ability of the business to fulfil its strategic objectives in the future.

Emerging risks identified include climate change and sustainability, and relationships with key suppliers and partners. The potential impact of these risks cannot yet be quantified but mitigations have been identified and actions are in progress to address these risks. More information on climate and sustainability are included in the Sustainability Report on pages 28 to 49.

Going concern

In assessing the going concern position of the Group for the year ended 31 December 2021, the Directors have considered the following:

- the Group's trading performance in the second half of 2021 and throughout the traditional January and February 2022 peak period;
- future expected trading performance to June 2023 (the going concern period), including membership levels and behaviours;
- the Group's site rollout programme;
- the latest situation and UK Government guidance with respect to the COVID-19 pandemic; and
- the Group's financing arrangements and relationship with its lenders and shareholders.

Following the re-opening of gyms in April 2021, trading in the second half of 2021 showed total membership increasing by 31%, from 547,000 at the end of February 2021 to 718,000 at the end of December 2021. Trading in the first two months of 2022 which is traditionally the peak period for gym memberships, has been strong, with membership numbers at the end of February 2022 reaching 825,000.

The Directors believe that the current trading performance, together with the COVID-impacted commercial property market, provide the Group with a unique opportunity to accelerate growth and gain market share. The Directors are now focused on delivering that opportunity. We opened 19 new gyms in 2021 which are performing in line with our expectations, and have plans to open a further 28 in 2022.

To facilitate this accelerated growth, on 2 July 2021, the Group raised additional financing in the form of an equity placing, which raised net proceeds of £30.3m. In addition, certain restrictions in the Group's banking facilities around capital expenditure and finance lease debt were relaxed.

As at 31 December 2021, the Group had Non-Property Net Debt (including finance leases) of £44.1m and £62.3m of headroom (calculated off bank debt less cash) under the £100m Revolving Credit Facility ('RCF') (reducing to £75m in March 2022 before increasing to £80m in May 2022 and maturing in October 2024).

Until June 2022, the RCF is subject to quarterly financial covenant tests primarily relating to the performance of the Group against agreed targets for Group Adjusted EBITDA Less Normalised Rent. From June 2022, the covenants consist of quarterly tests on leverage (net debt to Group Adjusted EBITDA Less Normalised Rent), fixed charge cover (Adjusted EBITDAR to Net Finance Charges and Normalised Rent) and minimum liquidity.

The Group's base case forecast for the period to 30 June 2023 anticipates continued recovery of membership and robust yields, together with the successful execution of the accelerated rollout plan. Under this scenario, all financial covenants are passed with a significant level of headroom and the Group can operate comfortably within its financing facilities.

The Directors have considered a downside scenario which anticipates a slower recovery in which membership numbers only return to 88% of pre-pandemic levels (December 2019) by the end of the going concern period. Under this scenario, all financial covenants continue to be passed and the Group continues to operate within its financing facilities.

The Directors have also considered a reverse stress test scenario that modelled the impact of a significant downturn in trading and resulting drop in membership numbers. Mitigating actions were also modelled including moving to a minimum level of maintenance capital expenditure, reducing discretionary expenditure in order to preserve cash and a deliberate slowing down or temporary cessation of the rollout programme. In this scenario, the number of new members each month would have to decline by 26% compared to the base case (the equivalent of membership reducing to 82% of the February 2022 closing membership number) before the fixed charges cover covenant would be breached in December 2022. However, the Group would remain within its liquidity limits.

In the event of a reverse stress test scenario, the Directors would introduce additional measures to mitigate the impact on the Group's liquidity, covenants and cash flow, including: (i) further reductions in controllable operating costs, marketing and capital expenditure; (ii) discussions with lenders to secure additional debt facilities and/or covenant waivers; (iii) deferral of, or reductions in, rent payments to landlords; and (iv) the potential to raise additional funds from third parties.

The Directors believe that the success of the UK's booster vaccination programme and the fact that all sectors of the economy remained open for business during winter 2021/22, despite the recent Omicron outbreak, are strong indicators that further prolonged periods of enforced closure are highly unlikely. In addition, the Group has a very good relationship with its lenders who have been supportive throughout the pandemic. The lenders understand the Group's business model, our significant profit and cash generation in months when gyms are fully open, and our relatively low gearing. As a result, in the unlikely event there was another national lockdown, the Directors believe that the banks would continue to support the Group with covenant flexibility in the form of waivers or amendments, as they have done on a

number of occasions during previous lockdown periods. The Directors therefore consider that the combination of a lockdown and a subsequent lack of flexibility from the banks is remote.

Conclusion

The Board has reviewed the financial forecasts and downside scenarios of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2023. As a result, the Directors continue to adopt the going concern basis in preparing these consolidated financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Group's current and forecast liquidity position; the continued positive momentum with regards the COVID-19 situation and success of the UK booster vaccination programme; the support received to date from our lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios.

Viability

As stated above in the going concern assessment, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2023. However, in accordance with provision 31 of the UK Corporate Governance Code 2018, the Directors have also assessed the longer-term viability of the Group, taking into account the Group's current position and the potential impact of the principal and emerging risks documented earlier in this report (including climate change risk) that would threaten its business model, future performance, solvency or liquidity.

The Directors have determined that the three-year period to 31 December 2024 is an appropriate period over which to assess the Group's viability as:

- the Directors review a three-year financial plan each year as part of an annual strategy review with management and the viability analysis is based primarily from this plan; and
- the period is sufficient to reflect the return to stable mature membership numbers and see the maturation of new sites opened in 2020 and 2021.

Whilst the viability review has considered all the principal risks identified by the Group, the Directors have concluded that the risks that would most materially threaten the Group's growth drivers, future performance, solvency or liquidity were significant business interruption, operational gearing, our people and scale of change. Severe but plausible downside scenarios based on these risks were therefore created against which liquidity and debt covenant headroom analysis was performed. The Directors considered the fact that the Group's RCF facility is currently expected to expire in October 2024 and concluded that there is a realistic prospect that this will be extended to cover the whole of the viability assessment period.

The downside scenarios included modelling a severe but plausible decline in membership numbers vs the base case plan; a significant increase in employee and utilities costs over and above that included in the base case plan; and a severe slowdown in the site rollout plan. Management also performed a reverse stress test in which a further, more severe and prolonged decline in member intake was modelled. In both the downside scenarios and the reverse stress test scenario, mitigating actions were modelled, including moving to a minimum level of maintenance capital expenditure, reducing discretionary expenditure in order to preserve cash and a deliberate slowing down or temporary cessation of the rollout programme.

Having concluded the above viability assessment, the Directors have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2024.

GOVERNANCE

INTRODUCTION FROM THE CHAIR OF THE BOARD



Dear Shareholder

I am pleased to introduce the 2021 Corporate Governance Report on behalf of the Board. The Corporate Governance Report forms part of the Directors' Report.



The continued uncertainty caused by the COVID-19 crisis has demonstrated the strength of our values, our culture and our leadership, together with our determination to deliver for all our stakeholders. This is reflected by the Board's engagement and commitment to supporting management over the last 12 months.

Penny Hughes CBE
Chair of the Board

Areas of board focus in 2021

Our areas of focus	Board activities
Strategy	<ul style="list-style-type: none"> Continued the engagement with industry peers and government in relation to COVID-19 Re-opening plans Site approvals and pipeline reviews Consideration of sustainability matters Performance management and talent review of executive management Strategy refresh and site visits Updates on rebranding
Stakeholders	<ul style="list-style-type: none"> COVID-19 Operating Protocol Furlough and CJRS-related actions Updates on engagement with our stakeholders in relation to COVID-19 disruption Impact of COVID-19 on workforce
Financial	<ul style="list-style-type: none"> Equity placing Engagement with the Company's banks on amendments to the revolving credit facility Business performance, including trading updates and the market's response to announcements Impact of COVID-19 on financial position of the Company Approval of 2022 Budget
Technology	<ul style="list-style-type: none"> Improved app and mobile web experience Development of new website for 2022 launch
Governance	<ul style="list-style-type: none"> Approval of the 2020 Annual Report and Accounts AGM Succession planning and leadership Diversity and inclusion matters Formation of the Sustainability Committee Externally facilitated effectiveness review of the Board and its Committees Continued onboarding and development of our two new Non-Executive Directors

Purpose and culture

The Gym Group's purpose is to break down barriers to fitness for all, and the Board fully supports and promotes this by conducting its business according to the values – taking the first step, realness, friendliness and challenging your limits – and considering the interests of stakeholders in our decision making. In the second year dominated by the COVID-19 pandemic, the Board and management have focused on ensuring that the Company emerges from COVID-19 as a stronger business, forged by overcoming adversity, not least having our gyms closed for a third of the year. I want to record my sincere appreciation to all those at The Gym Group who have lived our values even in these more difficult times.

COVID-19

The impact of COVID-19 was a fundamental area of focus during the year, with the Board undertaking regular and detailed reviews of our response to the pandemic throughout the business and our governance in scheduled and additional Board meetings. The Board received updates from the Executive Committee and management colleagues to better understand the day-to-day approach. In order to keep our people safe, Board meetings were held virtually to adhere to governmental restrictions; however, when lockdowns were lifted, the Board met in person, with the offer to join meetings virtually always available.

Board member update

I was delighted to welcome Rio Ferdinand and Wais Shaifta to the Board in February 2021, and I am pleased to report that they are both making a valuable contribution to our strategy discussions and overall Board deliberations. As part of their induction programme both Rio and Wais met individually with each Board member, the Executive Committee and members of the senior management team from key areas of the business to gain an insight into their respective areas of responsibility. The pandemic placed restrictions on the usual induction format as certain briefings were conducted by video conference with some face-to-face engagements and site visits. However, when the restrictions were lifted and it was safe to do so, Rio and Wais visited our gyms and other business locations and met key advisers. Director inductions are ongoing processes and kept under review by the Board.

As reported last year, Paul Gilbert retired from the Board as Chair of the Audit and Risk Committee and Senior Independent Director in May 2021. David Kelly replaced Paul as Chair of the Audit and Risk Committee and Emma Woods was appointed as the Senior Independent Director and Chair of the Remuneration Committee.

Since the year-end we announced the resignation of Mark George as Chief Financial Officer and Executive Director of the Company. The Nomination Committee has begun a formal process to identify and appoint a successor to Mark.

Talent, diversity and succession

One of the significant commitments stemming from our externally facilitated Board effectiveness review is for the Board to increase its focus on succession and talent management, both to the Board and Executive Committee and throughout the business. This has initially been conducted through the work of the Nomination Committee and has now become a prime focus of the Board and increasingly of our senior management. We are deeply conscious of the importance of developing the next generation of leadership with the enhanced capability to lead the next stage of our strategy.

Sustainability

In 2020, we commissioned 4Global, a UK-based data analysis company, to determine the social impact of our business over the last five years. Using the Social Value Model created by Sheffield Hallam University, 4Global developed a Social Value Calculator which determined the social value of regular exercise on communities, through reduced risk of non-communicable diseases; increased wellbeing; increased educational attainment; and reduced crime. In 2021 we made further progress on measuring the social value generated by our members exercising in our gyms, achieving £485 million in the year.

To demonstrate our commitment to generating social value in the communities we serve, we have introduced a Company wide initiative with the core purpose of driving social value across the business. This is a new KPI, linked to executive pay and based on the percentage of members who visit our gyms at least four times a month.

Our Sustainability Report on pages 28 to 49 sets out in detail the social impact of The Gym Group, and our approach to the environment.

Penny Hughes CBE

Chair of the Board
16 March 2022

UK Corporate Governance Code compliance statement

The UK Corporate Governance Code 2018 (the 'Code') is the key governance measure to which we referred during the financial year to 31 December 2021. The Code can be found at www.frc.org.uk.

We always intend to comply with the prevailing principles of good governance and code of best practice honestly, simply, transparently, and with clarity and integrity.

Provision 24

Following the retirement of Paul Gilbert from the Board at the Company's AGM in May 2021, David Kelly was appointed as the Chair of the Audit and Risk Committee. The Company has considered the requirements of Provision 24 in relation to the future composition of the Audit and Risk Committee and has set out its satisfactory conclusions on page 59 in the Annual Report and Accounts 2020.

Provision 36

In respect of Provision 36, the Company has now introduced formal post-termination of employment share ownership guidelines to further align the interest of the Executive Directors with those of shareholders. Further detail is outlined in the Directors' Remuneration Report on page 90.

2021 Governance Report

Our governance reporting follows the order set out in the Code:

Compliance with the Code

Board leadership and Company purpose

More information can be found on page 75.

Division of responsibilities

More information can be found on page 76.

Composition, succession and evaluation

More information can be found on pages 79 to 81.

Audit, risk and internal control

More information can be found on pages 82 to 84.

Remuneration

More information can be found on pages 86 to 108.

GOVERNANCE

BOARD OF DIRECTORS



Penny Hughes

Independent
Non-Executive Chair of the Board



Committees

Career

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

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



Richard Darwin

Chief Executive Officer



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.

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.

Richard was The Gym Group's Chief Financial Officer from 2015 to 2018.

Richard has led the business strongly through the disruption of the pandemic, including continuing to develop a talented and stable team of executives.

Richard's detailed knowledge of The Gym Group and background in leisure businesses supports his development of the business's strategy and financial delivery.

None



Mark George

Chief Financial Officer

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.

Mark brings his quality experience in consumer plc's to the Board and Executive team. Mark is diligent and sets high standards. He has evolved and strengthened the Company's finance function and successfully secured new bank and equity financing, ensuring that the business is well placed to deliver its accelerated growth strategy.

None



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.

John's wealth of operational and leadership experience and knowledge of industry trends offers the Board valuable context to develop its strategy and inform its decisions. As founder, John has an unmatched network of industry connections used to support our business.

ukactive – Board member
Frame – Chairman
Jigsaw South East – Chair of Trustees

Board skills and experience

Penny has taken a hands-on role in leading the business throughout her time as Chair of the Board. Penny leads the Board in strategic matters, engages closely with the Executive Directors, visits operations extensively, and takes an active role in furthering initiatives across the business such as sustainability and diversity and inclusion.

Other appointments

iQ Student Accommodation – Adviser
Riverstone Living – Chair
Form3 – Non-Executive Director and Chair of Strategic Advisory Board
Motherclub Ltd – Director

**Emma Woods**

Senior Independent
Non-Executive Director



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

Emma was the former CEO of Wagamama and previously held Marketing Director roles at Merlin Entertainments plc, Pizza Express and Unilever. Emma is a customer and marketing champion.

Emma brings the Board valuable commercial and operational insights into multi-site leisure businesses, which is key to the Board's development of the Company's strategy. As a former executive leader, she offers perspectives on the challenges facing hospitality and leisure businesses. Emma brings relevant challenge and support to the Executive team with particular focus on meeting customer expectations.

Tortilla Mexican Grill plc
– Chair of Board of Directors

Great Portland Estates plc
– Non-Executive Director

**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 Rackspace from 2010 to 2012.

David draws on his extensive plc experience from a wide range of technology and product businesses. His understanding of technology development is particularly valuable to our development. David brings his thorough understanding of listed plc matters to all his committee memberships and Board responsibilities.

Independent Non-Executive Director, Reach plc;
Non-Executive Director and Chair of Remuneration Committee of On the Beach plc; Non-Executive Chair and Chair of Audit, Remuneration, and Social Impact committees of Simply Business (Xbridge Limited).

**Rio Ferdinand**

Non-Executive Director



Following his football career, Rio has pursued a number of interests in business, broadcasting and charity work, including #5Magazine, a lifestyle brand that spans online content and fashion. Rio is a television pundit for BT Sport as well as an author and filmmaker and works collaboratively with young people through the Rio Ferdinand Foundation. Rio is a passionate advocate for fitness, mental health and wellbeing and diversity.

Rio's advocacy for fitness, mental health and wellbeing and diversity means that he brings a unique perspective to the Board on our colleague and membership profile, which will form a key part of the Board's strategy in recovery. Rio's insight into our key market demographics will support our continued pursuit of our purpose and our strategic priorities as we recover to grow again.

FE Luxury Travel, Football Escapes, Legacy Sports and Education Foundation, Rio Ferdinand Foundation – Director

**Wais Shaifta**

Non-Executive Director



Wais has gathered substantial e-commerce expertise from a number of leading online businesses. As the former CEO at Push Doctor, one of the leading digital healthcare companies in Europe, Wais worked in partnership with the NHS to connect thousands of patients each week with clinicians. Before joining Push Doctor, Wais was Director of Global Operations at Treatwell, and prior to that was International Operations Director at Just Eat.

Wais' background in leading technology businesses gives him a strong understanding of the vital role technology plays in our drive to be ever more relevant to members. Wais is an executive leader in a healthcare business and is well aligned with our purpose to provide access to affordable fitness for all.

Revaia Capital –
Non-Executive Director

Planity – member of Board of Directors

Pacaso Global –
General Manager and Vice President of Sales

COMMITTEES

-  Nomination Committee
-  Audit and Risk Committee
-  Remuneration Committee
-  Sustainability Committee

GOVERNANCE

EXECUTIVE COMMITTEE



Ann-marie Murphy
Chief Operating Officer

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.

Ann-marie was promoted to the position of Chief Operating Officer in February 2022. Over the last 12 months, Ann-marie has been instrumental in leading the Operations and People functions, enabling the business to respond effectively to a new operating environment created by the closures of gyms as a result of government restrictions. Her proactive and positive response to keeping our People connected to the business during the various COVID-19 lockdowns has been recognised with external awards and strong levels of engagement.



David Melhuish
Chief Development and Sustainability Officer

David joined The Gym Group in April 2013 and is critical to the accelerated rollout and growing the estate. David was previously the Head of Development at Central England Co-operative.

In 2021 David was promoted to Chief Development and Sustainability Officer and is responsible for designing, implementing and leading our sustainability strategy. David acts as an ambassador for all sustainability related matters at The Gym Group, both internally and externally. He ensures the business is well-positioned to meet its designated sustainability reporting and disclosure obligations as well as wider corporate targets.



Jasper McIntosh
Chief Information Officer

Jasper has headed The Gym Group's technology operation since 2011. An experienced technology director, Jasper has previously delivered high profile projects for GlaxoSmithKline, Global Fund, the NHS and the French Presidential Palace.

Whilst at The Gym Group, Jasper has overseen a major programme of digital transformation, introducing significant new digital experiences and data and analytics capabilities to drive change across the business. In 2021, Jasper was awarded a top 20 place in the CIO 100 list that recognises the most transformational and disruptive CIOs in the UK.

How the Board and Executive Committee work together

The Board and ExCo work closely together to ensure the robust governance of the business and successful execution of our strategy. Over the year, the Board and ExCo worked closely on managing matters relating to the disruptions caused by the COVID-19 pandemic and to ensure that we continue to be driven by our purpose to break down barriers to fitness for all.

Richard Darwin, CEO, and Mark George, CFO, were also members of our Executive Committee ('ExCo'), and their biographies are on page 72.

CORPORATE GOVERNANCE REPORT

Board Leadership and Company Purpose

Governance and Key Responsibilities

Role of the Board

The Board is the principal decision-making body in the Company. It is collectively responsible for promoting the long-term success of the business for the benefit of its members, achieving this through the creation and delivery of sustainable shareholder value. The Board also carefully considers its wider stakeholders, including colleagues, customers and suppliers, when making decisions and more information can be found on pages 52 to 55.

In addition to setting the strategy of the business and overseeing its implementation by management, the Board provides leadership to the business on purpose, culture, values and ethics, sustainability, monitoring overall financial performance of the business, and ensuring effective corporate governance, succession planning and stakeholder engagement. The Board is also responsible for ensuring that effective internal control and risk management systems are in place. The Matters Reserved for the Board can be found on our website.

Board Committees

The Board has formally delegated certain governance responsibilities to its Board committees to assist with fulfilling its responsibilities, as outlined in the table below.

Governance structures as at 31 December 2021

The Board

SEE BIOGRAPHIES ON
PAGES 72-73



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 Committees

The Board formally delegates certain matters to one of the Committees set out below.

Nomination Committee

SEE REPORT ON
PAGES 79-81



Audit and Risk Committee

SEE REPORT ON
PAGES 82-84



Sustainability Committee

SEE REPORT ON
PAGE 85



Remuneration Committee

SEE REPORT ON
PAGES 86-108



Clear and formal Board responsibilities

The Board and its Committees have a scheduled forward programme of meetings, aligned to the updated strategy, to ensure that sufficient time is allocated to each key area and the Board's time is used effectively. Our Board comprises four Independent Non-Executive Directors, of which one acts as Senior Independent Director, two Executive Directors and the Founder Director. Each of their responsibilities is listed on page 76 and more information on their specific contributions to the business can be found in their biographies on pages 72 to 73.

There is sufficient flexibility for items to be added to the agenda, which enables the Board to focus on key matters relating to the business at the right time.

The Chair of the Board and Non-Executive Directors also met without the Executive Directors being present, and the Senior Independent Director held discussions with the Non-Executive Directors without the Executive Directors or the Chair of the Board being present.

Directors were made aware of the key discussions and decisions made at each of the four principal Committees. The Chair of each Committee provided a detailed summary at the Board meeting following the relevant Committee meeting.

On the occasion that a Director is unavoidably unable to attend a meeting, they receive a briefing from the Chair of the Board before the meeting, so that their comments and input can be taken into account at the meeting, and the Chair of the Board provides an update to them after the meeting.

GOVERNANCE

CORPORATE GOVERNANCE REPORT CONTINUED

Roles and responsibilities

Key responsibility	
Chair of the Board	<p>Penny Hughes has been the Chair of the Board since the IPO in 2015 and has provided continuity during her tenure. Penny's responsibilities include:</p> <ul style="list-style-type: none"> • The leadership, effectiveness and governance of the Board. • Setting the agenda, style and tone of Board discussions with a particular focus on strategic matters. • Ensuring each Non-Executive Director makes an effective contribution to the Board. • Ensuring that the Directors receive accurate, timely and clear information. • Chairing the Nominations Committee. • Promoting a culture of openness and debate. • Facilitating constructive Board relations.
CEO	<p>Richard Darwin's responsibilities as Chief Executive Officer include:</p> <ul style="list-style-type: none"> • Proposing the strategic objectives of the Group for approval by the Board and delivering the strategic and financial objectives in line with the agreed purpose and strategy. • Leading the Executive Committee and senior management team in managing the operational requirements of the business. • Providing clear and visible leadership of our shared values. • Responsible for the effective and ongoing communication with colleagues and shareholders.
Chief Financial Officer	<p>Mark George's responsibilities as Chief Financial Officer include:</p> <ul style="list-style-type: none"> • Working with the CEO to develop and implement the Group's purpose and strategic objectives. • The financial delivery and performance of the Group. • Ensuring that the Group remains appropriately funded to pursue the strategic objectives. • Investor relations activities, and communications with shareholders.
Senior Independent Director 'SID'	<p>Emma Woods has been the SID since the retirement of Paul Gilbert in May 2021. Emma's responsibilities include:</p> <ul style="list-style-type: none"> • Acting as a sounding board for the Chair of the Board and serving as an intermediary for the other Directors as necessary. • Acting as lead independent Non-Executive Director. • Leading the Non-Executive Directors in the performance evaluation of the Chair of the Board, with input from the Executive Directors. • Being available to meet with shareholders in the event that the Chair of the Board or the Executive Directors are unavailable.
Independent Non-Executive Directors	<p>Responsibilities of the Non-Executive Directors include:</p> <ul style="list-style-type: none"> • Constructively challenging management proposals and providing advice in line with their respective skills and experience. • Helping develop proposals on strategy. • Having a prime role in appointing and, where necessary, removing Executive Directors. • Having an integral role in succession planning.
Company Secretary	<p>The Company Secretariat function was first formed in 2020 and carries out the following responsibilities:</p> <ul style="list-style-type: none"> • Supporting the Chair of the Board and the Independent Non-Executive Directors with their responsibilities. • Advising on regulatory compliance and corporate governance matters. • Facilitating individual induction programmes for Directors and assisting with their development as required. • Communications with shareholders and organisation of the AGM.

Board meetings

The Board's programme of meetings allows key areas of focus to be established and reviewed on a regular basis. In line with COVID-19 safety guidance, the Board held all meetings remotely during periods of Government-mandated lockdowns, with management teams and colleagues attending by video conference to assess performance, discuss progress and agree key priorities for the short and medium term. As soon as lockdown restrictions

were lifted and it was safe to do so, the Board held its scheduled meetings in person, always offering Board members the option to join meetings by video conference as well.

The below table shows the attendance of Directors at scheduled Board meetings. When unable to attend a meeting, a Director receives papers and has the opportunity to feedback comments in advance to Penny Hughes, the Chair of the Board.

	Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee	Sustainability Committee (formerly Health and Safety and Wellbeing Committee)
Penny Hughes	10/10	2/2	–	7/7	3/3
Richard Darwin	10/10	2/2	–	–	3/3
Rio Ferdinand ¹	6/10	1/1	–	3/5	0/2
Mark George	10/10	–	–	–	–
Paul Gilbert ²	4/4	1/1	2/2	2/2	1/3
David Kelly	10/10	2/2	7/7	7/7	–
Wais Shaifta ³	9/10	0/1	3/4	–	2/2
John Treharne	10/10	2/2	–	–	3/3
Emma Woods	10/10	2/2	7/7	7/7	–

¹ Rio Ferdinand joined the Board on 1 February 2021. Rio attended the majority of Board and Committee meetings following his appointment. Where he was unable to attend a meeting, this was due to a pre-existing commitment. Rio was a member of the Health & Safety and Wellbeing Committee, but is not a member of the Sustainability Committee.

² Paul Gilbert stepped down from the Board on 11 May 2021.

³ Wais Shaifta joined the Board on 1 February 2021. He attended all but one Board meeting and one Audit and Risk Committee meeting following his appointment, which he was unable to attend due to being on paternity leave.

Director independence

The Chair of the Board has satisfied the independence criteria of the Code on her appointment to the Board and all the Non-Executive Directors are considered to be independent. The new Non-Executive Directors were determined to be independent before their appointment through the recruitment process. The independence of the Non-Executive Directors is closely monitored by the Board.

How the Board spent its time

The Board measures the time spent on strategy, governance and operational performance at each meeting. The biggest part of the Board's time was spent on strategy, followed by governance and operational performance, which the Board considers to be appropriate.

Minutes of all Board and Committee meetings are taken by the Company Secretary and circulated for comments and approval. Any unresolved concerns raised by a Director are recorded in the minutes.

GOVERNANCE

CORPORATE GOVERNANCE REPORT CONTINUED

The following sets out the key areas of focus for the Board during the year:

Purpose and strategy:

- Purpose, ambitions and strategy culture and values
- Budget and future financial plan
- Competitor reviews
- Climate change and sustainability
- Capital structure and dividend policy

Governance and risk:

- Board succession
- Board independence, composition and diversity
- Board training and development
- Investor feedback via advisers
- AGM voting and feedback
- Stakeholder engagement
- Engagement Survey
- Gender pay gap statement
- Modern slavery statement
- Diversity and inclusion

Operational

- Technology roadmap
- Plan to grow and deepen membership base
- Plan to accelerate growth
- Product strategy
- Talent, succession and capability
- Rebranding

Board skills and composition

Information and support

An agenda and accompanying pack of detailed papers are 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 up to the prior day, 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, and the Company Secretary if they should wish to discuss procedural or administrative matters. 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.

Training and development

The Company has developed an induction programme to provide new Directors with a formal, tailored induction that includes visiting several operational locations. The Board and Committees 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.

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, Rio Ferdinand, Penny Hughes, Richard Darwin, Mark George, David Kelly, John Treharne, Wais Shaifta and Emma Woods will be offering themselves for re-election at the Company's AGM on 12 May 2022.

Although Mark George has notified the Company of his resignation as Chief Financial Officer and Executive Director in January 2022, he will remain in his post until July 2022, a date after the 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.

Directors' conflicts of interest

No Directors took on additional significant commitments during the year.

No 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.

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 with institutions that focus on private clients as a way of extending the Company shareholder base. The Chair of the Board is also available to shareholders and has met several of the Company's larger shareholders during the year.

The Board receives regular investor feedback through our joint brokers, Numis and Peel Hunt, both 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 CEO and CFO hold presentations at the time of the half-year and full-year results, with such presentations being made available as audio recordings on the investor website.

Shareholders can also keep up to date with Company matters in the media. The Company also maintains a holistic timetable of press engagement on commercial and corporate matters which is managed by Tulchan Communications.

REPORT OF THE NOMINATION COMMITTEE



Committee members

Chair of the Committee	Penny Hughes
Committee members	Richard Darwin, David Kelly, John Treharne, Emma Woods, Wais Shaifta, Rio Ferdinand
Number of meetings held in 2021	2



The quality of our leadership team has never been more important to the Board. We continue to strengthen required skills and experience, build individual calibre, and demonstrate our support for diversity and inclusion in all its dimensions.

Penny Hughes CBE
Chair of the Board

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 2021

- Oversaw the search for and appointment of two new Non-Executive Directors during the year, and oversaw their full, formal and tailored induction programme.
- Reviewed the composition of the Board and its Committees and continued with the ongoing review process of Board rotation and succession.
- Oversaw progress on diversity and inclusion initiatives. The Committee receives regular updates on the progress of diversity and inclusion workstreams.
- Approved the appointment of a new designated Non-Executive Director for workforce engagement to ensure the views and concerns of the wider workforce are brought to the Board and taken into account.
- Oversaw the externally facilitated Board evaluation process, the results of which can be found on page 81.
- Reviewed and considered the future model, talent, and succession planning for key roles within the wider business.

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.

Succession planning: Board level

Following a period of continuity, we commenced a recruitment process to strengthen our Board; primarily to support our ambitious growth plans and mindful of best governance practices. In February 2021 Rio Ferdinand and Wais Shaifta joined the Board as Non-Executive Directors. Wais and Rio bring a wealth of complementary business and life experiences that will enhance the breadth of knowledge, customer insight and quality of work of the Board and the wider ExCo team.

GOVERNANCE

REPORT OF THE NOMINATION COMMITTEE CONTINUED

The Committee has put in place an orderly succession plan for the Independent Non-Executive Directors, taking into account governance requirements and the balance of Directors' skills and experience. The Committee will keep this process under regular review.

Succession planning: beyond the Board

The Committee regularly reviews the composition and succession plans in place for members of the Executive Committee and their direct reports. The Committee received a report on the future model, capability and succession planning for key roles within the wider business.

In addition, the CEO regularly briefs the Board about the performance of individual Executive team members and any changes that he proposes to make to this team. Whilst this activity does not take place formally within the meetings of the Nominations Committee, it does form part of its work in overseeing Executive team development and succession process, and the pipeline of talent available for succession to the Board. The Board members have regular contact with members of the Executive team and the wider Senior Management Team, through formal Board presentations, attendance at annual Strategy Days, and in regular visits to the head office and other Company sites, when Non-Executive Directors meet members of the Executive Senior Management teams on a less formal basis. Each Non-Executive Director also mentors and provides guidance to the Executive team as well as members of the Senior Management Team, subject to the specific requirements of the mentee.

Diversity and inclusion

Our Diversity and Inclusion Policy is that no individual should be discriminated against on the grounds of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. 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.

As at 31 December 2021 the Board comprised 25% (two) female and 75% (six) male Board members. The gender balance within our Executive Committee as at 31 December 2021 was 20% (one) female and 80% (four) male members. The Senior Management Team, comprised mainly of Executive Committees' direct reports, have 44.4% (four) female and 55.6% (five) male members. Although the proportion of female Board members has remained the same this past year, we firmly believe we are making progress towards a

more diverse leadership in all areas, including gender and cultural diversity, and are working towards a more representative, diverse Board to reflect our diverse workforce. In 2021 we strengthened our commitment to Diversity and Inclusion through the launch of our Equality, Diversity and Inclusion Pledge and projects focused on our purpose of breaking down barriers. Details of relevant initiatives can be found on page 38 to 41.

We have published our annual Gender Pay Gap report. As disclosed, our mean gap has decreased from 5.48% in 2020 to 1.62% in 2021. We attribute this to an increase in women being appointed into senior roles which has helped support in closing the pay gap. We will continue to address closing the gender pay gap further through the actions set out in our report and through further stretched targets within our Equality, Diversity and Inclusion pledge for 2022 to ensure this has a focus from all levels.

Search for a new CFO

In January 2022, Mark George notified the Board of his intention to resign as CFO and Executive Director. The Board, supported by the Committee, has commenced a recruitment process to identify Mark's successor. We will announce further details in due course.

Governance processes

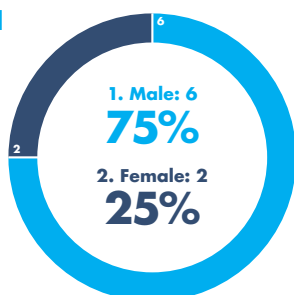
The Committee meets at least twice a year and at such other times as the Chair of the Committee or any member of the Committee may request. In 2021, the Committee met twice and attendance at the meetings is shown in the table on page 77.

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

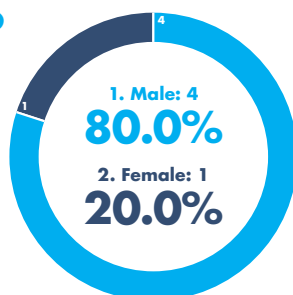
As described in our report last year, in 2021 Wais and Rio commenced their full, formal and tailored induction programme. Due to the impact of COVID-19 restrictions we had to be flexible with aspects of the programme such as site visits and in-person meetings with various groups and stakeholders. In this programme and their first year as Directors, Wais and Rio have demonstrated great engagement and willingness to learn and develop, and I am delighted to continue to support their progress.

Gender breakdown at 31 December 2021

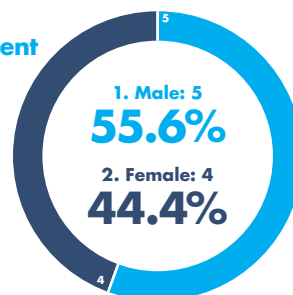
Board



EXCO



Senior Management Team



Board effectiveness review

We held an external Board effectiveness review in January 2022, focused on ensuring that the Board is fit for the future, as we accelerate our growth strategy and develop our stakeholder relationships. The review concluded that we have a unified and strong Board with independent Non-Executive Directors and Executive Directors sharing a passion and commitment for the business, with a conviction to do the right thing for our members and colleagues. The themes identified in the review were mostly about amplifying what is already working. However, as always, we challenge ourselves to continue to improve, and the findings of this review and the actions which we have agreed are set out below.

The effectiveness review was led by Pavita Cooper, an independent board evaluation specialist. Pavita had no other connection with the Group or any of the Directors. The process involved interviews focused on a number of specific topics with the Executive Directors, Non-Executive Directors, Company Secretary, Director of Strategy and Business Development as well as the Chief Operating Officer (to discuss Diversity and Inclusion initiatives). Pavita also had access to strategy plans and met with a number of the Group's external advisors such as the auditor and brokers.

All Board members actively engaged in the process and provided open and constructive comments. Pavita then presented the results to the Board, which were discussed, and a number of actions were agreed. On her feedback, there was universal acknowledgement that the Chair of the Board provides exceptional leadership.

The overall conclusion of the review is set out below:

- The Board is functioning well, and the Board dynamics are excellent.
- There is a breadth and depth of complementary skills and experience around the Board table.
- Board members have good external reputation, held in high regard and respected by our partners.
- The response to COVID-19 swift adaptation to the new ways of working was a success for the Board and the wider business.
- There is broad consensus that The Gym Group has a unique culture; the Board embodies the Group's values and this is reflected in their stewardship of the organisation.
- There is alignment around strategy and the areas that need more focus.

Actions to improve effectiveness were agreed as follows:

- The post COVID-19 landscape presents an opportunity to have a reset and recontract. The Board will consider a plan for greater business engagement, location of Board meetings and cement its use of hybrid working for Committees.
- Set aside more time to discuss our approach to important conversations such as succession planning and develop long-term objectives on priority topics.
- Schedule Non-Executive Director only time, to identify key issues and process impact and effectiveness of the Board session.
- Align Non-Executive Directors to key strategic themes.
- Undertake a Board Diversity and Inclusion session.

I look forward to meeting shareholders at the AGM on 12 May 2022.

Penny Hughes

Chair of the Nomination Committee
16 March 2022

REPORT OF THE AUDIT AND RISK COMMITTEE



Committee members

Chair of the Committee	David Kelly
Committee members	Emma Woods, Wais Shaifta
Number of meetings held in 2021	7



The Group has maintained a robust financial position and continued to improve its internal controls and risk management, despite being significantly impacted by challenges caused by government restrictions. I am grateful to all involved for the quality of work, debate and challenge exhibited, which has continued with no less vigour than in previous years.

David Kelly
Chair of the Audit and Risk Committee

Dear Shareholder

The membership of the Audit and Risk Committee (the 'Committee') has this year seen a mix of change and continuity. Paul Gilbert retired as Committee chair and from the Board last year and I took over. I am grateful for the commitment Paul has shown to the Committee and to the business in the nine years he served on the Board. We also welcomed Wais Shaifta who is bringing a fresh perspective to our discussions.

This year has continued to be impacted by the COVID-19 pandemic, which resulted in significant challenges for our members, colleagues and overall operations. The Group has maintained a robust financial position and improved its internal controls and risk management, despite being significantly impacted by ongoing challenges due to government restrictions resulting in closures and revised ways of working. The full-year audit process, though more complex due to the pandemic, was completed effectively within the planned timetable. I would like to thank the Finance team and EY for the additional planning and commitment that contributed to this.

Since I was appointed as Chair of the Committee last year, I have been able to broaden and deepen my understanding of the business and each of its functions, enabling the Committee to move forward with a clear vision – namely, to ensure the soundness and effectiveness of the Group's systems and controls, which has been even more important amid a global pandemic.

Role of the Committee

The 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 auditor, advising on the appointment of external auditor and reviewing the effectiveness of the internal audit, internal controls, risk management, whistleblowing and fraud systems in place within the Group.

Further details on the responsibilities of the Committee are as follows:

- 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 2021, taken as a whole, is fair, balanced 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 oversee internal audit.
- To review and monitor the external auditor's effectiveness, independence and the provision of additional services.
- To review the Group's risk appetite.

Summary of principal activities and focus in 2021

The principal activities since the last report were as follows:

- Reviewed and recommended for approval to the Board the 2021 half-year results issued in September 2021.
- Reviewed and recommended for approval to the Board the Group Whistleblowing and Bribery Act policies.
- Oversaw the ongoing optimisation of the Company's financial processes and control environment.
- Oversaw the planning and execution of the equity placing.
- Recommended for approval to the Board the execution of amendments to the revolving credit facility.
- Verified the independence of the external auditor and approved the scope of the audit plan and the audit fees.
- Development of a formal Risk Appetite Statement and consideration of how this is embedded into core risk management processes.
- Assessment of the principal risks and the effectiveness of risk management and internal control systems.
- Considered our approach to proposed audit and corporate governance reforms as set out in the BEIS consultation issued in March 2021.

Risk management

Our risk management process and the risks which are considered to be the principal risks of the Group are detailed on pages 62 to 69.

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

Internal control

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

- Regular review meetings of various groups, including business functions, senior management, sub-committees and the Board to discuss key issues.
- A detailed business planning process, combining top-down and bottom-up approaches, with outputs reviewed by the Board.
- A robust system of financial controls, including preventative controls and detective controls including a thorough review process.
- 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.

Governance processes

At the time of Paul Gilbert retiring, and prior to appointing me as Chair of the Committee, the Board considered Provision 24 in relation to the future composition of the Committee to ensure that the Committee members retained recent and relevant financial experience. Taking into account my experience of audit committees, the Committee's industry relevant experience as a whole, the relevant financial experience of other Board members who do not sit on the Committee, and the support of the Company's advisers, the Board concluded that the Committee would continue to discharge its obligations.

In 2021, the Committee met seven times. Attendance at the meetings is shown in the table on page 77.

In March 2021 the Committee held a private session with the external auditor without members of management being present.

During the year, the Committee has also adopted a formal 'Risk Appetite Statement', linked to our corporate purpose and strategic ambitions, and this is embedded into the Group's risk management process. Further details can be found in the Principal Risks and Uncertainties section on pages 62 to 69.

The Committee is made up solely of Independent Non-Executive Directors who have experience relevant to our market.

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

Resignation of CFO

As announced in January 2022 our current CFO, Mark George, will be leaving the Company in July 2022. The process to identify and appoint Mark's successor is underway and we will announce further details in due course.

Significant issues and judgements relating to the financial statements

The Committee has the responsibility to monitor the integrity of the annual and interim reports, including a review of the significant financial reporting matters and judgements contained in them.

At its meetings in July and August 2021 and February 2022, the Committee reviewed a comprehensive paper prepared by the Finance Director which analysed the Group's results for the half year and full financial year, highlighted significant issue and judgements arising in the preparation of the Group's financial statements, and provided information to support the Directors' viability and going concern statements. The Committee also considered a paper prepared by the external auditor which included their findings in respect of the audit of the financial statements and significant reporting and accounting matters therein.

The most significant issues and judgements considered by the Committee were as follows:

Presentation of the consolidated statement of comprehensive income

The Audit and Risk Committee considered the changes proposed by management with regards the presentation of the Group Consolidated Statement of Comprehensive Income and the separate disclosure of underlying results and non-underlying items. The Committee agreed with management that the additional disclosure will provide more clarity over the Group's profits and losses and provide a more comparable view of underlying trading performance.

Non-underlying items

The Committee reviewed and considered the non-underlying items identified by management and is satisfied that they are appropriately classified as such.

Annual impairment testing

Impairment reviews have been performed by management on the Group's cash-generating units to which tangible assets, goodwill and other intangible assets have been allocated. The cash flow forecasts used were based on the 3 Year Plan approved by the Board together with assumed growth rates thereafter.

GOVERNANCE

REPORT OF THE AUDIT AND RISK COMMITTEE CONTINUED

The methodology, along with key assumptions around future growth rates and discount rates, were reviewed and considered by the Audit and Risk Committee. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised. Please refer to notes 13, 14 and 15 to the financial statements for further information.

Going concern and viability

The Committee reviewed and considered the paper prepared by management to support the going concern assumption and longer-term viability statement in the financial statements. Consideration was given to the assumptions made in both the base case and reasonable downside case, as well as additional risk-based scenarios and reverse stress tests. The adequacy and timing of renewal of the Group's bank facilities, as well as access to alternative forms of financing, were also considered. Following a detailed review and discussion, the Committee concluded that the Group should be considered a going concern and that its longer-term viability is secure.

There were no material matters requiring the Committee to make amendments to the reports.

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, the Committee reviewed the effectiveness of the auditor through:

- Reviewing the 2021 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 auditor challenged management.
- Considering the robustness of the audit process.
- 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 Committee is satisfied with the performance and independence of Ernst & Young LLP and therefore recommend their reappointment at the May 2022 AGM.

Auditor rotation

The external auditor, Ernst & Young LLP, were appointed on 28 July 2015. In line with the EU Audit Directive, 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.

I can confirm that the Company has complied with The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Committee Responsibilities) Order 2014 during the financial year.

The Committee reviewed 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, but that this 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 in complete confidence in respect of suspicions of wrongdoing or unethical conduct. The policy confirms that bullying, harassment or other detrimental treatment afforded to a colleague who has made a qualifying disclosure is unacceptable. The Committee reviews and considers responses to any whistleblowing reports received. The Committee reviewed the effectiveness of the Group's whistleblowing procedures at the November 2021 meeting, and approved an updated policy.

Non-audit services

In 2021, EY did not provide any non-audit services to the Company or its subsidiaries.

In line with UK Independence Rules, 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 preapproved by the Committee.

Fair, balanced and understandable

The Board recognises its duty to ensure that the Annual Report and Accounts 2021, 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 2021 were prepared, including detailed project planning and a comprehensive review process.
- The review of the Annual Report and Accounts 2021 by the 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.
- Ongoing financial information, including KPIs, received on a monthly basis.

As detailed in the Directors' Responsibility Statement on page 112 each of the Directors has confirmed that, to the best of each person's knowledge and belief, the Annual Report and Accounts 2021, 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.

David Kelly

Chair of the Audit and Risk Committee
16 March 2022

REPORT OF THE SUSTAINABILITY COMMITTEE



Committee members

Chair of the Committee	Wais Shaifta
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Committee members	Penny Hughes John Treharne, David Kelly, Richard Darwin, David Melhuish
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Number of Health & Safety and Wellbeing Committee meetings held in 2021	3
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Key responsibilities

- Understanding the sustainability and climate risks and opportunities for the Group
- Assisting the Board in its oversight of corporate responsibility, climate, sustainability and reputational matters taking into account the Group's purpose, strategy and culture
- Assessing the Group's current sustainability footprint, reviewing sustainability targets and commitments and materiality.

Dear Shareholder

I am pleased to present the first report of the Sustainability Committee ('Committee'). The challenges created by the COVID-19 pandemic, racial unrest, political division, and climate-related disasters around the globe have accelerated focus on Environmental, Social and Governance ('ESG') matters, with significant risks and opportunities for our business and our members.

Sustainability has always been at the core of The Gym Group's business. The creation of the Committee in December 2021, to build on the work started by the Health & Safety and Wellbeing Committee, demonstrates the Company's commitment to continually improving its sustainability performance and reporting. ESG related matters are regularly discussed and reviewed at the Board and its Committees, with the Company always striving to meet and exceed the expectations of our stakeholders as well as ensuring we are managing our risks and taking advantage of the opportunities. More information on our approach to sustainability can be found in our Sustainability Report on pages 28 to 49.

Our approach to sustainability recognises both the immediate and long-term impacts of climate change on our business and the people we serve. Within the Sustainability Report on page 48, we have responded to evolving climate risks through our support for the Taskforce on Climate-Related Financial Disclosures ('TCFD'). This year marks our first reporting against the TCFD recommended disclosures and we are committed to continuing on this journey to implement the full suite of recommendations.

In its inaugural year, the Committee intends to assess what is material in forming The Gym Group's sustainability strategy, with an in-depth review of sustainability workstreams at its first meeting in February 2022. The Committee will also review the Group's sustainability assessment and will monitor sustainability KPIs to measure delivery against the Company's strategy and targets, and support management's engagement strategy on sustainability.

Wais Shaifta

Chair of the Sustainability Committee
16 March 2022

REPORT OF THE REMUNERATION COMMITTEE



Committee members

Chair of the Committee	Emma Woods
Committee members	Penny Hughes, David Kelly, Rio Ferdinand
Number of meetings held in 2021	7



The Remuneration Committee is excited to move beyond COVID-19 and ensure The Gym Group team is incentivised to deliver both growth in our traditional business and financial KPIs, and also a 'Social Value' measurement.

Emma Woods
Chair of the Remuneration Committee

Dear Shareholder

Following my appointment as Chair of the Remuneration Committee in May 2021, I am pleased to present the Directors' Remuneration Report for The Gym Group.

I would like to thank my colleague Non-Executive Director David Kelly for his work as the previous Chair and I am grateful that David continues to serve on the Remuneration Committee.

This Chair's statement summarises the main areas of activity for the Remuneration Committee in the year and introduces the other sections of the Directors' Remuneration Report, which this year comprises:

- The Directors' Remuneration Policy ('Policy Report'), which we are seeking to amend and update at our 2022 AGM on 12 May 2022.
- The Annual Report on Remuneration ('Implementation Report'), which sets out the remuneration arrangements and incentive outcomes for the year under review and how the Remuneration Committee intends to implement our Policy in 2022.

There are three main themes which I would like to highlight to shareholders in this statement:

- The Gym Group ('TGG') performance in 2021, and what this has meant for the pay and welfare of all staff and for Executive Directors' pay.
- The changes to our Policy which we are proposing at our 2022 AGM, and on which we consulted extensively with our leading institutional shareholders in Autumn 2021.
- The arrangements for the departure of our CFO, Mark George, which was announced in January 2022.

The Gym Group's performance in 2021

As detailed more fully in the Chair's Statement and the Chief Executive's Review, 2021 was another year affected by COVID-19 restrictions, with gyms fully closed during the lockdown from 6 January to 12 April 2021.

We explained in last year's Director's Remuneration Report that given this closure period, a bonus opportunity to be paid in 2022 would be limited to a maximum target of 50% of annual awards for all colleagues.

Given the restrictions and ongoing consumer anxiety around COVID-19, we are pleased that the team achieved:

- A full year performance of our key profit measure of Group Adjusted EBITDA Less Normalised Rent of £5.7 million which was in line with market expectations.
- Continued progress in our roll-out strategy – on 20 December 2021 we went above 200 gyms for the first time. We opened 19 sites in the year of which 15 were opened in H2, taking us over the 200 gyms milestone.
- Total membership numbers grew from 547,000 in February 2021 and ended the year at 718,000, with 734,000 being the average for membership numbers in November 2021 and December 2021.
- We were recognised by Glassdoor as one of the top 50 companies to work for (Glassdoor rankings of 4.5).

For the H2 2021 bonus for our Executive Directors we looked at three metrics with equal weightings: Group Adjusted EBITDA less normalised rent, site opening numbers and membership numbers, all of which were judged to appropriately support the best long-term interests of our shareholders in the challenging trading conditions that we faced. Against the performance measures which were set for H2, a prospective bonus outcome of 89% of six month max was attained, resulting in a potential bonus of 44.7% of salary for our CEO.

Before confirming this outcome, the Remuneration Committee considered the wider experience of our shareholders and other stakeholders and noted the following:

- The Company ceased taking furlough payments after March 2021.
- The targets which were set for H2 reflected the increased capacity to deliver on our strategic plans (particularly site openings) from the funds which were raised by a successful £31m equity raise on 1 July 2021.
- Employees within the Group Bonus Scheme received H2 2021 bonuses at 50% of full-year maximum and, accordingly, the outcome for the CEO's bonus for H2 broadly aligns to the experience of our staff in the Group Bonus Scheme.
- The March 2019 PSP awards are no longer expected to vest on 27 March 2022 due to the downward pressure on our share price caused by the emergence of the Omicron variant in December 2021 and January 2022 and the ongoing market anxiety around leisure stocks.

Against the background set out above, the proposed bonus outcomes for 2021 were considered appropriate. It is important for the business as a whole to have confidence in the integrity of incentive plans and paying modest bonuses (justified by H2 2021 performance and after an exceptionally challenging two years) will, we believe, position us well for 2022 and so support shareholders' best interests in the longer-term.

Renewal of our remuneration policy at our 2022 AGM (and implementation of our policy in 2022)

At our 2022 AGM we will be bringing forward a revised and updated Directors' Remuneration Policy as our current Directors' Remuneration Policy, which was approved by our shareholders at our 2019 AGM, will reach its normal course three year renewal date.

In late 2021 we consulted with our leading institutional shareholders (as well as the major proxy advisors) regarding changes to our policy and its implementation which we wished to bring forward in 2022, and these proposed changes are in three main areas as summarised below. As a whole, we feel these changes reflect the Company's growing maturity as a listed business and the development in the scale and extent of its operations since our IPO, and the wider contribution which we can now see our business making to UK society. We are grateful to those shareholders with whom we consulted for their support and guidance on these matters. To give some idea regarding this development journey, in 2015 we were a business of 60 gyms, and we are now operating over 200 gyms.

Bigger company/best practice changes.

Certain changes are matters which we have previously flagged our intent to introduce as part of our 2022 policy, and which we acknowledge to be appropriate given the Company's more established position as a publicly listed company.

- We will align the pension contribution for all Executive Directors and Executive Committee members from 10% of salary to that of all employees at 4% of salary from the start of January 2023. As a business which values the contribution of 'all voices' this is entirely appropriate.
- We will introduce a two year post-employment shareholding guideline of 200% of salary (or actual shareholding at leaving, if lower) to apply to all Executive Directors for a two year period from leaving from the 2022 AGM.

Introduction of ESG/Social Value measures to our annual bonus

As is detailed in our Sustainability Report, we have recognised the importance to our business and its wider stakeholders that we have effective tools to measure and target the health and wider social benefit of our gyms. As such, the leadership team at TGG have been working closely with Sheffield Hallam and 4Global who have created a 'social value' scoring system which is now widely recognised by the UK Government.

We intend to bring measures based on this work into our annual bonus scorecard for 2022 and during the life of this policy, either as key inputs (such as the number of member visits per month) or as outputs under our developed Social Value Calculator. When we consulted with our shareholders they expressed strong feedback in favour of the use of Social Value as a metric for incentive pay at TGG. It is very affirming that our leading shareholders backed this initiative and saw its potential to represent a win for our gym members, a win for the business, and a win for our shareholders who we know care about supporting businesses that do good.

CFO and Chief Executive Officer's salary adjustment

In September last year, I wrote to our leading shareholders to explain why we would now be implementing moving the CFO's salary up from the entry level we had set for Mark George as a newly appointed first time CFO in 2018 of £225,000 to £275,000, which step followed careful benchmarking of comparable roles.

This salary readjustment had been linked to Mark showing his capability in the CFO role, which he did in the first 18 months since his appointment and then further throughout 2021, but (and as disclosed in our 2020 Directors' Remuneration Report) we consciously delayed from making any change to Mark's salary in early 2021 (which had been considered) due to the pandemic. Mark himself had not regarded any such salary adjustment at that time as appropriate. (Mark has subsequently resigned to take up the opportunity of the CFO of Wickes plc and will be leaving in July 2022).

GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

As part of the benchmarking we carried out last year on the level for the CFO salary, we also looked carefully at what level the CEO salary should be at, now the Company is considerably larger than when it was set three years ago. I have therefore discussed with shareholders that we intend to move our CEO's salary from its 2021 level of £306,000 per annum to a new level of £400,000 on a phased basis, with the likelihood being that we will move to this new level in three stages over the period of the next two years, in line with business recovery.

This proposal seeks to place our CEO's salary at a level which we regard as appropriate for TGG given the scale to which its business has grown, but with a positioning that still respects our long-established outlook of weighting total packages towards incentives which align to the delivery of long-term value for our shareholders. Within a package balanced in this way, having appropriate levels of fixed pay is important. Accordingly, this re-positioning is necessary to maintain the integrity of our overall pay outlook (modest to market level salaries; good incentive opportunities) which, we believe, will serve shareholders well as the business continues on its development journey.

Given the strong re-opening performance of H2 2021, for 2022 the CEO's salary will move to the first stage of this readjustment and be £337,000.

As we have demonstrated in the past, our preference as a Board is for Executive Directors' salaries to move only in line with salary inflation rates for all staff when we can do so, and we would intend to return to that position after the proposed repositioning of the CEO's salary as described above is completed.

Resignation of our Chief Financial Officer

We announced in January 2022 that our Chief Financial Officer, Mark George, has resigned from his position.

The remuneration-related arrangements for Mark's leaving TGG are set out in the Implementation Report, and the Committee is satisfied that these are fully in line with our Directors' Remuneration Policy whereby:

- Fixed pay reflects contractual entitlements for the notice period only.
- Mark will receive no annual bonus for 2021 and all of Mark's unvested share awards will lapse when he leaves the business.

The Remuneration Committee would like to formally thank Mark for his hard work on remuneration issues during a tricky couple of years and wish him all the best for the future.

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

At the 2022 AGM, shareholders will be asked to approve two resolutions related to Directors' remuneration matters. These resolutions are:

- To approve the Directors' Remuneration Report.
- To approve the updated Directors' Remuneration Policy.

The vote to approve the Directors' Remuneration Report is the normal annual advisory vote on such matters. If approved by our shareholders, the Directors' Remuneration Policy will apply for a maximum of three years from the 2022 AGM and will replace the Directors' Remuneration Policy previously approved at the 2019 AGM.

We are happy to receive feedback from shareholders at any time in relation to our remuneration policies and hope to receive your support for the resolutions referred to above at our forthcoming AGM.

I will be available at the AGM to answer any questions you may have.

Emma Woods

Chair of the Remuneration Committee
16 March 2022

At a glance

Remuneration policy and implementation

	Overview of policy	Remuneration in 2021	Implementation for 2022
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>Richard Darwin: £306,000</p> <p>Mark Gorge: £241,267</p>	<p>Richard Darwin: £337,000</p>
Pension and benefits	<p>Pension – maximum contribution of 10% of salary.</p> <p>Benefits consist of car allowance, life insurance, private medical cover, a car parking space and additional mobile telephone contracts (in the case of the Founder Director).</p>	<p>In line with policy. Richard Darwin and Mark George pension contributions at 10% of salary.</p>	<p>With effect from 1 January 2023, Executive Director pension levels will be aligned to the majority of the workforce.</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>Outcome for Richard Darwin with regards to H2 2021 bonus was 89% of maximum, resulting in a bonus payout of 44.7% of salary. No bonus is payable to Mark George due to his decision to resign as Group CFO in January 2022.</p>	<p>No changes in maximum.</p> <p>See the Committee Chair's letter regarding the proposed introduction of ESG/ Social Value measures as part of the annual bonus for 2022.</p>

GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

	Overview of policy	Remuneration in 2021	Implementation for 2022
Long-term incentives	<p>Performance share award, subject to service and performance over a three-year period, as well as two year post-vesting holding period.</p> <p>Maximum award of 200% of salary (300% in exceptional circumstances).</p> <p>Subject to malus and clawback provisions.</p>	<p>PSP awards granted in March 2019 held by Richard Darwin and Mark George are no longer expected to vest due to not achieving the performance metrics assessed to 27 March 2022 (that date being after this report was published).</p> <p>Awards granted in 2021:</p> <p>Richard Darwin: 175% of salary</p> <p>Mark George: 175% of salary</p> <p>Performance conditions for 2021 awards:</p> <p>66.7% relative TSR target; and 33.3% absolute TSR target.</p>	<p>Awards for 2022:</p> <p>Quantum: 175% of salary</p> <p>Performance conditions: relative TSR (50%); Adjusted Group Operating Cash Flow (25%); ROIC in the mature estate (25%).</p>
Share ownership guidelines	<p>300% for Executive Directors. (200% for new Executive Directors).</p> <p>With effect from the 2022 AGM, introduction of a two year post-employment shareholding guideline of 200% of salary (or actual shareholding at leaving, if lower) to apply for a two year period from leaving.</p>	<p>At the year end, Richard Darwin met the requirements.</p>	<p>Introduction of post-employment shareholding guideline with effect from 2022 AGM.</p>

2021 single total figure

	Salary	Taxable benefits	Bonus	Long-term incentives	Pension	Total remuneration
Richard Darwin	306,000	12,772	136,782	–	30,600	486,154
Mark George	241,267	10,738	–	–	24,127	276,132

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 represents the proposed policy which will take effect, subject to the approval of the shareholders, immediately after the 2022 AGM (the 'Directors' Remuneration Policy').

Part B 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 A: DIRECTORS' REMUNERATION POLICY

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

Element and purpose	Policy and operation	Maximum	Performance measures	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 percentage increases 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 and Accounts 2021.</p>	n/a	Maximum amount of salary re-expressed to link to percentage increases for salaried staff in most years.
Benefits To provide benefits valued by recipients.	<p>The Executive Directors currently receive private medical cover, a car or travel allowance, a car parking space and additional mobile telephone contracts (in the case of the Founder 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 for current Executive Directors. With effect from 1 January 2023 all Executive Directors will have employer's contribution levels aligned to the contribution levels for the majority of the workforce (currently 4% of base salary).	n/a	Confirmed that from 1 January 2023 Executive Directors' pension contribution levels 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.	<p>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.</p> <p>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.</p> <p>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. In calculating the numbers of shares for deferral, the Company will use the average share price for the three months preceding the award date.</p> <p>During the deferral period the value of any dividends will be credited as reinvested in further deferred shares.</p> <p>Clawback provisions apply to the annual bonus plan and malus and clawback will apply to deferred share awards.</p>	The maximum level of annual bonus plan outcomes is 100% of base salary for the duration of this policy.	<p>The performance measures applied may be financial or non financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate.</p> <p>Where a sliding scale of targets is used, attaining the threshold level of performance for any measure will not typically produce a payout of more than 20% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full payout for maximum performance.</p> <p>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.</p>	No material changes.

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
<p>Long-term incentives</p> <p>To motivate and incentivise delivery of sustained performance over the long-term, and to promote alignment with shareholders' interests, the Company operates the Performance Share Plan ('PSP').</p>	<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 reinvested 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>In calculating the numbers of shares in awards, the Company uses the three month average share price preceding the award date.</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 PSP 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>No material changes.</p>

GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
<p>Share ownership guidelines</p> <p>To further align the interests of Executive Directors with those of shareholders.</p>	<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 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> <p>In addition to the in-employment shareholding guideline, Executive Directors will be expected to retain the lower of actual shares held at cessation and shares equal to 200% of salary for two years post-cessation.</p> <p>This guideline will apply in respect of any vested shares which vest from PSP and DSBP awards granted after the 2022 AGM.</p>	n/a	n/a	Introduction of post-cessation share ownership guidelines.

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 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 operates 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 are able to participate in each of the all-employee share plans on the same terms as other Group staff.</p>	<p>The maximum participation levels for all-staff share plans will be the limits for such plans set by HMRC from time to time.</p>	<p>Consistent with normal practice, such awards will not be subject to performance conditions.</p>	<p>No material changes.</p>

Chair of the Board and Non-Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
Chair of the Board 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 Chair of the Board and Non-Executive Directors aim to be competitive with other fully listed companies of equivalent size and complexity. The fees for the Non-Executive Directors may include a basic fee and additional fees for further responsibilities (for example, when chairing Board Committees or holding the office of Senior Independent Director).</p> <p>The fees payable to the Non-Executive Directors are determined by the Board, with the Chair of the Board's fees determined by the Committee. Directors do not participate in decisions regarding their own fees.</p> <p>No benefits are envisaged for the Chair of the Board 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 Chair of the Board 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>	<p>n/a</p>	<p>No material changes.</p>

GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Notes to the policy table

Founder Director

As announced in May 2018, from 17 September 2018 John Treharne stood down as CEO and took on the role of Founder Director. This enabled John to continue to provide the benefit of his immense network and experience across the sector with a focus on nurturing culture and entrepreneurial activity, whilst also leaving more time for his family and personal interests.

John's package was redesigned as follows:

- the only elements of fixed pay which John should receive as Founder Director are base salary and benefits (his base salary was reduced from £195,000 p.a to £100,000 p.a. with effect from 1 January 2022);
- John no longer receives any pension contribution from the Company;
- John no longer participates in the annual bonus and does not receive any new grants of PSP awards (previous PSP awards have either vested or lapsed);
- John remains subject to shareholding guideline requirements (300% of salary), and whilst acting as Founder Director he has committed to retain a minimum shareholding of at least 0.5% of total issued share capital.

Malus and clawback

The Remuneration Committee may apply malus and clawback to a PSP award, to deferred shares under the 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 corporate failure of a Group Company) 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 encourage 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

Whilst 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 (including any related tax liabilities settled by the Company), 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

Whilst 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 payouts;
- various discretions required when dealing with a change of control or restructuring of the Group (e.g. the timing and determination of performance conditions);
- 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.

Whilst performance measures and targets for annual bonus and PSP awards 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, DSBP 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 as applied to the forfeited awards.

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.

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

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 month's notice given by either party.
David Kelly	25 July 2016	
Emma Woods	11 November 2016	
Rio Ferdinand	1 February 2021	
Wais Shaifta	1 February 2021	

GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

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, 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 good leaver reason determined by the Committee, such bonus will be payable as the Committee in its absolute discretion determines. Such payments will normally be on a pro-rata basis for the part of the year worked. 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; or
- ceases to be employed due to death, 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 good leaver 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 (acceleration will be automatic in cases of death). Awards will be prorated by reference to the proportion of the vesting period for which the participant remained employed. The Committee has a standard ability to vary time prorating.

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). The Committee will normally align continuing holding periods after termination with the two year period after termination for share ownership guidelines. However, if the participant ceases employment during the holding period 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 prorating. The Committee has a standard ability to vary time pro-rating.

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 Chair of the Board.

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 a 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 chart shows how the remuneration policy for the Chief Executive Officer will be applied in 2022 using the following assumptions:

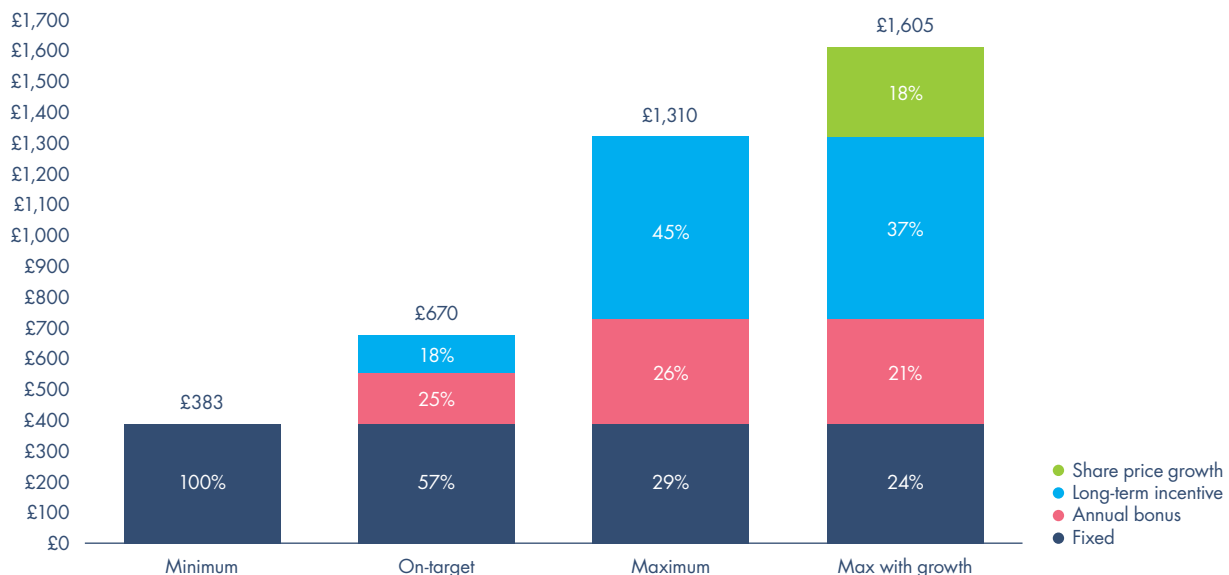
Minimum	<ul style="list-style-type: none"> – Consists of base salary, benefits and pension. – Base salary is the salary to be paid in 2022. – Benefits measured as benefits paid to the Director in the year ended 31 December 2021. – Pension measured as the defined contribution or cash allowance in lieu of Company contributions of 10% of salary. 			
	Base salary	Benefits	Pension	Total fixed
Richard Darwin	£337,000	£12,772	£33,700	£383,472

Target	Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends): <ul style="list-style-type: none"> – Annual bonus: consists of a mid-level bonus. – LTI: consists of the threshold level of vesting (20% vesting) of PSP awards (at 175% of salary). 			
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Maximum and growth	Based on the maximum remuneration receivable (excluding dividends but assuming 50% share price appreciation): <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). – Maximum with growth simply assumes 50% share price growth for PSP awards. 			
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Richard Darwin (Chief Executive Officer)

£'000



GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

PART B: IMPLEMENTATION REPORT

Implementation of Policy for 2022 (unaudited information)

Base salary

The Chief Executive Officer's base salary for 2022 will be £337,000.

The base salary for John Treharne (our Founder Director) will be £100,000 (2021: £195,000).

Pension

Contributions rates for Executive Directors will be 10% of salary. Contributions may be made as cash supplements in full or in part. We will align the pension contribution rate for all Executive Directors to that of all employees at 4% of salary from the start of January 2023.

Benefits

Details of the benefits received by Executive Directors are set out in note 1 to the single figure table on page 101.

Annual bonus

The overall bonus plan maximum for Richard Darwin will be 100% of base salary for 2022. Mark George will not be eligible to participate in the bonus plan for 2022 following the announcement that he will be leaving the Company in July 2022.

The 2022 bonus will be based on financial targets (namely Group Adjusted EBITDA Less Normalised Rent), number of new sites opened, average Q4 membership numbers and percentage of members visiting our gyms four times a month. As noted in the Committee Chair's letter, we also intend to introduce an ESG/Social Value measure as a new strategic target for the purpose of the 2022 annual bonus. All of these targets are either specific KPIs (Group Adjusted EBITDA) or are lead indicators (site openings; membership metrics) towards a number of our non-financial KPIs (total number of gyms; total number of members). Due to issues of commercial sensitivity, we do not believe it is in shareholders' interests to disclose any further details of these targets on a prospective basis. However, the Committee is committed to adhering to principles of transparency in terms of retrospective annual bonus target disclosure and will, therefore, provide appropriate and relevant levels of disclosure for the bonus targets applied to the 2022 bonus (and performance against these targets) in next year's Directors' Remuneration Report.

Bonuses are payable in cash for outcomes up to 75% of base salary, with any outcomes above this level made as awards of deferred shares under the Deferred Share Bonus Plan. Deferred shares are capable of vesting two years after these are awarded.

Long-term incentives

An award will be made in 2022 under the PSP to Richard Darwin over shares worth 175% of salary. Mark George will not receive a PSP award in 2022 following the announcement of his resignation in January 2022.

As in past years, the proposed award levels will be confirmed by the Committee only at the time of award having considered overall performance, including shareholder experience. PSP awards will vest three years after grant, and performance vested shares will also be subject to a further two year holding period after the initial three year period to vesting.

The performance conditions will return to the previous mix of relative TSR and financial performance metrics that were in use prior to the onset of the pandemic. The mix of targets will be relative TSR (50% weighting), Adjusted Group Operating Cash Flow (25% weighting) and ROIC in the mature estate (25% weighting). These are measures which encourage the generation of sustainable long-term returns to shareholders. It is currently intended that the measures will be as described below, although for relative TSR the Committee is considering the introduction of a sector specific comparator group to operate for part of the award; if this change is made it will be confirmed in the RNS announcement for the grant of 2022 PSP awards.

Relative TSR vs FTSE Small Cap (excluding investment trusts) (50% of total award)

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

Adjusted Group Operating Cash Flow (25% of total award)

Adjusted Group Operating Cash Flow for financial year 2024	% of that part of the award that vests
Below £135m	0%
£135m	20%
£150m or above	100%
Between £135m and £150m	Pro rata straight-line between 20% and 100%

ROIC in the mature estate (25% of total award)

ROIC in the mature estate for financial year 2024	% of that part of the award that vests
Below 25%	0%
25%	20%
30% or above	100%
Between 25% and 30%	Pro rata straight-line between 20% and 100%

Founder Director

With effect from 1 January 2022, John Treharne will be paid a base salary of £100,000. As Founder Director he will continue to receive benefits in accordance with the Policy. John will not receive any pension contributions, nor will he participate in the annual bonus plan or receive any PSP awards in 2022.

Non-Executive Directors' fees

Penny Hughes will receive an annual fee of £138,000 as Chair of the Board. David Kelly, Emma Woods, Rio Ferdinand and Wais Shaifta will each receive a fee of £55,000.

Single total figure table (audited)

The remuneration for the Executive Directors, Non-Executive Directors and Founder Director of the Company who performed qualifying services during the year is detailed below.

For the year ended 31 December 2021:

£	Salary/fees	Taxable benefits ¹	Bonus ²	Long-term incentives ³	Pension ⁴	Total remuneration	Total fixed remuneration ⁵	Total variable remuneration ⁵
Executive Directors								
Richard Darwin	306,000	12,772	136,782	–	30,600	486,154	349,372	136,782
Mark George	241,267	10,738	–	–	24,127	276,132	276,132	–
Founder Director								
John Treharne	195,000	8,036	–	–	–	203,036	203,036	–
Non-Executive Directors								
Paul Gilbert ⁶	19,960	1,524	–	–	–	21,484	21,484	–
Penny Hughes	138,000	–	–	–	–	138,000	138,000	–
David Kelly	55,000	–	–	–	–	55,000	55,000	–
Emma Woods	55,000	–	–	–	–	55,000	55,000	–
Wais Shaifta ⁷	50,417	–	–	–	–	50,417	50,417	–
Rio Ferdinand ⁷	50,417	–	–	–	–	50,417	50,417	–

1 Taxable benefits comprise car allowance (£8,000 for Richard Darwin and Mark George), private medical cover, a car parking space and additional mobile telephone contracts (in the case of the Founder Director). The benefits for Paul Gilbert is the taxable annual value of family gym membership for 10 years which was provided to Paul as a retirement gift.

2 Further details of the bonus outturn for 2021 can be found on page 102. The bonus total for Richard Darwin represents 44.7% of base salary.

3 The 2019 PSP awards are not expected to vest as the EPS and ROIC measures for the three year financial performance period to 31 December 2021 have not been met. The performance of the TSR element of the awards will have its final measurement on 27 March 2022 but is not expected to be attained.

4 Pensions are provided via a defined contribution and/or cash supplement.

5 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.

6 Paul Gilbert stepped down from the Board on 11 May 2021.

7 Wais Shaifta and Rio Ferdinand joined the Board on 1 February 2021.

GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

For the year ended 31 December 2020:

£	Salary/fees	Taxable benefits	Bonus	Long-term incentives	Pension	Total remuneration ¹	Total fixed remuneration	Total variable remuneration
Executive Directors								
Richard Darwin	283,050	11,786	–	12,483	28,305	335,624	323,141	12,483
Mark George	213,180	2,209	–	12,483	21,318	249,190	236,707	12,483
Founder Director								
John Treharne	143,000	5,671	–	–	–	148,671	148,671	–
Non-Executive Directors								
Paul Gilbert	40,333	3,931	–	–	–	44,264	44,264	–
Penny Hughes	101,200	–	–	–	–	101,200	101,200	–
David Kelly	40,333	–	–	–	–	40,333	40,333	–
Emma Woods	40,333	–	–	–	–	40,333	40,333	–

¹ The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2021 was £1,335,640 (2020: £959,615).

Further information on the 2021 annual bonus (audited)

As explained in the Committee Chair's letter, an annual bonus plan was only operated for the second half of 2021 subject to a maximum of 50% of base salary (half of the normal maximum). The H2 2021 bonus for the Executive Directors was based on three metrics with equal weightings (Group Adjusted EBITDA Less Normalised Rent, site openings and membership numbers). Outcome against the targets was as follows:

Measure (weighting)	Threshold	Maximum	Actual	Vesting outcome
EBITDA targets (33%)	£5.0m	£5.5m	£5.7m	100%
Site openings (33%)	10	18	19	100%
Membership numbers (33%) ¹	730,000	750,000	734,119	68.2%
Overall				89.4%

¹ Membership numbers averaged over last two months in 2021.

Having considered the wider experience of our shareholders and other stakeholders the Committee determined that it was appropriate to allow payment of the H2 2021 bonus in line with the achievement of the targets as described above, giving a total bonus of 44.7% of annual salary for the CEO. Mark George will not receive a bonus for H2 2021 following the announcement of his resignation as CFO in January 2022.

Performance Share Plan awards

Vesting outcomes for 2019 PSP awards

Performance measure and weighting	Target range	Performance achieved	Vesting outcome	% of total award vesting
Earnings per share growth (25%)	Target range between 14.2p (20% vests) and 19.6p (100% vests) for financial year 2021.	(20.7)p	0%	0%
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) measured over three year period to 27 March 2022.	estimated to be below median ¹	estimated to be nil	estimated to be 0%
ROIC (25%)	Target range between 29.7% and 31.7%.	18%	0%	0%
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.				
Total				0%

¹ The final TSR outcome will be measured after the latest possible date for inclusion in the Annual Report and Accounts 2021. An estimated value has been included and the final outcome will be confirmed in the Annual Report and Accounts 2022.

Details of outstanding PSP awards

Executive	Awards held at 1 Jan 2021	Awards granted during the year ^{1,2}	Awards exercised during the year	Awards lapsed during the year ³	Interests held at 31 Dec 2021 ⁴
Richard Darwin	834,737	230,421	109,641	139,096	816,421
Mark George	429,733	168,975	–	–	598,708
John Treharne	355,967	–	–	185,414	170,553

- 1 The above PSP awards were granted at the three-month average market price of 232.4p to the last trading day prior to grant on 25 March 2021. On the basis of this approach the awards thus represented awards to Richard Darwin and Mark George over shares worth 175% of basic salary.
2 The exercise price of awards granted during the year is 0.01p.
3 2018 PSP awards (representing 139,096 shares for Richard Darwin and 185,414 shares for John Treharne) lapsed as the performance conditions for these awards were not achieved.
4 The minimum share price in 2021 was 210.0p and the maximum share price was 313.0p. The closing share price on 31 December 2021 was 254.5p.

These awards vest based on performance against the following targets:

Performance measure	2019 award (50% TSR, 25% growth in adjusted EPS and 25% ROIC in mature estate)	2020 award (66.7% relative TSR and 33.3% absolute TSR)	2021 award (66.7% relative TSR and 33.3% absolute TSR)
Adjusted EPS growth 20% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range between 14.2p and 19.6p for FY2021.	Not applicable.	Not applicable.
Relative TSR 20% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award (average across three years).	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 2019 award.	Target range as for 2019 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 three years).	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.	Not applicable.	Not applicable.
Absolute TSR 20% of this part vests at threshold performance rising on a pro rata basis until 100% vests at maximum performance.	Not applicable.	Target range between 210p (threshold) and 300p (maximum).	Target range between 285p (threshold) and 335p (maximum).

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. Adjusted EPS is to be calculated using the Company's definition of Group Adjusted EBITDA less Normalised Rent (which will reflect normalised rent rather than IFRS 16 depreciation and interest charges); and
- 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 conditions 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. TSR is measured on the basis of performance over three calendar years beginning with the grant date. The absolute TSR measure will also credit any dividends paid in the performance period.

GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

- 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 Committee also has a standard power to apply its judgement to adjust the formulaic outcome of all 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.

Participation in the Share Incentive Plan ('SIP')

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 2021	Partnership shares purchased in 2021	Matching shares awarded in 2021	Free shares awarded in 2021	Total SIP shares at 31 Dec 2021
Richard Darwin	8,725	722	722	–	10,169
Mark George	4,860	994	994	–	6,848

Participation in the Sharesave Plan

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

Exercise	Total Sharesave awards at 1 Jan 2021	Awards granted	Exercise price of awards granted (pence)	Awards vested (number)	Awards exercised (number)	Awards lapsed (number)	Total Sharesave awards at 31 Dec 2021	Earliest exercise date
Richard Darwin	16,666	–	108.0	–	–	–	16,666	1 December 2023
Mark George	16,666	–	108.0	–	–	–	16,666	1 December 2023

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 2021:

Director ¹	Penny Hughes ²	John Treharne ³	Richard Darwin ⁴	Mark George	Paul Gilbert ⁵	David Kelly	Emma Woods ⁶	Wais Shafra	Rio Ferdinand
Ordinary shares	65,201	1,591,908	721,760	13,642	–	10,000	13,930	–	–
Shares awarded under SIP	–	3,909	10,169	6,848	–	–	–	–	–
Maximum shares receivable under PSP awards	–	170,553	816,421	598,708	–	–	–	–	–
Maximum shares receivable under Sharesave awards	–	–	16,666	16,666	–	–	–	–	–
Total shareholding and share interests	65,201	1,766,370	1,565,016	635,864	–	10,000	13,930	–	–

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

² The total number of Ordinary shares in which Penny Hughes or persons connected with her or are interested in includes 5,201 Ordinary shares owned by Robbie Hughes.

³ There is a charge over 1,150,000 Ordinary shares held in John Treharne's name in an account with Investec Wealth & Investment Limited.

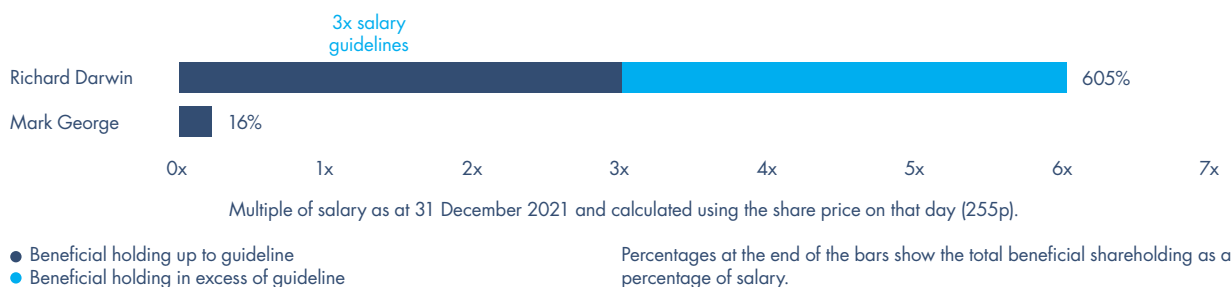
⁴ The total number of Ordinary shares in which Richard Darwin or persons connected with him is or are interested in includes 100,000 Ordinary shares owned by Charlotte Darwin.

⁵ Paul Gilbert stepped down from the Board on 11 May 2021.

⁶ The total number of Ordinary shares in which Emma Woods or persons connected with her is interested in includes 8,930 Ordinary shares owned by Lorcan Woods.

Statement of Directors' shareholding and share interests (audited) continued

Progress towards share ownership guidelines



Under share ownership guidelines implemented by the Remuneration Committee, any Executive Director at Admission is required to build and then maintain a shareholding equivalent to 300% of base salary, and any Executive Director appointed after Admission has a share ownership guideline of 200% 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 2021 year-end, Richard Darwin and John Treharne complied with this requirement as shown above.

Payments to past Directors (audited)

No payments were made to past Directors during the year.

As was announced in January 2022, our Chief Financial Officer, Mark George, has resigned his position. He is currently working his notice period and it is anticipated that he will leave the business in July 2022. During this period, he will continue to receive his normal fixed pay in accordance with his contractual entitlements for the notice period. Mark will receive no annual bonus for 2021 or 2022 and all of his unvested PSP share awards will lapse when he leaves the business. Any awards he holds under the all-employee SAYE and SIP schemes will be treated in accordance with the rules of the relevant scheme.

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



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REPORT OF THE REMUNERATION COMMITTEE CONTINUED

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%
2020	Richard Darwin	£335,624	0%	0%
2021	Richard Darwin	£486,154	44.7%	0% ⁴

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.

⁴ The 2019 PSP awards are expected not to vest due to failure to meet the performance metrics. As the final outcomes will be determined after the latest possible date for inclusion in this report, the final outcomes will be confirmed in the 2022 report.

Annual percentage change in remuneration of Directors and employees

In 2020, in response to the impact of COVID-19, the Board took swift action to ensure that remuneration at The Gym Group aligned with the broader experience of our stakeholders. As a result, each of the Executive Directors took material reductions in their salary for the second quarter of 2020 (this was 30% in respect of Richard Darwin and 20% in respect of Mark George). In addition, the Chair of the Board, Non-Executive Directors and Founding Director each waived their fees or salary on a voluntary basis entirely in the second quarter. The percentage increases between 2020 and 2021 shown in the table below therefore reflect a return to pre pandemic levels of fees and salary for the Directors.

The percentage change in remuneration of the Directors and employees of the business between the 2019, 2020 and 2021 financial years were as follows:

	% change from 2019 to 2020			% change from 2020 to 2021		
	Salary or fees	Benefits	Bonus	Salary or fees	Benefits	Bonus
Employees ^{1,2}	5%	(11)%	(100)%	6%	29%	100%
Executive Directors:						
Richard Darwin	(6)%	3%	(100)%	8%	8%	100%
Mark George	(3)%	20%	(100)%	13%	100%	0%
Founder Director:						
John Treharne	(27)%	(48)%	N/A	36%	42%	N/A
Non-Executive Directors:						
Paul Gilbert ³	(27)%	31%	N/A	36%	9%	N/A
Penny Hughes	(27)%	N/A	N/A	36%	N/A	N/A
David Kelly	(27)%	N/A	N/A	36%	N/A	N/A
Emma Woods	(27)%	N/A	N/A	36%	N/A	N/A
Wais Shafra ⁴	N/A	N/A	N/A	N/A	N/A	N/A
Rio Ferdinand ⁴	N/A	N/A	N/A	N/A	N/A	N/A

¹ The strict legal requirement is to only provide details of employees of The Gym Group plc. As the listed entity does not have any employees, we have decided to voluntarily disclose in respect of all The Gym Group employees.

² The average percentage change in employee remuneration was calculated using the movement in mean values (in respect of each element of remuneration) between the relevant years. The relevant mean values were calculated by dividing the aggregate total of each element of remuneration for all Group employees during the year (calculated on an FTE basis) by the total number of Group employees.

³ Paul Gilbert retired from the Board on 11 May 2021.

⁴ Wais Shafra and Rio Ferdinand, joined the Board on 1 February 2021.

CEO to employee pay ratio (unaudited)

The table below shows how the CEO's single figure remuneration (as taken from the single figure remuneration table on page 101) compares to equivalent single figure remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

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
2020	Option B	19.0 : 1	18.8 : 1	13.2 : 1
2021	Option B	26.3 : 1	25.0 : 1	23.8 : 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. As the employees at the 25th, 50th and 75th percentile all have the same hourly rate (for gender pay gap reporting purposes), the relevant individuals were identified using the full pay and benefits of employees for the 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, 2019, 2020 and 2021 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 Company was not required to publish the CEO to employee pay ratio for 2018 but chose to on a voluntary basis (and this has been included for additional context).

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:

	Salary			Total pay and benefits		
	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
	£18,505.60	£19,441.77	£19,630.00	£18,505.60	£19,441.77	£20,424.09

The change in each of the pay ratios for 2021 (relative to prior years) reflects both: (1) return to normal fixed pay for the Chief Executive Officer (after the temporary reductions made in 2021 in response to COVID-19); and (2) the payment of a bonus in respect of H2 2021. As the CEO pay ratio will involve the inclusion of variable pay outcomes for any year, it is reasonable to expect the ratio to vary from year to year.

Relative importance of spend on pay (unaudited)

The table below details the change in total staff pay between 2020 and 2021 compared with distributions to shareholders by way of dividend, share buy backs or any other significant distributions or payments:

	2021 £'000	2020 £'000	% change
Total gross staff pay ¹	29,738	26,585	11.86%
Dividends/share buy backs	–	–	0%

¹ The increase in gross staff pay from 2020 reflects the increase in our number of employees due to new gym openings and additional gym support staff.

Summary of shareholder voting

The following table shows the results of the advisory vote on the 2020 Directors' Remuneration Report (at the 2021 AGM) and the binding vote on the Directors' Remuneration Policy at the 2019 AGM:

	Approval of the 2020 Directors' Remuneration Report (2021 AGM)		Approval of the Directors' Remuneration Policy (2019 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	114,021,914	96.7%	84,131,086	94.7%
Against	3,893,530	3.3%	4,759,041	5.3%
Votes withheld	7,229,647	–	–	–

GOVERNANCE

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Remuneration Committee in 2021 (unaudited)

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 Chair of the Board 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 seven times during the year and the table on page 77 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. The whole Board, specially the Chair of the Board and the Chair of the Remuneration Committee, regularly visit our gyms, which facilitates engagement and keeps the Board up to date with gym operations. It is our intention to continue this dialogue in 2022 and to explain to the wider workforce how the pay of Executive Directors and employees is aligned.

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 The 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.

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 2021 were £72,715 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

Emma Woods

Chair of the Remuneration Committee
16 March 2022

DIRECTORS' REPORT

The Directors present their report together with the audited financial statements for the period ended 31 December 2021.

Where reference is made to other sections of the Annual Report and Accounts 2021, these sections are incorporated into this report by reference.

A summary statement of non-financial information and where this can be found in the report is on page 51.

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 (resigned with effect from 11 May 2021)
David Kelly
Emma Woods
Mark George
Wais Shaifta (appointed with effect from 1 February 2021)
Rio Ferdinand (appointed with effect from 1 February 2021)

Following year end, Mark George notified the Board of his resignation as Chief Financial Officer and Executive Director. Mark will be stepping down from his post in July 2022.

The roles and biographies of the Directors as at the date of this report are on pages 72 to 73. 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 willing to be a Director.
- Every Director shall retire at each AGM and be eligible for re-election.
- The Company may, by special resolution, or ordinary resolution of which special notice has been given according to applicable legislation, remove any Director before the expiration of his or her period of office.
- 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 insurance

The Company has granted an indemnity by way of deed poll to 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

As noted on page 60, the Directors are not proposing a final dividend for the year 2021, taking into account the impacts of the pandemic upon the Group when gyms were closed and the business support measures received from the Government. It is a condition of the £30m New Bank Facility that the Company shall not declare or pay a dividend and whilst this facility remains undrawn, the Directors would like to continue to have access to it as necessary.

Events after the balance sheet date

In March 2022, the Group agreed to acquire the trade and assets of a portfolio of three sites trading under the Fitness First brand for total cash consideration of £5.5 million. At the same time, the Group also obtained credit committee approval from its banks for certain changes to its RCF facility.

Further detail is included in note 30 to the Consolidated Financial Statements.

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 69 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 70 to 78, 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 36 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 45 and forms part of this report by reference.

Human rights, anti-bribery and anti-corruption

Information on the Group's human rights and anti-bribery policies is set out in the Sustainability Report on page 32 and forms part of this report by reference.

Political donations

The Company made no political donations in 2021 (2020: £nil).

GOVERNANCE

DIRECTORS' REPORT CONTINUED

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.

Directors' interests

The beneficial interests of the Directors of the Company at 31 December 2021, and their connected persons, in the issued Ordinary shares are provided on page 104 within the Directors' Remuneration Report.

Major interests in shares

As at 31 December 2021, 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
Liontrust Sustainable Investments	18,910,857	10.64
Blantyre Capital	17,807,214	10.02
Legal & General Investment Management	11,024,995	6.20
Fidelity International	10,504,766	5.91
Janus Henderson Investors	8,839,116	4.97
Invesco	8,408,677	4.73
Columbia Threadneedle Investments	7,666,665	4.31
BMO Global Asset Management (UK)	6,991,669	3.93
AXA Framlington Investment Managers	6,842,801	3.85
Premier Miton Investors	5,359,760	3.02

Share capital

As at 31 December 2021, the Company's issued share capital comprised 177,751,218 Ordinary shares with a nominal value of £0.01 each with one vote per share.

Ordinary shares

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.

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

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

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

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- 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 2021 AGM, shareholders approved an authority for the Company to make market purchases of its own shares up to a maximum of 16,610,444 shares (being approximately 10% of the issued share capital at that time) at prices not less than the nominal value of each share (being £0.01 each). No use was made of this authority during the period. The Company intends to renew this authority at its 2022 AGM.

Authority to allot shares

At the 2021 AGM, authority was given to the Directors to allot new Ordinary shares up to a nominal value of £5,536.26, 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 £11,074.18, equivalent to 66.67% of the authorised share capital of the Group. The Company intends to renew this authority at its 2022 AGM.

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 2 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 and Accounts 2021. If a requirement is not shown, it is not applicable to the Company.

Section	Listing Rule requirement	Location
1	A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any related tax relief	Note 10 Finance Costs (page 140)
4	Details of long-term incentive schemes	Report of the Remuneration Committee (pages 86 to 108)
7	Details of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders	Note 25 Issued Share Capital and Reserves (page 153)
10	Details of contracts of significance	Corporate Governance Report (page 78 Directors' conflicts of interest)

Section 172 and engagement with suppliers, customers and others

In its decision making, the Board has regard to each Director's 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 52 to 55.

Auditors

Each of the persons who is a Director at the date of approval of the Annual Report and Accounts 2021 confirms that: a) so far as the Director is aware, there is no relevant audit information of which the Company's auditors are 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 auditors are aware of that information. Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming AGM.

AGM

The Notice convening the 2022 AGM will be circulated to shareholders separately. We will ensure that shareholders are kept informed using the Notice of Meeting, our website, and relevant regulatory announcements in due course.

On behalf of the Board

Nadira Hussein

Company Secretary
16 March 2022

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the Annual Report and Accounts 2021 in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group Financial Statements in accordance with International Financial Reporting Standards ('IFRSs') in conformity with the Companies Act 2006, and the Parent Company Financial Statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). Under company law the Directors must not approve the Group 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 and the Company for that period.

Under the Financial Conduct Authority's Disclosure Guidance and Transparency Rules, group financial statements are required to be prepared in accordance with IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union.

In preparing the Financial Statements, the Directors are required to:

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors 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;
- provide additional disclosures when compliance with the specific requirements in IFRSs (or in respect of the Parent Company Financial Statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance;
- in respect of the Group Financial Statements, state whether IFRSs in conformity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, 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 including FRS 101 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 it is appropriate to presume that the Company and/or Group will not continue in business.

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 and Group'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 Company and Group 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.

Under applicable law and regulations, the Directors are also responsible for preparing a Strategic Report, Directors' Report, Directors' Remuneration Report and Corporate Governance Statement that comply with that law and those regulations. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the UK governing the preparation and dissemination of accounts may differ from legislation in other jurisdictions.

Responsibility statement

The Directors confirm, to the best of their knowledge:

- That the consolidated Financial Statements, prepared in accordance with IFRSs in conformity with the Companies Act 2006 (and IFRSs pursuant to Regulation (EC) 1606/2002 as it applies in the European Union), give a true and fair view of the assets, liabilities, financial position and results of the Parent Company and undertakings included in the consolidation taken as a whole;
- That the Annual Report and Accounts 2021, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- That they consider the Annual Report and Account 2021, 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
16 March 2022

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 2021 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK adopted international accounting standards;
- 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.

We have audited the financial statements of The Gym Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2021 which comprise:

Group	Parent Company
Consolidated Statement of Financial Position as at 31 December 2021	Company Statement of Financial Position as at 31 December 2021
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 financial statements including a summary of significant accounting policies
Consolidated Cash Flow Statement for the year then ended	
Related notes 1 to 30 to the 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 UK adopted international accounting standards. 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. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group and Parent 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.

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.

Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate. Our evaluation of the Directors' assessment of the Group and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- We obtained management's forecast cash flows and covenant calculations covering the period from the date of signing to 30 June 2023 and we agreed these to the Board-approved budgets and forecasts.
- We challenged the appropriateness of the going concern assessment period, taking into consideration events after the going concern period which may have an impact.
- We tested the mathematical accuracy of the cash flows, as well as the calculation of the forecast covenants.
- We challenged management in respect of the assumptions used in the going concern assessment, in particular new membership numbers, churn rate, operating costs and timing/number of new gym openings
- We assessed, against historic and current membership levels and independent sector forecasts, the plausibility of the reduction in membership numbers that would lead to a covenant breach under the reverse stress test scenario and the impact this would have on liquidity.
- We understood and challenged the Board's controllable mitigation plans, including reduced gym openings, lower marketing spend, deferral of projects and the forecast impact on the ability of the business to operate within its financial covenants.
- We obtained supporting documentation to evaluate the plausibility of management's mitigation plans considering actions delivered to date.
- We compared forecast future cash flows to historical data, ensuring variations are in line with our expectations and understanding of the business to consider the reliability of past forecasts.
- We considered the results of other audit procedures and other knowledge obtained in the audit and whether it was consistent with or contradicted management's assumptions.
- We performed our own sensitivity analysis on management's forecast cash flows with additional downside on revenue.
- We obtained evidence of the banks' agreement to the extension of the Group's RCF to October 2024.

FINANCIAL STATEMENTS

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

CONTINUED

- We agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations at 31 December 2021.
- We assessed the adequacy of disclosures within the Annual Report and Accounts 2021.

Our key observations

We observed that since gyms re-opened in April 2021, membership numbers have increased from 536,000 to 718,000 in December 2021 and 825,000 in February 2022.

Under the reverse stress test, it required a 26% reduction in the assumed membership number in each month under the base case to create a breach of financial covenants (breach occurring in December 2022; membership reduced to 82% of February 2022 levels at that time) with no liquidity issues under this scenario during the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period to 30 June 2023.

In relation to the Group and Parent Company's reporting on how they have applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Overview of our audit approach

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 one component. • The components where we performed full or specific audit procedures accounted for 100% of Loss before tax, 100% of Revenue and 100% of Total Assets.
Key audit matters	<ul style="list-style-type: none"> • Deferral of membership income • Annual goodwill impairment testing including cash flow and discount rate assumptions • Property, plant and equipment and Right of Use assets impairment testing including cash flow and discount rate assumptions
Materiality	<ul style="list-style-type: none"> • Overall Group materiality of £689,000 which represents 0.65% of revenue.

An overview of the scope of the Parent Company and Group audits

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each Company 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 Company.

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 three components, which represent the principal business units within the Group.

Of the three 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 component ('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.

The reporting components where we performed audit procedures accounted for 100% (2020: 100%) of the Group's Revenue, Group's Loss before tax, and Group's Total Assets.

	2021			2020		
	Full scope	Specific scope	Remaining components	Full scope	Specific scope	Remaining components
Number of components	2	1	4	2	1	4
Revenue	100%	0%	–	100%	0%	–
Loss before tax	100%	0%	–	97.8%	2.2%	–
Total assets	99.9%	0.1%	–	99.9%	0.1%	–

Changes from the prior year

There are no changes from the prior year.

Involvement with component teams

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

Key audit matters

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

Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Deferral of membership income – total revenue for the year ended 31 December 2021: £106.0m (31 December 2020: £80.5m), of which £8.5m was deferred at 31 December 2021 (31 December 2020: £6.4m) and presented in the balance sheet as contract liabilities.</p> <p><i>Refer to the Report of the Audit and Risk Committee (pages 82 to 84); Accounting policies (page 128); and Note 5 of the Consolidated Financial Statements (page 137)</i></p> <p>In preparing the consolidated financial statements, management needs to calculate the amount of joining and subscription payments collected, 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 significant judgement or estimation, it is non-routine in its performance, with large numbers of members, varying subscription rates and the reliance on outsourced processes which could be open to manipulation.</p> <p>The risk has decreased in the current year in comparison to the prior year. This is due to measures with respect to COVID-19 in the prior year requiring manual calculations due to the lockdown over year end and, as a result, increasing the risk of material error and management override. The deferred membership fee income is a system-generated calculation in the current year.</p>	<p>We obtained an understanding of the Group's revenue recognition process, in particular in respect of the membership subscription income recognition process. This included making enquiries of 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 obtained the full revenue listing directly from the management service provider and tested a sample to ensure validity of the information. We re-performed management's deferred membership fee income calculation for all material balances in order to ensure the accuracy of the calculation of income deferred.</p> <p>We performed full scope audit 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 2021 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

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Risk	Our response to the risk	Key observations communicated to the Audit and Risk Committee
<p>Annual goodwill impairment testing including cash flow and discount rate assumptions – 31 December 2021: £77.7m (31 December 2020: £77.7m).</p> <p><i>Refer to the Report of the Audit and Risk Committee (pages 82 to 84); Accounting policies (page 132); and Note 15 of the Consolidated Financial Statements (page 147)</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, 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 Group chain of health and fitness facilities.</p> <p>Management has 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 2021.</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>There is a continuing risk and uncertainty in the current year due to COVID-19 and the impacts of the related Government-enforced closures during the year and member behaviour.</p>	<p>We performed a walkthrough of the process and controls to gain an understanding of the Group's impairment process.</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 Group' brand. This group of CGUs represent the lowest level of independent cash inflows 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'.</p> <p>We obtained management's impairment testing models for goodwill. We tested the input data to source information, we evaluated the calculation methodology and tested the integrity of the model.</p> <p>For this test, we assessed whether the assumptions disclosed in note 15 to the consolidated financial statements were the appropriate key assumptions to be used in the impairment model, being the discount rate, revenue growth and cost inflation over the next three years and the long-term growth from 2023 onwards.</p> <p>We then challenged the reasonableness of these assumptions by reference to historical data, external benchmarks and the risk of management bias.</p> <p>We 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 reasonably possible change in key impairment assumptions to determine whether an impairment charge would be 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 assessing the appropriateness of the methodology applied in management's impairment models and to assist in our assessment of the discount rate and long-term growth rate assumptions used in the impairment models.</p> <p>We assessed the financial statements disclosures, particularly those in note 15 for Goodwill to the consolidated financial statements, against 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 consider management's assessment of the CGUs to be appropriate. 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>The financial statements disclosures, particularly those in note 15, materially comply with the applicable requirements of IAS 36 and IAS1.</p>

Risk

Our response to the risk

Key observations communicated to the Audit and Risk Committee

Property, plant and equipment impairment testing - 31 December 2021: £165.6m (31 December 2020: £171.3m); ROU asset 31 December 2021: £281.2m (31 December 2020: £255.6m)

Refer to the Report of the Audit and Risk Committee (pages 82 to 84); Accounting policies (pages 129 and 130); and Notes 13 and 14 of the Consolidated Financial Statements (pages 143 and 144)

As disclosed in notes 13 and 14 to the Consolidated Financial Statements, property, plant and equipment is recognised of £446.8m relating to the assets held, including the Right of Use assets for The Gym Group chain.

Management has undertaken an annual impairment review in respect of property plant and equipment ('PPE') and Right of Use ('ROU') assets and has recognised an impairment of £4.0m in the current year.

We focused on this area due to both the significance of the carrying value of PPE and ROU assets, and the inherent uncertainty involved in an impairment review, which requires management to make significant judgements and estimations as to future outcomes and assumptions of cash flows (for example customer acquisition and retention, changes in subscription rates, operating costs etc), along with the discount rate to be applied to those cash flows. In addition, such judgements and estimates could be influenced by management bias.

The significant assumptions are disclosed in note 13 for PPE and note 14 for ROU assets.

There is a continuing risk and uncertainty in the current year due to COVID-19 and the impacts of the related Government-enforced closures during the year and member behaviour.

We performed a walkthrough of the process and controls to gain an understanding of the Group's impairment process.

Given the impairment indicators in the year due to COVID-19, we obtained management's impairment testing model for PPE and ROU assets. We tested the input data to source information, we evaluated the calculation methodology and tested the integrity of the model.

For the impairment test, we assessed whether the assumptions disclosed in note 13 and 14 to the Consolidated Financial Statements were the appropriate key assumptions to be 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.

We then challenged the reasonableness of these assumptions by reference to historical data, external benchmarks and the risk of management bias.

We assessed the historical accuracy of management's forecasting by comparing actual financial performance to management's previous forecasts/budgets.

We considered management's sensitivity analysis showing the impact of a reasonably possible change in key impairment assumptions to determine whether an impairment charge would be required. This consideration included performing our own sensitivity analysis by reference to the results of our assessment of assumptions referred to above.

As part of our work we utilised EY valuations specialists to assist in assessing the appropriateness of the methodology applied in management's impairment models and to assist in our assessment of the discount rate and long-term growth rate assumptions used in the impairment models. Additionally, we engaged with EY specialists in respect of the valuation of property as part of our fair value assessment of the ROU assets.

We assessed the financial statements disclosures, particularly those in note 13 for PPE and 14 for ROU assets to the Consolidated Financial Statements, against the requirements of IAS 36 and IAS1 'Presentation of Financial Statements' ('IAS 1'), particularly those related to judgements, estimation uncertainty and sensitivities.

The Group audit team performed the full scope audit procedures on the impairment models prepared for The Gym Group plc.

Based on our procedures, we consider management's assessment and the impairment charges which have been recorded in the current year are reasonable.

The financial statements disclosures, particularly those in note 13 and 14 to the Consolidated Financial Statements, materially comply with the applicable requirements of IAS 36 and IAS1.

FINANCIAL STATEMENTS

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

CONTINUED

In the prior year, our auditor's report included a key audit matter in relation to Annual Goodwill and Property, Plant and Equipment ('PPE') and Right of Use ('ROU') asset testing as one key audit matter. In the current year, these have been split into two separate key audit matters as we consider the PPE and ROU asset testing to be a key audit matter in the current year due to the increased impairment in the year.

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 £689,000 (2020: £523,000), which is 0.65% (2020: 0.65%) of revenue. We believe that revenue is the key variable which will drive performance of the Group in 2022, and it is therefore expected that the users of the financial statements will focus on membership levels and revenue.

We determined materiality for the Parent Company to be £2,923,000 (2020: £1,942,700), which is 1% (2020: 1%) of assets.

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% (2020: 75%) of our planning materiality, namely £517,000 (2020: £392,000). 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 £180,950 to £517,000 (2020: £176,400 to £392,000).

Reporting threshold

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £34,000 (2020: £26,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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 and Accounts 2021 set out on pages 1 to 108, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report and Accounts 2021.

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.

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 course of 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 this gives rise to a material misstatement in the financial statements themselves. 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.

Opinions on other matters prescribed by the Companies Act 2006

In our opinion, the part of the Report of the Remuneration Committee 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 those reports have been prepared in accordance with applicable legal requirements;
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 in the Disclosure Rules and Transparency Rules sourcebook made by the Financial Conduct Authority ('the FCA Rules'), is consistent with the financial statements and has been prepared in accordance with applicable legal requirements; and
- information about the Company's corporate governance statement and practices and about its administrative, management and supervisory bodies and their committees complies with rules 7.2.2, 7.2.3 and 7.2.7 of the FCA Rules.

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; or
- the information about internal control and risk management systems in relation to financial reporting processes and about share capital structures, given in compliance with rules 7.2.5 and 7.2.6 of the FCA Rules.

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 Report of the Remuneration Committee 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; or
- a Corporate Governance Statement has not been prepared by the Company.

Corporate Governance Statement

We have reviewed the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group and Company's compliance with the provisions of the UK Corporate Governance Code specified for our review by the Listing Rules.

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements or our knowledge obtained during the audit:

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 68 to 69;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on pages 68 to 69;
- Director's statement on whether it has a reasonable expectation that the Group will be able to continue in operation and meets its liabilities set out on pages 68 and 69;
- Directors' statement on fair, balanced and understandable set out on page 112;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 62 to 67;

- The section of the Annual Report and Accounts 2021 that describes the review of effectiveness of risk management and internal control systems set out on pages 62 to 63; and
- The section describing the work of the Audit and Risk Committee set out on pages 82 to 84.

Responsibilities of Directors

As explained more fully in the Directors' Responsibility Statement set out on page 112, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group and Parent Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements

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

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect irregularities, including fraud. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the Company and management.

- 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 Group's (Accounts and Reports (Amendment)) Regulations 2013 in particular in respect of the Report of the Remuneration Committee; UK Tax Legislation; and UK Corporate Governance Code 2018.

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

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- We understood how the Gym Group plc is complying with those frameworks by making enquiries of senior management and those charged with governance; attendance at Audit and Risk Committees; obtaining an understanding of entity-level controls and considering the influence of the control environment; obtaining an understanding of policies and procedures in place regarding compliance with laws and regulations, including how compliance with such policies is monitored and enforced; obtaining an understanding of management's process for identifying and responding to fraud risks, including programmes and controls established to address risks identified, or otherwise prevent, deter and detect fraud, as well as reviewing the risk register' and how senior management monitors those programmes and controls; and reviewing correspondence with relevant regulatory authorities.
- We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by discussing within the audit team; performing client continuance procedures; reviewing interim financial information; identifying related parties; 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 testing of journal entries, with focus on manual journals, large or unusual transactions, or journals meeting our defined risk criteria based on our understanding of the business; 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 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

- Following the recommendation from the Audit and Risk Committee, we were appointed by the Company on 29 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 seven years, covering the years ending 31 December 2015 to 31 December 2021.
- The audit opinion is consistent with the additional report to the Audit and Risk 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
16 March 2022

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	31 December 2021 £m			31 December 2020 £m (Re-presented)*		
		Underlying	Non-Underlying (note 9)	Total	Underlying	Non-Underlying (note 9)	Total
Revenue	5	106.0	–	106.0	80.5	–	80.5
Cost of sales		(1.7)	–	(1.7)	(2.1)	–	(2.1)
Gross profit		104.3	–	104.3	78.4	–	78.4
Other income	6	7.3	–	7.3	0.4	–	0.4
Operating expenses before depreciation, amortisation and impairment	7	(79.1)	(2.3)	(81.4)	(62.7)	0.5	(62.2)
Depreciation, amortisation and impairment	13,14,15	(52.7)	(4.2)	(56.9)	(48.0)	(2.5)	(50.5)
Operating loss		(20.2)	(6.5)	(26.7)	(31.9)	(2.0)	(33.9)
Finance costs	10	(16.6)	(0.9)	(17.5)	(14.6)	1.3	(13.3)
Loss before tax		(36.8)	(7.4)	(44.2)	(46.5)	(0.7)	(47.2)
Tax credit/(charge)	11	8.3	0.5	8.8	11.1	(0.3)	10.8
Loss for the year attributable to equity shareholders		(28.5)	(6.9)	(35.4)	(35.4)	(1.0)	(36.4)
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		0.1	–	0.1	–	–	–
Total comprehensive expense attributable to equity shareholders		(28.4)	(6.9)	(35.3)	(35.4)	(1.0)	(36.4)
Loss per share (p)							
Basic and diluted	12	(16.7)		(20.7)	(22.5)		(23.1)

* During the year, the Directors agreed to change the way they present the consolidated income statement and adopt a columnar format because they believe this provides the reader with supplemental data relating to the financial condition and results of operations. See note 2 for further details. An analysis of Operating expenses before depreciation, amortisation and impairment by their nature is given in note 7.

Reconciliation of Operating Loss to Group Adjusted EBITDA Less Normalised Rent¹

	Note	31 December 2021 £m	31 December 2020 £m
Operating loss		(26.7)	(33.9)
Add back: Non-underlying operating items	9	6.5	2.0
Long-term employee incentive costs (included in Operating expenses)	8,26	2.9	0.7
Underlying depreciation and amortisation	13,14,15	52.7	48.0
Group Adjusted EBITDA		35.4	16.8
Less: Normalised Rent ²		(29.7)	(27.0)
Group Adjusted EBITDA Less Normalised Rent¹		5.7	(10.2)

¹ Group Adjusted EBITDA less Normalised Rent is a non-statutory metric used internally by management and externally by investors. It is calculated as operating profit before depreciation, amortisation, long-term employee incentive costs and non-underlying items, and after deducting Normalised Rent. Refer to the KPIs on pages 26 and 27 for further information.

² Normalised Rent is the contractual rent that would have been paid in normal circumstances without any agreed deferrals, recognised in the monthly period to which it relates.

The notes on pages 125 to 157 form an integral part of the Financial Statements.

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CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Note	31 December 2021 £m	31 December 2020 £m
Non-current assets			
Property, plant and equipment	13	165.6	171.3
Right-of-use assets	14	281.2	255.6
Intangible assets	15	86.0	86.4
Investments in financial assets	16	1.0	1.0
Deferred tax assets	11	16.1	7.6
Total non-current assets		549.9	521.9
Current assets			
Inventories		0.3	0.3
Trade and other receivables	17	6.3	6.3
Income taxes receivable		0.9	0.2
Cash and cash equivalents	18	7.3	3.7
Total current assets		14.8	10.5
Total assets		564.7	532.4
Current liabilities			
Trade and other payables	19	30.4	18.7
Lease liabilities	14	27.0	21.8
Other financial liabilities	20	–	2.6
Total current liabilities		57.4	43.1
Non-current liabilities			
Borrowings	21	44.3	49.2
Lease liabilities	14	309.3	284.5
Provisions	23	1.6	1.2
Total non-current liabilities		355.2	334.9
Total liabilities		412.6	378.0
Net assets		152.1	154.4
Capital and reserves			
Own shares held	25	0.1	0.1
Share premium	25	189.7	159.5
Hedging reserve	25	(0.1)	(0.2)
Merger reserve	25	39.9	39.9
Retained deficit	25	(77.5)	(44.9)
Total equity shareholders' funds		152.1	154.4

The notes on pages 125 to 157 form an integral part of the Financial Statements.

These Financial Statements were approved by the Board of Directors on 16 March 2022.

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

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	Own shares held £m	Share premium £m	Hedging reserve £m	Merger reserve £m	Retained deficit £m	Total £m
At 1 January 2020		0.1	159.5	(0.2)	–	(9.2)	150.2
Loss for the year and total comprehensive expense		–	–	–	–	(36.4)	(36.4)
Issue of ordinary share capital	25	–	–	–	39.9	–	39.9
Share-based payments	26	–	–	–	–	0.8	0.8
Deferred tax on share-based payments	11	–	–	–	–	(0.1)	(0.1)
At 31 December 2020		0.1	159.5	(0.2)	39.9	(44.9)	154.4
Loss for the year		–	–	–	–	(35.3)	(35.3)
Other comprehensive income for the year		–	–	0.1	–	–	0.1
Loss for the year and total comprehensive expense		–	–	0.1	–	(35.3)	(35.2)
Issue of ordinary share capital	25	–	30.2	–	–	–	30.2
Share-based payments	26	–	–	–	–	2.4	2.4
Deferred tax on share-based payments	11	–	–	–	–	0.3	0.3
At 31 December 2021		0.1	189.7	(0.1)	39.9	(77.5)	152.1

The notes on pages 125 to 157 form an integral part of the Financial Statements.

FINANCIAL STATEMENTS

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2021

	Note	31 December 2021 £m	31 December 2020 £m
Cash flows from operating activities			
Loss before tax		(44.2)	(47.2)
<i>Adjustments for:</i>			
Finance costs	10	17.5	13.3
Non-underlying operating items	9	6.5	2.0
Underlying depreciation of property, plant and equipment	13	23.6	23.9
Underlying depreciation of right-of-use assets	14	23.5	21.3
Underlying amortisation of intangible assets	15	5.4	2.9
Long-term employee incentive costs	26	2.9	0.7
Rent concessions	14	(1.6)	(0.7)
Loss on disposal of property, plant and equipment and right-of-use assets	7	0.4	0.7
Decrease in inventories		-	0.4
(Increase)/decrease in trade and other receivables		(0.3)	3.4
Increase/(decrease) in trade and other payables		10.1	(5.6)
Payment of deferred consideration	20	(2.6)	(1.3)
Cash generated from operations		41.2	13.8
Tax (paid)/received		(0.1)	2.4
Net cash inflow from operating activities before non-underlying items		41.1	16.2
Non-underlying items	9	(2.2)	(0.9)
Net cash inflow from operating activities		38.9	15.3
Cash flows from investing activities			
Payment for financial assets at fair value through profit and loss		-	(1.0)
Purchase of property, plant and equipment		(20.5)	(25.5)
Purchase of intangible assets		(5.2)	(3.8)
Net cash outflow used in investing activities		(25.7)	(30.3)
Cash flows from financing activities			
Repayment of lease liability principal	22	(17.7)	(9.9)
Lease interest paid	22	(14.2)	(12.7)
Bank interest paid		(1.8)	(1.8)
Payment of financing fees		(0.2)	(0.4)
Drawdown of bank loans	22	30.0	41.0
Repayments of bank loans	22	(36.0)	(40.0)
Proceeds of issue of ordinary shares	25	31.2	41.3
Costs associated with share issue	25	(0.9)	(1.4)
Net cash flow (used in)/from financing activities		(9.6)	16.1
Net increase in cash and cash equivalents		3.6	1.1
Cash and cash equivalents at the start of the year		3.7	2.6
Cash and cash equivalents at the end of the year		7.3	3.7

The notes on pages 125 to 157 form an integral part of the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

1. GENERAL INFORMATION

The Gym Group plc ('the Company') and its subsidiaries ('the Group') operate low cost, high quality, 24/7, no contract gyms.

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, CR0 0XT, 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

The financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority (where applicable) and United Kingdom adopted international accounting standards. The accounting policies applied are consistent with those described in the Annual Report and Accounts for the year ended 31 December 2020 of the Group, except in relation to the presentation of the Group Income Statement where the Directors have adopted a columnar format (see below for further details). 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 one hundred 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, financial assets 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 the financial statements.

Changes to the presentation of the consolidated statement of comprehensive income

During the year, the Directors decided to change the way they present the consolidated income statement to provide the reader with supplemental data relating to the financial condition and results of operations. The principal changes that have been adopted are:

- Presentation of the profits/losses in a three-column format showing 'Underlying', 'Non-underlying' and 'Total' numbers. Items of income and expense that are material by their size and/or nature and are not considered to be incurred in the normal course of business, are classified as non-underlying items on the face of the income statement within their relevant category. Further details are provided later in this note and in note 9.
- Presentation of 'Operating expenses before depreciation, amortisation and impairment' and 'Depreciation, amortisation and impairment' separately on the face of the consolidated income statement; previously both were summed together and shown as 'Administration expenses'. As a result of this change, expenses are now presented on the face of the income statement as a mixture of by nature and by function with a note to the financial statements showing the analysis by nature (see note 7).

The Group presents profit/loss for the year before non-underlying items as the Directors believe that this shows more clearly the trends in the Group's business and gives an indication of the Group's ongoing sustainable performance. The Directors believe the changes above provide the reader with more reliable and relevant information and greater clarity over the Group's financial performance and results of operations, giving a more comparable view of underlying trading performance. This presentation also provides better linkage with the numbers discussed in the Financial Review and helps to simplify the reconciliation to Group Adjusted EBITDA Less Normalised Rent.

Items of income and expense that are material by their size and/or nature and are not considered to be incurred in the normal course of business, are classified as non-underlying items on the face of the income statement within their relevant category. Further details are provided in note 9.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The table below shows the impact of the changes on each income statement line in the current and prior year.

	2021 as reported £m	2021 £m	2020 as reported £m	2020 as previously reported £m
Revenue	106.0	106.0	80.5	80.5
Cost of sales	(1.7)	(1.7)	(2.1)	(2.1)
Gross profit	104.3	104.3	78.4	78.4
Other income	7.3	7.3	0.4	0.4
Administration expenses	-	(138.3)	-	(112.7)
Operating expenses before depreciation, amortisation and impairment	(81.4)	-	(62.4)	-
Depreciation, amortisation and impairment	(56.9)	-	(50.3)	-
Operating loss	(26.7)	(26.7)	(33.9)	(33.9)
Finance costs	(17.5)	(17.5)	(13.3)	(13.3)
Loss before tax	(44.2)	(44.2)	(47.2)	(47.2)
Tax credit	8.8	8.8	10.8	10.8
Loss for the year attributable to equity shareholders	(35.4)	(35.4)	(36.4)	(36.4)

Going concern

In assessing the going concern position of the Group for the year ended 31 December 2021, the Directors have considered the following:

- the Group's trading performance in the second half of 2021 and throughout the traditional January and February 2022 peak period;
- future expected trading performance to June 2023 (the going concern period), including membership levels and behaviours;
- the Group's site rollout programme;
- the latest situation and UK Government guidance with respect to the COVID-19 pandemic; and
- the Group's financing arrangements and relationship with its lenders and shareholders.

Following the re-opening of gyms in April 2021, trading in the second half of 2021 showed total membership increasing by 31%, from 547,000 at the end of February 2021 to 718,000 at the end of December 2021. Trading in the first two months of 2022 which is traditionally the peak period for gym memberships, has been strong, with membership numbers at the end of February 2022 reaching 825,000.

The Directors believe that the current trading performance, together with the COVID-impacted commercial property market, provide the Group with a unique opportunity to accelerate growth and gain market share. The Directors are now focused on delivering that opportunity. We opened 19 new gyms in 2021 which are performing in line with our expectations, and have plans to open a further 28 in 2022.

To facilitate this accelerated growth, on 2 July 2021, the Group raised additional financing in the form of an equity placing, which raised net proceeds of £30.3m. In addition, certain restrictions in the Group's banking facilities around capital expenditure and finance lease debt were relaxed.

As at 31 December 2021, the Group had Non-Property Net Debt (including finance leases) of £44.1m and £62.3m of headroom (calculated off bank debt less cash) under the £100m Revolving Credit Facility ('RCF') (reducing to £75m in March 2022 before increasing to £80m in May 2022 and maturing in October 2024).

Until June 2022, the RCF is subject to quarterly financial covenant tests primarily relating to the performance of the Group against agreed targets for Group Adjusted EBITDA Less Normalised Rent. From June 2022, the covenants consist of quarterly tests on leverage (net debt to Group Adjusted EBITDA Less Normalised Rent), fixed charge cover (Adjusted EBITDAR to Net Finance Charges and Normalised Rent) and minimum liquidity.

The Group's base case forecast for the period to 30 June 2023 anticipates continued recovery of membership and robust yields, together with the successful execution of the accelerated rollout plan. Under this scenario, all financial covenants are passed with a significant level of headroom and the Group can operate comfortably within its financing facilities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Directors have considered a downside scenario which anticipates a slower recovery in which membership numbers only return to 88% of pre-pandemic levels (December 2019) by the end of the going concern period. Under this scenario, all financial covenants continue to be passed and the Group continues to operate within its financing facilities.

The Directors have also considered a reverse stress test scenario that modelled the impact of a significant downturn in trading and resulting drop in membership numbers. Mitigating actions were also modelled including moving to a minimum level of maintenance capital expenditure, reducing discretionary expenditure in order to preserve cash and a deliberate slowing down or temporary cessation of the rollout programme. In this scenario, the number of new members each month would have to decline by 26% compared to the base case (the equivalent of membership reducing to 82% of the February 2022 closing membership number) before the fixed charges cover covenant would be breached in December 2022. However, the Group would remain within its liquidity limits.

In the event of a reverse stress test scenario, the Directors would introduce additional measures to mitigate the impact on the Group's liquidity, covenants and cash flow, including: (i) further reductions in controllable operating costs, marketing and capital expenditure; (ii) discussions with lenders to secure additional debt facilities and/or covenant waivers; (iii) deferral of, or reductions in, rent payments to landlords; and (iv) the potential to raise additional funds from third parties.

The Directors believe that the success of the UK's booster vaccination programme and the fact that all sectors of the economy remained open for business during winter 2021/22, despite the recent Omicron outbreak, are strong indicators that further prolonged periods of enforced closure are highly unlikely. In addition, the Group has a very good relationship with its lenders who have been supportive throughout the pandemic. The lenders understand the Group's business model, our significant profit and cash generation in months when gyms are fully open, and our relatively low gearing. As a result, in the unlikely event there was another national lockdown, the Directors believe that the banks would continue to support the Group with covenant flexibility in the form of waivers or amendments, as they have done on a number of occasions during previous lockdown periods. The Directors therefore consider that the combination of a lockdown and a subsequent lack of flexibility from the banks is remote.

Conclusion

The Board has reviewed the financial forecasts and downside scenarios of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2023. As a result, the Directors continue to adopt the going concern basis in preparing these consolidated financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Group's current and forecast liquidity position; the continued positive momentum with regards the COVID-19 situation and success of the UK booster vaccination programme; the support received to date from our lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios.

Climate change

In preparing the Consolidated Financial Statements, management has considered the impact of climate change, particularly in the context of the disclosures included in the Strategic Report and the stated net-zero targets. These considerations did not have a material impact on the financial reporting judgements and estimates, consistent with the assessment that climate change is not expected to have a significant impact on the Group's going concern assessment to 30 June 2023 nor the viability of the Group over the next three years.

The following specific points were considered:

- We procure 100% renewable energy for all of our sites where we directly control the purchase of energy.
- The Group continues to reduce its carbon emissions and environmental impact by investing in the energy-efficient design of our new sites, as well as in our existing estate.
- 95% of our gyms now have full LED lighting with the remaining ten sites programmed for conversion in 2022.
- Our carbon emissions through electrical power consumption will reduce with the decarbonisation of the National Grid and natural gas will eventually become our principal source of direct carbon emission. We now have 13 sites operating successfully without gas for water heating and are continuing to roll out electric heat pumps to obviate the requirement for gas.
- In all cases, the expected costs and investment required during the Group's strategic planning horizon have been considered within the future cash flows included within the Group's three-year Plan which forms the basis of our Going Concern and Viability assessment, the goodwill and site impairment testing, and the assessment of the recoverability of deferred tax assets.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Segmental 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 low cost, high quality, 24/7, no contract gyms within the United Kingdom, presently traded through 202 sites. It is managed as one entity and management has consequently determined that there is only one operating segment.

Segmental results are measured using earnings before interest, tax, depreciation, amortisation, long-term employee incentive costs and non-underlying items. Segmental 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 segmental 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 memberships comprises monthly membership fees, non-refundable joining fees and longer-term membership fees. Longer-term membership fees comprises student membership fees which typically cover a nine-month period and corporate annual 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, with any subscriptions in advance of the period in which the service is provided being recorded as a contract liability on the statement of financial position. Joining fee income is recognised over the period in which the membership commences since the performance obligation attached to that income is satisfied in that period and to match against the costs associated with a new member joining.

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Other income, mainly vending income, is recognised at a point in time, which is at 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.

Cost of sales

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

Other income and government grants

Other income predominantly comprises government grants receivable.

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises the related costs which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the consolidated statement of financial position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Where the income relates to a distinct identifiable expense, the income is offset against the relevant expense. For example, income received under the Coronavirus Job Retention Scheme has been offset against staff costs. Where an expense is not distinctly identifiable, or the income relates to multiple expenses, the income is recognised within Other income.

Non-underlying items

Non-underlying items are income or expenses that are material by their size and/or nature and are not considered to be incurred in the normal course of business. The Directors consider that these items should be disclosed separately on the face of the income statement (but within their relevant category) to allow a more comparable view of underlying trading performance.

Non-underlying items include restructuring and reorganisation costs (including site closure costs), costs of major strategic projects and investments, impairment of assets, amortisation and impairment of business combination intangibles, profit/loss on disposal of assets and businesses, revaluation gains or losses on borrowings, and refinancing costs.

Profit before non-underlying items is used to calculate adjusted earnings per share and is reconciled to profit before taxation on the face of the income statement. Non-underlying items are disclosed in note 9.

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 ten 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.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Leases and Right-of-use assets

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

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.

The carrying values of right-of-use assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments) less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease payments change due to changes in an index or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did remeasure lease liabilities during the year ended 31 December 2021.

Although the Group enjoys security of tenure as tenant in respect of certain of its lease arrangements, there are conditions associated with these rights such that no unconditional right to extend the lease term exists.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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. As the Group has just one operating segment and no monitoring on a lower level of goodwill occurs, goodwill is tested over the one operating segment.

Brands and customer lists

Brands and customer lists acquired as part of a business combination are initially recorded at fair value. They 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. The carrying values of brands and customer lists is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Technology-related intangible assets

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. The carrying value of technology-related intangible assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Contract-related intangible assets

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. The carrying value of contract-related intangible assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Computer software

Acquired computer software licences are capitalised on the basis of the costs incurred to acquire and bring into 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 that 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 as appropriate. The carrying value of computer software is reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 depreciation or 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 Group 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 CGUs that are expected to benefit from the asset, that being each trading gym.

Any impairment charge is recognised in non-underlying items 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 non-underlying items in the income statement unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase and recognised as a separate reserve within equity.

Financial instruments

Financial assets (excluding derivative financial instruments)

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

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 net finance costs 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.

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income ('FVTOCI'):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss ('FVTPL').

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 contingent consideration, they 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 non-underlying items 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 eligible for capitalisation.

All other borrowing costs are recognised in net finance costs 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. 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 other comprehensive income and accumulated under the heading of hedge reserve within equity. The amount is limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in net finance costs in the income statement.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss 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 within net finance cost in the income statement at the same time as the interest expense on the hedged borrowings. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some, or all, of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss.

Pensions

The Group operates defined contribution pension schemes 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.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Trade and other payables

Trade and other 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. If not, they are presented as non-current liabilities. Trade and other payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Taxation

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 at 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.

Deferred taxation

Deferred income tax is provided using the liability method on all temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the balance sheet date, 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 reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the asset to be recovered.

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 in 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 expenditure 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 a 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

Incremental borrowing rate

The calculation of lease liabilities requires the Group to determine an incremental borrowing rate ('IBR') to discount future minimum lease payments. Judgement 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 2.1% and 8.7%. See note 14 for further detail on the methodology used.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS CONTINUED

Sources 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 13, 14 and 15.

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. In addition, the Group reviews property, plant and equipment for indicators of impairment and, where such indicators exist, estimates the recoverable amount of the CGU. For each CGU, the recoverable amount of property, plant and equipment assets and intangible assets is determined based on value-in-use calculations; and for right-of-use assets, it is the fair value less costs of disposal. 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 notes 13, 14 and 15.

Whilst 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. Further, the Directors have currently assessed that the carrying value of property, plant and equipment is sensitive to reasonably possible changes in key assumptions – see note 13 for further details. In addition, 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 in relation to other CGUs.

Provisions

Provisions are made for dilapidations in respect of leased premises. The recognition and measurement of these provisions require estimates to be made in respect of uncertain events and amounts, with the key sources of estimation uncertainty relating to whether a restoration obligation will arise, the amount and timing of future cash flows required to settle any restoration obligation assessed as arising, and, to a lesser extent, the discount rate applied to those estimated cash flows. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Management has determined that the likelihood of a liability arising is not probable in relation to 171 of the Group's 202 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 2021 would increase by £0.1 million. If a provision was required for a site where the Group does benefit from security of tenure, the provision at 31 December 2021 would increase by £0.1 million. A ten basis points change in the discount rate would not have a material impact on the provision recognised at 31 December 2021.

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

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2021

4. NEW AND AMENDED IFRS STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT YEAR

The Group applied for the first time certain standards and amendments, which are effective for annual periods beginning on or after 1 January 2021 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16

The amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate ('IBOR') is replaced with an alternative nearly risk-free interest rate ('RFR'). The amendments include the following practical expedients:

- To permit contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- To permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- To provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component.

The practical expedient has been applied to the Group's hedging arrangements in the current financial year and has had no impact on the consolidated financial statements. The Group intends to use the practical expedients in future periods for changes in the interest rates on the Group's borrowings.

COVID-19-Related Rent Concessions beyond 30 June 2021 Amendments to IFRS 16

On 28 May 2020, the IASB issued *COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases*

The amendments provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a COVID-19-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16 if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the COVID-19 pandemic is continuing, on 31 March 2021, the IASB extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

In the current and prior financial year, the Group has applied the amendment to IFRS 16 (as issued by the IASB in March 2021 and May 2020) in advance of their effective dates. As permitted by this concession, the Group has derecognised £1.6 million (2020: £0.7 million) of the lease liability that has been extinguished by the forgiveness of lease payments on buildings (see note 14).

New and revised IFRS Standards that are in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS standards that have been issued but are not yet effective:

IFRS 17 (including the June 2020 amendments to IFRS 17)	Insurance Contracts
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture
Amendments to IAS 1 and IFRS Practice Statement 2	Disclosure of Accounting Policies
Amendments to IAS 8	Definition of Accounting Estimates
Amendments to IAS 12	Deferred Tax related to Assets and Liabilities arising from a Single Transaction

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the financial statements of the Group in future periods.

5. REVENUE

The principal revenue streams for the Group are membership income, rental income from personal trainers and ancillary income. The majority of revenue is derived from contracts with customers and all revenue arises in the United Kingdom.

Disaggregation of revenue

In the following table, revenue is disaggregated by major products and service lines and timing of revenue recognition.

	31 December 2021 £m	31 December 2020 £m
Major products/service lines		
Membership income	100.8	77.0
Rental income from personal trainers	4.0	2.5
Ancillary income	1.2	1.0
	106.0	80.5
Timing of revenue recognition		
Products transferred at a point in time	1.8	1.2
Products and services transferred over time	104.2	79.3
	106.0	80.5
Liabilities relating to contracts with customers		
Contract liabilities	(8.4)	(6.4)
Revenue recognised that was included in contract liabilities in the prior year		
Membership income	6.4	8.0

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 and are included within trade and other payables (see note 19). The contract liability balance increases as the Group's membership numbers increase. The Group does not receive any consideration in advance from customers greater than 12 months. Hence the total contract liability as at 31 December 2020 of £6.4 million has been recognised as revenue during the year ended 31 December 2021.

6. OTHER INCOME

	31 December 2021 £m	31 December 2020 £m
Government grants receivable for the purpose of immediate financial support	7.1	0.2
Government grants receivable towards work placements (note 8)	0.2	–
Compensation for disruption caused by building works	–	0.2
	7.3	0.4

During the year, the Group received £10.5m (2020: £6.3 million) of direct grant support from the UK Government as a result of the COVID-19 pandemic, comprising:

- £7.1 million (2020: £0.2 million) of local government grants (see above). These were received under the Local Restrictions Support Grant for Closed Businesses scheme ('LRSG Closed'), the Local Restrictions Support Grant for Open Businesses scheme ('LRSG Open'), the Closed Business Lockdown Payment scheme ('CBLP') and the Restart Grant scheme ('Restart') to provide immediate financial support for businesses that were forced to cease operations or close as a result of local restrictions. These grants were recognised in profit or loss in Other income at the same time as the related costs were recognised. The grants were received solely as compensation for costs incurred in the year and as such there are no future related costs in respect of them. There was no outstanding balance of deferred income or receivable related to this grant as at 31 December 2021 (2020: £nil); and
- £3.4 million (2020: £6.1 million) received as part of a government initiative to provide immediate financial support in the form of the Coronavirus Job Retention Scheme ('CJRS'). The Group was entitled to the CJRS payments because it had to shut down its operations and furlough its employees from March to July 2020, in November and December 2020 and from January to April 2021. The amounts received in relation to the CJRS have been netted off employee costs in the income statement (note 8). There was no outstanding balance of deferred income or receivable related to this grant as at 31 December 2021 (2020: receivable of £0.2 million).

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FOR THE YEAR ENDED 31 DECEMBER 2021

6. OTHER INCOME CONTINUED

In addition to the grants noted above, the Group also received government assistance in the form of a business rates holiday for the period 1 April 2020 to 31 March 2022. During the period 1 April 2020 to 30 June 2021, businesses in the retail, hospitality and leisure sectors in England did not have to pay business rates for the 2020 to 2021 and 2021 to 2022 tax years. From 1 July 2021, businesses in those sectors received a 66% discount on business rates for the remainder of the 2021 to 2022 tax year subject to a maximum discount of £2 million per business. The value of business rates saved during the year ended 31 December 2021 was £8.2 million (2020: £9.6 million).

The Group has enrolled in the Kickstart scheme offered by the Government to combat youth unemployment. Under this scheme, the Group receives financial support in order to offer six-month work placements for young people aged 16-24 who are claiming Universal Credit in the form of a one-off grant per person employed to cover setup costs. Government support income is recognised evenly over each six-month placement term. During the year, the Group has recognised £0.2 million (2020: £nil) in Other income and £0.6 million (2020: £nil) received towards salary costs has been netted off against employee costs in the income statement (note 8). A balance of £0.1 million (2020: £nil) within deferred income will be recognised in future periods. There is no outstanding balance receivable related to this grant as of 31 December 2021 (2020: £nil).

7. OPERATING EXPENSES

Operating expenses comprise the following:

	31 December 2021 £m	31 December 2020 £m
Underlying employee costs (note 8)	31.6	22.8
Site costs (excluding employee costs) ¹	41.0	33.9
Central support office costs (excluding employee costs) ²	5.9	5.1
Loss on disposal of property plant and equipment	0.4	0.7
Auditors' remuneration costs:		
Fees payable for the audit of the Group's annual accounts	0.1	0.1
Audit of the Group's subsidiaries pursuant to legislation	0.1	0.1
Underlying operating expenses before depreciation, amortisation and impairment	79.1	62.7
Non-underlying operating expenses before depreciation, amortisation and impairment (note 9)	2.3	(0.5)
Operating expenses before depreciation, amortisation and impairment	81.4	62.2

1 Site costs include the fixed and variable costs of running the Group's gyms and include rates and services charges, cleaning costs, utilities, repairs and maintenance, site technology costs, marketing costs and insurance.

2 Central support office costs largely comprise central technology costs and professional fees.

8. EMPLOYEE INFORMATION

	31 December 2021 £m	31 December 2020 £m
Wages and salaries	30.4	25.8
Social security costs	2.1	2.1
Employers' pension costs	0.5	0.4
Long-term employee incentive costs (note 26)	2.9	0.7
Government grants (note 6)	(4.0)	(6.1)
Underlying employee costs	31.9	22.9
Non-underlying employee costs	0.3	0.7
Employee costs	32.2	23.6

Included within employee costs in 2021 is £0.3 million (2020: £0.1 million) which has been included within cost of sales in the consolidated income statement.

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

	31 December 2021 Number	31 December 2020 Number
Operational	1,873	1,965
Administrative	132	106
	2,005	2,071

9. NON-UNDERLYING ITEMS

	31 December 2021 £m	31 December 2020 £m
Affecting operating expenses before depreciation, amortisation and impairment		
Costs of major strategic projects and investments	1.8	–
Restructuring and reorganisation costs (including site closures)	0.5	0.3
Adjustment to net assets acquired in business combinations	–	(0.2)
Gain on reduction of lease term	–	(0.6)
Total affecting operating expenses before depreciation, amortisation and impairment	2.3	(0.5)
Affecting depreciation, amortisation and impairment		
Impairment of property, plant and equipment, right-of-use assets and intangible assets	4.0	1.6
Amortisation of business combination intangible assets	0.2	0.9
Total affecting depreciation, amortisation and impairment	4.2	2.5
Total affecting operating expenses¹	6.5	2.0
Affecting finance costs		
Remeasurement of borrowings	0.8	(1.3)
Refinancing costs	0.1	–
Total affecting finance costs	0.9	(1.3)
Total all non-underlying items before tax	7.4	0.7
Tax on non-underlying items	(0.5)	0.3
Total non-underlying charge in income statement	6.9	1.0

¹ Depreciation, amortisation and impairment are non-cash items. Of the other items affecting operating expenses, £2.2 million are cash outflows (2020: cash outflow of £0.9 million).

Costs of major strategic projects and investments

Costs of major strategic projects and investments in the year include costs incurred to date in respect of the brand transformation project. Also included here are the costs incurred in relation to the exploration of a potential strategic investment and the costs associated with the acquisition of the trade and assets of a portfolio of three sites trading under the Fitness First brand name, details of which are included in note 30.

The brand transformation project, which commenced in the second half of 2021 and is expected to complete in 2022, involves creating a new visual identity for our brand and a change of our external brand from 'The Gym' to 'The Gym Group'. This will drive consistency across the estate and bring the brand name into line with our website URL. The new visual identity will be employed in all new sites from Q2 onwards, and a full rebranding of the existing sites, the website and other digital collateral will be implemented from the end of September. By the September/October marketing campaign, all marketing will also be using the updated brand.

Restructuring and reorganisation costs (including site closure costs)

Restructuring costs in the year relate to the cost of restructuring the senior leadership team within central support as well as additional costs associated with the closure of three sites previously announced where the lease surrender to the landlord has been delayed to 2022. Prior year costs relate primarily to the restructuring of the central support team in June 2020 in which headcount was reduced by 22%, offset by a release of provision in relation to the three sites earmarked for closure.

Adjustment to net assets acquired in business combinations

Certain provisions that were recognised as part of the acquisition of gyms from easyGym were released in the prior year as the costs are unlikely to be incurred.

Gain on reduction of lease term

The landlord on one of our sites reduced the lease term and in exchange for doing so the lease was renegotiated in 2020. As a consequence of the renegotiation, the Group recognised a one-off gain of £0.6 million in the prior year related to the remeasurement of the lease liability and associated right-of-use asset.

Impairment of property, plant and equipment, right of use assets and intangibles

Impairment costs in the year relate to the write-down of assets in four city centre sites which have been particularly hard hit by the COVID-19 pandemic and where recovery is slower than in the rest of estate. For these sites, the discounted present value of future cash flows using a pre-tax discount rate of 11.9% does not support the full value of the assets. The prior year impairment costs include the write-down of assets in one site where the discounted present value of future cash flows using a pre-tax discount rate of 11.1% does not support the full value of the assets. The prior year also included an additional £0.8 million impairment for one site which was announced as closing in 2019 where the lease surrender was delayed.

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FOR THE YEAR ENDED 31 DECEMBER 2021

9. NON-UNDERLYING ITEMS CONTINUED

Amortisation of business combination intangible assets

This includes the amortisation cost of intangible assets acquired as part of the Lifestyle and easyGym acquisitions.

Remeasurement of borrowings

The Group's borrowings are held at amortised cost using the effective interest method. Each reporting period, the Group reviews its cash flow forecasts and if these have changed since the previous reporting period, the borrowings are remeasured using the original effective interest rate. Any remeasurement of borrowings is treated as being non-underlying and is excluded from adjusted earnings.

Refinancing costs

Refinancing costs relate to non-capitalisable costs incurred in relation to the renegotiation of the Group's banking facility.

Tax on non-underlying items

This represents the tax charge or credit arising on the Group's non-underlying items, calculated at the current tax rate.

10. FINANCE COSTS

	31 December 2021 £m	31 December 2020 £m
Bank loans and overdrafts interest	2.0	1.6
Lease interest	14.0	12.7
Amortisation of financing fees	0.6	0.4
	16.6	14.7
Capitalised interest	–	(0.1)
Underlying finance costs	16.6	14.6
Non-underlying finance costs	0.9	(1.3)
Finance costs	17.5	13.3

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 Group's general borrowings during 2020 of 1.9%.

11. TAXATION

Tax on loss

	31 December 2021 £m	31 December 2020 £m
Current income tax		
Current tax on losses in the year	(0.3)	(2.5)
Adjustments in respect of prior years	(0.3)	(0.5)
Total current income tax	(0.6)	(3.0)
Deferred tax		
Origination and reversal of temporary differences	(7.7)	(6.4)
Change in tax rates	(3.0)	–
Adjustments in respect of prior years	2.5	(1.4)
Total deferred tax	(8.2)	(7.8)
Tax credit	(8.8)	(10.8)

The standard rate of corporation tax applied to reported losses is 19% (2020: 19%).

11. TAXATION CONTINUED

Reconciliation of tax credit

	31 December 2021 £m	31 December 2020 £m
Loss before tax	(44.2)	(47.2)
Tax calculation at standard rate of corporation tax of 19.0%	(8.4)	(9.0)
Expenses not deductible for tax purposes	0.7	0.2
Change in tax rates	(3.3)	(0.1)
Adjustments in respect of prior years	2.2	(1.9)
Tax credit	(8.8)	(10.8)

Deferred tax

	Accelerated capital allowances £m	Losses £m	Intangible assets £m	Share Schemes £m	Other £m	Total £m
At 1 January 2020	(3.5)	0.2	(0.3)	0.7	2.8	(0.1)
Adjustments in respect of prior years	1.2	–	0.2	–	–	1.4
Recognised in income statement	3.9	1.8	–	0.6	0.1	6.4
Recognised in equity	–	–	–	(0.1)	–	(0.1)
At 31 December 2020	1.6	2.0	(0.1)	1.2	2.9	7.6
Adjustments in respect of prior years	(2.1)	(0.4)	–	–	–	(2.5)
Recognised in income statement	0.5	7.2	0.1	(0.1)	–	7.7
(Charge)/Credit to income statement due to changes in tax rates	(0.2)	2.5	–	–	0.7	3.0
Recognised in equity	–	–	–	0.3	–	0.3
At 31 December 2021	(0.2)	11.3	–	1.4	3.6	16.1

Deferred tax assets have been recognised in respect of all tax losses and other temporary timing differences where the Directors believe it is probable that these will be recovered within the next four years. In assessing the probability of recovery, the Directors have reviewed the Group's three-year Plan that has been used for both the Going concern and Viability assessment and the goodwill and fixed asset impairment testing. This plan anticipates continued recovery of membership and robust yields, the successful execution of the accelerated rollout plan and a return to profitability.

A deferred tax liability has arisen on accelerated capital allowances, whereby the tax written-down value is lower than the net book value.

The Finance Act 2021 has increased the corporation tax rate from 19% to 25% with effect from 1 April 2023. The deferred tax assets and liabilities have been measured using the rates expected to apply in the reporting periods when the timing differences reverse.

There are no material uncertain tax provisions at 31 December 2021 (2020: £nil). However, judgement has necessarily been applied in estimating the impact and timing of utilisation of capital allowances and tax losses which could give rise to prior period adjustments in future years.

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12. LOSS 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, The Gym Group plc Long Service Award Plan and Save As You Earn Scheme ('SAYE') (see note 26).

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 2021, 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, The Gym Group plc Long Service Award Plan and SAYE (see note 26).

	31 December 2021	31 December 2020 ¹
Loss (£m)		
Loss for the year attributable to equity shareholders	(35.4)	(36.4)
Adjustment for non-underlying items	6.9	1.0
Adjusted loss for the year attributable to equity shareholders	(28.5)	(35.4)
Weighted average number of shares		
Basic and diluted weighted average number of shares	171,060,028	157,292,003
Loss per share (p)		
Basic and diluted loss per share	(20.7)	(23.1)
Adjusted basic and diluted loss per share	(16.7)	(22.5)

¹ The adjusted loss for the year attributable to equity shareholders and the adjusted basic and diluted loss per share for 2020 has been restated to reflect a correction to the allocation of the Group tax credit between underlying and non-underlying.

At 31 December 2021, 5,260,315 share awards (2020: 4,125,842) were excluded from the diluted weighted average number of ordinary shares calculation because their effect would be anti-dilutive.

13. PROPERTY, PLANT AND EQUIPMENT

	Assets under construction £m	Leasehold improvements £m	Fixtures, fittings and equipment £m	Gym and other equipment £m	Computer equipment £m	Total £m
Cost						
At 1 January 2020	3.7	176.7	11.9	79.2	3.2	274.7
Additions ¹	2.3	13.4	0.2	5.1	0.4	21.4
Disposals	(0.2)	(0.4)	–	(0.8)	–	(1.4)
Transfers ¹	(3.5)	3.3	(0.8)	1.0	–	–
Transfer to right-of-use assets	–	(1.1)	–	–	–	(1.1)
At 31 December 2020	2.3	191.9	11.3	84.5	3.6	293.6
Additions	1.9	16.4	0.2	2.5	0.7	21.7
Disposals	(0.1)	(1.5)	–	(0.5)	–	(2.1)
Transfers	(2.0)	1.9	–	0.1	–	–
At 31 December 2021	2.1	208.7	11.5	86.6	4.3	313.2
Accumulated depreciation						
At 1 January 2020	–	(48.9)	(6.8)	(40.7)	(2.3)	(98.7)
Charge for the year	–	(13.9)	(1.2)	(8.2)	(0.6)	(23.9)
Impairment	–	(0.8)	–	(0.2)	–	(1.0)
Disposals	–	0.3	–	0.7	–	1.0
Transfer to right-of-use assets	–	0.3	–	–	–	0.3
At 31 December 2020	–	(63.0)	(8.0)	(48.4)	(2.9)	(122.3)
Charge for the year	–	(14.6)	(1.1)	(7.4)	(0.5)	(23.6)
Impairment	–	(2.8)	–	(0.4)	–	(3.2)
Disposals	–	1.2	–	0.3	–	1.5
At 31 December 2021	–	(79.2)	(9.1)	(55.9)	(3.4)	(147.6)
Net book value						
At 31 December 2020	2.3	128.9	3.3	36.1	0.7	171.3
At 31 December 2021	2.1	129.5	2.4	30.7	0.9	165.6

¹ Additions and transfers in 2020 have been restated to more accurately reflect the classification of assets acquired during the year between assets under construction and the various other fixed asset categories.

The Group reviews the carrying value of property, plant and equipment, right-of-use assets and intangible assets for indicators of impairment at least annually. This annual impairment review initially considers each gym to be a separate cash generating unit ('CGU'). However, for gym sites that have a higher penetration of LIVE IT membership and hence the cash inflows of such gym sites are not generated largely independent of other gym sites within the surrounding geographical area, these gym sites are considered as a group of CGUs for impairment review purposes. The recoverable amount of property, plant and equipment assets and intangible assets is the value in use and for right-of-use assets is the fair value less costs of disposal; with an impairment loss recognised where the recoverable amount is below the carrying value of the assets. The value in use was calculated using the discounted present value of each site's future cash flows in the Group's three-year plan using a pre-tax discount rate of 11.9% (2020: 11.1%). The fair value less costs of disposal of right-of-use assets was calculated on the basis of the cash flows that could be realised by the Group through the sublet of the site discounted using a post tax discount rate of 9.8%.

The impairment charge of £3.2 million relates to a write-down of assets in four city centre sites which have been particularly hard hit by the COVID-19 pandemic and where recovery is slower than in the rest of estate. For these sites, the recoverable amount of £4.3 million does not support the full value of the assets. The prior year impairment charge includes £0.8 million for the write-down of assets in one site where the value in use of £1.4 million does not support the full value of the assets. The prior year also included an additional £0.2 million impairment for one site which was announced as closing in 2019 where the lease surrender was delayed.

Under the downside scenario used for going concern in relation to a softness in membership numbers, a further impairment of up to £2.3 million would arise in relation to five sites.

Included within additions for the year are £nil of capitalised interest (2020: £0.1 million), £0.1 million of capital contributions from landlords not yet received (2020: £0.2 million) and £2.2 million of accrued capital expenditure (2020: £0.9 million).

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14. RIGHT-OF-USE ASSETS AND LEASES

(i) Amounts recognised in the consolidated statement of financial position

	Property leases £m	Non-property leases £m	Total £m
Cost			
At 1 January 2020	307.9	–	307.9
Additions	38.0	–	38.0
Disposals	(1.6)	–	(1.6)
Transfers from leasehold improvements	1.1	–	1.1
At 31 December 2020	345.4	–	345.4
Additions	42.8	7.2	50.0
At 31 December 2021	388.2	7.2	395.4
Accumulated depreciation			
At 1 January 2020	(69.1)	–	(69.1)
Charge for the year	(21.3)	–	(21.3)
Impairment	(0.6)	–	(0.6)
Disposals	1.6	–	1.6
Transfers from leasehold improvements	(0.4)	–	(0.4)
At 31 December 2020	(89.8)	–	(89.8)
Charge for the year	(23.3)	(0.2)	(23.5)
Impairment	(0.9)	–	(0.9)
At 31 December 2021	(114.0)	(0.2)	(114.2)
Net book value			
At 31 December 2020	255.6	–	255.6
At 31 December 2021	274.2	7.0	281.2

The impairment charge of £0.9 million relates to a write-down of assets in four city centre sites which have been particularly hard hit by the COVID-19 pandemic and where recovery is slower than in the rest of estate. For these sites, recoverable amount of £4.6 million does not support the full value of the assets. The prior year impairment charge of £0.6 million relates to one site which was announced as closing in 2019 where the lease surrender was delayed. Please refer to note 13 for further details on the methodology used for calculating the impairment.

The split of lease liabilities between current and non-current is as follows:

	31 December 2021 £m	31 December 2020 £m
Current	27.0	21.8
Non-current	309.3	284.5
Total Lease liabilities	336.3	306.3

14. RIGHT-OF-USE ASSETS AND LEASES CONTINUED

The maturity analysis of lease liabilities is as follows:

	31 December 2021 £m	31 December 2020 £m
Within one year	39.1	34.6
Greater than one year but less than two years	37.8	32.4
Greater than two years but less than three years	37.8	32.4
Greater than three years but less than four years	35.4	32.7
Greater than four years but less than five years	35.5	32.2
Five years or more	242.7	232.3
	428.3	396.6
Less: unearned interest	(92.0)	(90.3)
Total Lease liabilities	336.3	306.3

During the year, the Group entered into a leasing arrangement with a total available facility of £9.5 million to finance the fit-out of new gyms. As at 31 December 2021, the amount outstanding on this facility was £6.4 million.

As described in note 4, the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

Many lessors have provided rent concessions to lessees as a result of the COVID-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in IFRS 16 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications and applying the required accounting, could be practically difficult in the current environment. The objective of the amendment is to provide lessees that have been granted COVID-19-related rent concessions with practical relief, whilst still providing useful information about leases to users of the financial statements.

As a practical expedient, a lessee may elect not to assess whether a COVID-19-related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19-related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic.

As permitted by this concession, the Group has derecognised £1.6 million (2020: £0.7 million) of the lease liability that has been extinguished by the forgiveness of lease payments on buildings. This has been netted off against operating expenses in the consolidated income statement.

Where landlords have agreed to permanently change the frequency of rental payments, the change in the value of the lease liability of £0.8 million (2020: £0.8 million) has been recognised within finance costs in the consolidated income statement as all changes impact solely on the interest charge related to the lease liability.

(ii) Amounts recognised in the consolidated income statement

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

	31 December 2021 £m	31 December 2020 £m
Lease liability derecognised under COVID-19 Rent Concession	(1.6)	(0.7)
Depreciation charge of right-of-use assets	23.5	21.3
Impairment of right-of-use assets	0.9	0.6
Interest expense (included in finance cost)	14.0	12.7

The total cash outflow for leases in the year was £31.9 million (2020: £22.6 million). A maturity analysis of future lease payments is set out above.

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14. RIGHT-OF-USE ASSETS AND LEASES CONTINUED

Additionally, in 2020 the Group benefited from a one-month unconditional waiver of lease payments on six properties in England and additional rent-free benefits on six properties in exchange for removal of break clauses without modification to the original lease contract. The waiver of lease payments of £0.7 million and the decrease in the lease liability of £0.7 million has been accounted for as a negative variable lease payment in profit or loss.

The Group does not have any low value or short-term leases.

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

The Group leases gym sites and its head office as well as hire purchases agreements for gym equipment. Property rental contracts are typically made for fixed periods of ten to 20 years but may have extension options as well. Hire purchase agreements are made for fixed periods of three years. 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 nor 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.

(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. Where it is reasonable probable that the Group will exercise the termination or extension option, this has been included within the calculation of the lease liability. There are no unrecognised lease extension options.

During the period, the Group has renegotiated 12 leases (2020: 12) which resulted in additional lease liabilities of £6.9 million being recognised (2020: £16.7 million). In 2020, the Group agreed to a reduction in the lease term of one site proposed by the lessor resulting in £0.6 million being recognised in profit and loss (see note 9).

15. INTANGIBLE ASSETS

	Goodwill £m	Customer list £m	Contract £m	Computer software £m	Total £m
Cost					
At 1 January 2020	77.7	2.7	1.2	11.3	92.9
Additions	–	–	–	3.8	3.8
At 31 December 2020	77.7	2.7	1.2	15.1	96.7
Additions	–	–	–	5.2	5.2
At 31 December 2021	77.7	2.7	1.2	20.3	101.9
Accumulated amortisation					
At 1 January 2020	–	(1.8)	(0.3)	(4.5)	(6.6)
Charge for the year	–	(0.6)	(0.2)	(2.9)	(3.7)
At 31 December 2020	–	(2.4)	(0.5)	(7.4)	(10.3)
Charge for the year	–	(0.2)	–	(5.4)	(5.6)
At 31 December 2021	–	(2.6)	(0.5)	(12.8)	(15.9)
Net book value					
At 31 December 2020	77.7	0.3	0.7	7.7	86.4
At 31 December 2021	77.7	0.1	0.7	7.5	86.0

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 Group' brand and the Group now operates only as one chain of gym.

All of the goodwill acquired through business combinations has therefore been allocated for impairment testing purposes to 'The Gym Group' chain of gyms. 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 a financial plan 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:

	2021		2020	
	Discount rate	Growth rate	Discount rate	Growth rate
The Gym Group	11.9%	3.0	11.1%	3.0%

Discount rates reflect the estimated return on capital employed required in each business by an investor. This is also the benchmark used by management to assess operating performance and to evaluate future capital investment proposals. The above pre-tax discount rates are derived from the Group's post tax 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 subscription rates and increases applied to costs have been modelled on a site-by-site basis based upon a mixture of historical experience and expected recovery post COVID-19 and range from 5% to 78% for revenue and 5% to 48% for costs. The impact of any new openings is not included in the assessment as they do not form part of the existing assets. The performance of any gyms expected to close are included within the calculation up to the point of closure.

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.

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16. INVESTMENTS IN FINANCIAL ASSETS

On 3 February 2020, the Group purchased convertible loan notes in Fiit Limited for cash consideration of £1.0 million. Conversion was originally expected to take place within two years of issue giving the Group a small minority stake at a maximum valuation of £1.25 million. These notes are measured at fair value through profit or loss and the carrying value at the end of the year is £1.0 million (2020: £1.0 million).

This is a level 3 valuation under the fair value hierarchy and was determined based on the performance of the business post-acquisition against the business plan produced at the time of the investment. The business continues to build strategic partnerships with a number of parties and is expected to continue to have adequate funding in place. As such, the carrying amount is believed to appropriately reflect the fair value. The range of sensitivity in the valuation at 31 December 2021 to reasonably possible changes in the assumptions used is not considered to be material.

Post year end, a number of changes to the terms of the convertible loan notes have been agreed, including the extension of the date of conversion to 15 July 2023 and changes to the circumstances in which the loan notes may be redeemed or converted.

17. TRADE AND OTHER RECEIVABLES

	31 December 2021 £m	31 December 2020 £m
Trade receivables	0.8	0.9
Loss allowance	–	(0.2)
	0.8	0.7
Other receivables	0.6	0.7
Prepayments and accrued income	4.9	4.9
	6.3	6.3
Due in less than one year	6.3	6.2
Due in more than one year	–	0.1
	6.3	6.3

18. CASH AND CASH EQUIVALENTS

	31 December 2021 £m	31 December 2020 £m
Cash at bank	3.3	0.2
Short term deposits	4.0	3.6
	7.3	3.8
Bank overdrafts	–	(0.1)
Cash and cash equivalents	7.3	3.7

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.

19. TRADE AND OTHER PAYABLES

	31 December 2021 £m	31 December 2020 £m
Trade payables	2.3	2.9
Social security and other taxes	2.5	0.2
Accruals	17.0	9.2
Other payables	0.1	–
Contract liabilities (note 5)	8.4	6.4
Deferred income	0.1	–
	30.4	18.7

20. OTHER FINANCIAL LIABILITIES

	Deferred consideration £m	Contingent consideration £m	Total £m
At 1 January 2020	–	3.9	3.9
Transfer from contingent consideration to deferred consideration	3.9	(3.9)	–
Cash paid in year	(1.3)	–	(1.3)
At 31 December 2020	2.6	–	2.6
Cash paid in year	(2.6)	–	(2.6)
At 31 December 2021	–	–	–

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. The £3.9 million balance of contingent consideration at 1 January 2020 represented the fair value payable for the two lease extensions which were obtained during 2020 crystallising the liability. As a result, the contingent consideration was reclassified as deferred consideration, with £1.3 million being paid during 2020 and the remaining £2.6 million paid during the year.

21. BORROWINGS

	31 December 2021 £m	31 December 2020 £m
Non-current		
Revolving credit facility	44.7	49.8
Loan arrangement fees	(0.4)	(0.6)
	44.3	49.2

The Group has £100m of available facilities under a Revolving Credit Facility ('RCF').

The facility is syndicated to a three-lender panel of HSBC, NatWest and Banco de Sabadell and matures in 2023. On 5 June 2020 the Company agreed with its lending banks to extend its existing £70 million RCF with an additional £30 million facility for a term of 18 months, which was subsequently further extended on 17 December 2020 to June 2022 ('the New Bank Facility'). In July 2021, at the same time as the equity placing, certain restrictions in the Group's banking facilities around capital expenditure and finance lease debt were relaxed.

The funds borrowed under the New Bank Facility bear interest at a minimum annual rate of 2.60% (2020: 2.60%) above the appropriate sterling LIBOR. Following the abolition of sterling LIBOR rates on 1 January 2022, the underlying interest rate for the debt will transition to Sterling Overnight Index Average ('SONIA') plus a credit adjustment spread.

The average interest rate paid in the year on drawn funds under the new facility is 2.67% (2020: 2.28%). Undrawn funds bear interest at a minimum annual rate of 0.91% (2020: 0.91%).

The Group's borrowings are held at amortised cost using the effective interest method. Each reporting period, the Group reviews its cash flow forecasts and if these have changed since the previous reporting period, the borrowings are remeasured using the original effective interest rate. Any remeasurement of borrowings is treated as being non-underlying and is excluded from adjusted earnings.

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

Covenants

The RCF is subject to financial covenants relating to leverage and fixed charge cover, which did not change significantly from those under the previous facility.

From September 2020 until June 2022 the covenant tests of the RCF have been replaced in the New Bank Facility by new covenant tests primarily relating to the performance of the Group against agreed targets for Group Adjusted EBITDA Less Normalised Rent. Upon termination or early cancellation of the New Bank Facility the covenants and all other terms of the original RCF will apply until the maturity of the RCF in October 2023. Waivers were received in respect of the March 2021 and June 2021 reporting periods due to the extended lockdown.

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21. BORROWINGS CONTINUED

Available facilities

At 31 December 2021, the Group had drawn down £45.0 million under the RCF (2020: £51.0 million), leaving £55.0 million (2020: £49.0 million) undrawn and available. The £45.0 million is repayable in October 2023.

Subsequent events

In March 2022, the Group obtained credit committee approval from its banks for certain changes to its RCF facility. These included a one-year extension of Facility A (£70 million) to October 2024; the cancellation in full of the temporary Facility B (£30 million) and replacement with a new £10 million Facility to October 2024; and further relaxation of finance lease restrictions. Funds borrowed under the RCF will bear interest at a minimum rate of 2.85%. Prior to formal documentation of these agreed changes, Facility A and Facility B remain in place.

22. FINANCING LIABILITIES

	Cash and cash equivalents £m	Borrowings £m	Lease Liabilities £m
At 1 January 2020	2.6	(49.1)	(278.3)
Cash flows	1.1	(1.0)	22.6
Other non-cash movements	–	0.9	(50.6)
At 31 December 2020	3.7	(49.2)	(306.3)
Cash flows	3.6	6.0	31.9
Other non-cash movements	–	(1.1)	(61.9)
At 31 December 2021	7.3	(44.3)	(336.3)

23. PROVISIONS

	Dilapidations £m	Other £m	Total £m
At 1 January 2020	1.3	0.4	1.7
New provisions	0.1	–	0.1
Release of provision	(0.2)	(0.3)	(0.5)
At 31 December 2020	1.2	0.1	1.3
New provisions	0.4	–	0.4
Utilisation of provisions	–	(0.1)	(0.1)
At 31 December 2021	1.6	–	1.6
Due in less than one year	–	0.1	0.1
Due in more than one year	1.2	–	1.2
At 31 December 2020	1.2	0.1	1.3
Due in less than one year	–	–	–
Due in more than one year	1.6	–	1.6
At 31 December 2021	1.6	–	1.6

A dilapidations provision is recognised when there is a 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 are uncertain. Subject to a new lease not being negotiated to extend the current lease term, dilapidations would become payable between 2025 and 2040.

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

With the exception of the Group's borrowings, the carrying value of financial assets and liabilities equal their fair value. The carrying value of borrowings of £44.3 million (2020: £49.2 million) have a fair value of £45.0 million (2020: £50.0 million). The fair values of financial derivatives and borrowings have been calculated by discounting the future cash flows at prevailing market interest rates. Other than the fair value of financial assets at fair value through profit and loss that are categorised as Level 3, the fair value of all other financial assets and liabilities are categorised as Level 2.

Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, 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 property 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 2021 £m	31 December 2020 £m
Total borrowings	45.0	51.0
Non-property leases	6.4	–
Less: cash and cash equivalents	(7.3)	(3.7)
Non-property net debt	44.1	47.3
Total equity	229.6	199.4
Total capital	273.7	246.7
Gearing ratio	16%	19%

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. The principal market risk affecting the Group is 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 2021 and 2020. 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.

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24. FINANCIAL INSTRUMENTS CONTINUED

Interest rate risk

The Group is exposed to interest rate risk because the Group's long-term debt obligations are at floating interest rates. The risk is managed by the Group through interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The Group is exposed to GBP LIBOR. The exposure arises on derivatives and the Group's bank borrowings. As listed in note 4, the Group has cash flow hedge relationships affected by the interest rate benchmark reform. The debt that was originally issued as GBP LIBOR floating rate debt was transitioned to SONIA (see note 21). Hedging instruments include LIBOR-based interest rate swaps that have also been transitioned to SONIA.

Below are details of the hedging instruments and hedged items, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal	Hedged Item
Cash flow hedges	Receive daily compounded GBP SONIA, pay GBP fixed interest rate swap	September 2022	GBP 27.2 million	GBP LIBOR RCF of £70.0 million maturing in October 2023

The Group is not expecting any reduction in interest rates over the next 12 months.

The increase in the loss before tax of a reasonably possible increase in interest rates is as follows:

	31 December 2021 £m	31 December 2020 £m
Change in interest rates of 0.5%	0.2	0.3

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 summarises the maturity profile of the Group's financial liabilities:

	31 December 2021				
	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total £m
Trade and other payables	19.4	–	–	–	19.4
Borrowings	1.2	46.0	–	–	47.2
Lease liabilities	39.1	37.8	108.7	242.7	428.3
	59.7	83.8	108.7	242.7	494.9

	31 December 2020				
	Within 1 year £m	1 to 2 years £m	2 to 5 years £m	More than 5 years £m	Total £m
Trade and other payables	12.1	–	–	–	12.1
Borrowings	1.8	1.7	52.1	–	55.6
Other financial liabilities	2.6	–	–	–	2.6
Lease liabilities	34.6	32.4	97.3	232.3	396.6
	51.1	34.1	149.4	232.3	466.9

Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables, unlisted securities and derivative financial instruments. 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. ISSUED SHARE CAPITAL AND RESERVES

	31 December 2021 £m	31 December 2020 £m
Allotted, called up and fully paid		
Ordinary shares of £0.0001 each	–	–
Own shares held		
Deferred Ordinary shares of £1 each	0.1	0.1

The number of Ordinary shares in issue is as follows:

	31 December 2021	31 December 2020
Ordinary shares of £0.0001 each	177,519,174	165,751,888
Deferred Ordinary shares of £1 each	48,050	48,050

In addition, 232,044 Ordinary shares of £0.0001 each are held by an employee benefit trust (2020: 217,777).

In April 2020, 27,512,181 Ordinary shares of £0.0001 each were issued at a price of £1.50 per share raising gross proceeds of £41.3 million. A cash box structure was used in such a way that merger relief was available under the Companies Act 2006, section 612. In this circumstance no share premium is recorded and the £39.9 million excess of the net proceeds over the nominal value of the share capital issue has been recorded as a merger reserve. The proceeds of this issue were used to reduce net indebtedness, provide working capital flexibility and to fund incremental capital expenditure across the wider Group.

In July 2021, 11,350,000 Ordinary shares of £0.0001 each were issued at a price of £2.75 per share and raised gross proceeds of £31.2 million. The costs directly related to the transaction amounted to £0.9 million. The proceeds of the share issue are being used to accelerate the Group's site rollout programme.

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 a separate, non-voting class of shares which is held in treasury and not admitted to trading. The rights attached to the Deferred Shares are set out in the Company's Articles.

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.

Merger reserve

The amount subscribed for share capital in excess of nominal value attracting merger relief under the Companies Act 2006.

Retained earnings/deficit

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

Issued Share Capital and Capital Redemption Reserve are not included in the Consolidated Statement of Changes in Equity because the balances in these reserves are less than £0.1 million.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2021

26. SHARE-BASED PAYMENTS

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

- a) The Gym Group plc Performance Share Plan
- b) The Gym Group plc Share Incentive Plan – Free shares
- c) The Gym Group plc Share Incentive Plan – Matching shares
- d) The Gym Group plc Restricted Stock Plan
- e) The Gym Group plc Long Service Award Plan
- f) The Gym Group plc Savings Related Share Option Scheme ('SAYE')

In accordance with IFRS 2 Share-based Payment, the value of the awards is 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 £2.4 million (2020: £0.8 million) in respect of the Group's share based payment arrangements and a charge related to employer's national insurance of £0.5 million (2020: credit of £0.1 million).

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

Scheme name	Outstanding at 1 January 2021	Granted during the year	Lapsed/cancelled during the year	Exercised during the year	Outstanding at 31 December 2021	Exercisable at 31 December 2021
Performance Share Plan	3,780,043	984,231	(959,152)	(191,802)	3,613,320	380,021
Share Incentive Plan – Free shares	23,622	–	–	(4,191)	19,431	19,431
Share Incentive Plan – Matching shares	144,191	45,626	(19,043)	(12,078)	158,696	–
Restricted stock	1,609,138	372,323	(154,782)	(222,051)	1,604,628	89,014
Long Service Awards	3,917	2,750	–	(2,309)	4,358	–
Save as You Earn	791,060	166,171	(73,549)	(1,113)	882,569	–
	6,351,971	1,571,101	(1,206,526)	(433,544)	6,283,002	488,466

The exercise price of all options under the schemes held during the year is £0.01, with the exception of the SAYE scheme where the exercise price ranges between 108.0p and 236.0p. 488,466 options were exercisable under the PSP and SIP schemes as at 31 December 2021 (2020: 655,397). No other options were exercisable as at 31 December 2021.

(a) Performance Share Plan

The outstanding awards as at 31 December 2021 will all vest within three years, subject to continued employment and the achievement of certain performance targets. For awards made in 2021 and 2020, the performance targets are solely based on TSR, with 33.3% based on absolute shareholder return and 66.7% based on relative TSR. For awards made prior to 2020, the targets are based on 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 EPS targets, with the 2019 awards split equally between EPS and 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.

26. SHARE-BASED PAYMENTS CONTINUED

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

	Without Holding Period		With holding period	
	2021	2020	2021	2020
Weighted average share price at date of grant	£2.32	£1.45	£2.63	£1.45
Exercise price	£0.0001	£0.0001	£0.0001	£0.0001
Expected volatility	60.2%	49.5%	68.83%	49.5%
Expected term until exercised	3 years	3 years	5 years	3 years
Expected dividend yield	–	–	–	–
Risk-free interest rate	0.13%	(0.10)%	0.42%	(0.10)%

The weighted average fair value of each award issued under this scheme during the year was £1.67 (2020: £0.84). The weighted average remaining contractual life was 8.0 years (2020: 1.7 years) at 31 December 2021.

(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 4.3 years (2019: 5.3 years) at 31 December 2021.

(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 £2.64 (2020: £1.76) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.3 years (2020: 1.8 years) at 31 December 2021.

(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 £2.66 (2020: £1.45) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 8.4 years (2020: 9.0 years) at 31 December 2021.

(e) Long Service Awards

The awards are subject to continued employment requirements over a one-year period for awards issued in 2021 and a three-year period for awards issued prior to 2021 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 vesting period. The weighted average fair value of each award issued under this scheme during the year was £2.61 (2020: £nil) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 0.6 years (2020: 7.8 years) at 31 December 2021.

(f) Save as You Earn (SAYE) Scheme

Under the SAYE 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 £1.17 (2020: £0.53) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 2.5 years (2020: 3.3 years) at 31 December 2021.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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FOR THE YEAR ENDED 31 DECEMBER 2021

27. COMMITMENTS AND CONTINGENCIES

	31 December 2021 £m	31 December 2020 £m
Contracted for but not provided	2.9	2.2

The commitments above relate to contracts for the fit-out of new sites where works have not yet commenced.

28. 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. During the period, Closewall Limited provided services to the Group to the value of £11,000 (2020: £1,700,000). There was no balance outstanding at 31 December 2021 (2020: £nil).

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	Dormant	United Kingdom	100%
Derwent Fitness GS Limited	Dormant	United Kingdom	100%

The registered office of the subsidiaries is 5th Floor, OneCroydon, 12-16 Addiscombe Road, Croydon, CRO OXT.

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 are in respect of the provision of services.

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 2021 £m	31 December 2020 £m
Remuneration	2.6	2.1
Termination benefits	0.2	0.3
Company contributions to defined contribution pension scheme	0.1	0.1
Share-based payment charge	1.2	0.2
	4.1	2.7

At the current and prior year end, there were no outstanding loan balances owed by key management personnel. At the year end, £0.6 million (2020: £nil) 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.

29. DIVIDENDS MADE AND PROPOSED

A condition of the New Bank Facility is that the Company shall not declare or pay a dividend during the term of the facility and as such the Directors are not proposing a final dividend for the financial year 2021 (2020: £nil).

30. EVENTS AFTER THE REPORTING PERIOD

In March 2022, the Group agreed to acquire the trade and assets of a portfolio of three sites trading under the Fitness First brand for total cash consideration of £5.5 million. The consideration will be paid on the date of completion, which is expected to be before the end of March 2022.

The sites to be acquired are in key residential areas within the M25 where the Group has consistently traded well. The acquisition complements the Group's existing growth strategy.

The acquired sites will be converted to The Gym Group brand in 2022, with total capital expenditure expected to be c.£2.5 million. Following conversion, the sites are expected to generate strong returns on capital at maturity.

Given the timing of the acquisition, we are yet to complete the assessment of the fair value of the assets to be acquired, including goodwill.

In March 2022, the Group also obtained credit committee approval from its banks for certain changes to its RCF facility. These include a one-year extension of Facility A (£70 million) to October 2024; the cancellation in full of the temporary Facility B (£30 million) and replacement with a new £10 million Facility to October 2024; and further relaxation of finance lease restrictions. Funds borrowed under the RCF will bear interest at a minimum rate of 2.85%.

FINANCIAL STATEMENTS

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2021

	Note	31 December 2021 £m	31 December 2020 £m
Non-current assets			
Investments in subsidiaries	4	225.9	193.6
Trade and other receivables	5	–	17.0
Total non-current assets		225.9	210.6
Current assets			
Trade and other receivables	5	65.5	53.1
Cash and cash equivalents		0.1	0.1
Total current assets		65.6	53.2
Total assets		291.5	263.8
Current liabilities			
Trade and other payables	6	7.1	5.6
Non-current liabilities			
Borrowings	7	44.3	49.2
Total liabilities		51.4	54.8
Net assets		240.1	209.0
Capital and reserves			
Own shares held	8	0.1	0.1
Share premium	8	189.7	159.5
Hedging reserve	8	(0.1)	(0.2)
Merger reserve	8	39.9	39.9
Retained earnings	8	10.5	9.7
Total equity shareholders' funds		240.1	209.0

The notes on pages 160 to 165 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 loss for the year amounted to £1.5 million (2020: £nil).

These Financial Statements were approved by the Board of Directors on 16 March 2022.

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 2021

	Own shares held £m	Share premium £m	Hedging reserve £m	Merger reserve £m	Retained earnings £m	Total £m
At 1 January 2020	0.1	159.5	(0.2)	–	8.9	168.3
Capital contributions to subsidiaries	–	–	–	–	0.8	0.8
Issue of Ordinary share capital	–	–	–	39.9	–	39.9
At 31 December 2020	0.1	159.5	(0.2)	39.9	9.7	209.0
Loss for the year	–	–	–	–	(1.5)	(1.5)
Other comprehensive income	–	–	0.1	–	–	0.1
Total comprehensive loss for the year	–	–	0.1	–	(1.5)	(1.4)
Capital contributions to subsidiaries	–	–	–	–	2.3	2.3
Issue of Ordinary share capital	–	30.2	–	–	–	30.2
At 31 December 2021	0.1	189.7	(0.1)	39.9	10.5	240.1

The notes on pages 160 to 165 form an integral part of the Financial Statements.

Retained earnings include distributable reserves of £4.9 million (2020: £4.4 million).

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2021

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, 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 and basis of preparation

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

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

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

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

Going concern

In assessing the going concern position of the Company for the year ended 31 December 2021, the Directors have considered the following:

- the Group's trading performance in the second half of 2021 and throughout the traditional January and February 2022 peak period, in particular in respect of its trading subsidiary The Gym Limited ('TGL') on which the Company is interdependent;
- future expected trading performance of the Company and TGL to June 2023 (the going concern period), including membership levels and behaviours;
- the Group's site rollout programme;
- the latest situation and UK Government guidance with respect to the COVID-19 pandemic; and
- the Company and Group's financing arrangements and relationship with its lenders and shareholders.

Following the re-opening of gyms in April 2021, trading in the second half of 2021 showed total membership increasing by 31%, from 547,000 at the end of February 2021 to 718,000 at the end of December 2021. Trading in the first two months of 2022 which is traditionally the peak period for gym memberships, has been strong, with membership numbers at the end of February 2022 reaching 825,000.

The Directors believe that the current trading performance, together with the COVID-impacted commercial property market, provide the Group with a unique opportunity to accelerate growth and gain market share. The Directors are now focused on delivering that opportunity. We opened 19 new gyms in 2021 which are performing in line with our expectations, and have plans to open a further 28 in 2022.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

To facilitate this accelerated growth, on 2 July 2021, the Group raised additional financing in the form of an equity placing, which raised net proceeds of £30.3m. In addition, certain restrictions in the Group's banking facilities around capital expenditure and finance lease debt were relaxed.

As at 31 December 2021, the Group had Non-Property Net Debt (including finance leases) of £44.1m and £62.3m of headroom (calculated off bank debt less cash) under the £100m Revolving Credit Facility ('RCF') (reducing to £75m in March 2022 before increasing to £80m in May 2022 and maturing in October 2024).

Until June 2022, the RCF is subject to quarterly financial covenant tests primarily relating to the performance of the Group against agreed targets for Group Adjusted EBITDA Less Normalised Rent. From June 2022, the covenants consist of quarterly tests on leverage (net debt to Group Adjusted EBITDA Less Normalised Rent), fixed charge cover (Adjusted EBITDAR to Net Finance Charges and Normalised Rent) and minimum liquidity.

The Group's base case forecast for the period to 30 June 2023 anticipates continued recovery of membership and robust yields, together with the successful execution of the accelerated rollout plan. Under this scenario, all financial covenants are passed with a significant level of headroom and the Company and Group can operate comfortably within its financing facilities.

The Directors have considered a downside scenario which anticipates a slower recovery in which membership numbers only return to 88% of pre-pandemic levels (December 2019) by the end of the going concern period. Under this scenario, all financial covenants continue to be passed and the Group continues to operate within its financing facilities.

The Directors have also considered a reverse stress test scenario that modelled the impact of a significant downturn in trading and resulting drop in membership numbers. Mitigating actions were also modelled including moving to a minimum level of maintenance capital expenditure, reducing discretionary expenditure in order to preserve cash and a deliberate slowing down or temporary cessation of the rollout programme. In this scenario, the number of new members each month would have to decline by 26% compared to the base case (the equivalent of membership reducing to 82% of the February 2022 closing membership number) before the fixed charges cover covenant would be breached in December 2022. However, the Group would remain within its liquidity limits.

In the event of a reverse stress test scenario, the Directors would introduce additional measures to mitigate the impact on the Company and Group's liquidity, covenants and cash flow, including: (i) further reductions in controllable operating costs, marketing and capital expenditure; (ii) discussions with lenders to secure additional debt facilities and/or covenant waivers; (iii) deferral of, or reductions in, rent payments to landlords; and (iv) the potential to raise additional funds from third parties.

The Directors believe that the success of the UK's booster vaccination programme and the fact that all sectors of the economy remained open for business during winter 2021/22, despite the recent Omicron outbreak, are strong indicators that further prolonged periods of enforced closure are highly unlikely. In addition, the Company and Group have a very good relationship with their lenders who have been supportive throughout the pandemic. The lenders understand the Group's business model, our significant profit and cash generation in months when gyms are fully open, and our relatively low gearing. As a result, in the unlikely event there was another national lockdown, the Directors believe that the banks would continue to support the Group with covenant flexibility in the form of waivers or amendments, as they have done on a number of occasions during previous lockdown periods. The Directors therefore consider that the combination of a lockdown and a subsequent lack of flexibility from the banks is remote.

Conclusion

The Board has reviewed the financial forecasts and downside scenarios of the Group and has a reasonable expectation that the Group has adequate resources to continue in operational existence for the period to 30 June 2023. As a result, the Directors continue to adopt the going concern basis in preparing these financial statements. In making this assessment, consideration has been given to the current and future expected trading performance; the Company and Group's current and forecast liquidity position; the continued positive momentum with regards the COVID-19 situation and success of the UK booster vaccination programme; the support received to date from our lenders and shareholders; and the mitigating actions that can be deployed in the event of reasonable downside scenarios.

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2021

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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 Company 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 Company's activities expose it to financial risks associated with movements in interest rates. The Company 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 Company 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 Company has designated its derivative financial instrument as a cash flow hedge.

At inception of the hedge relationship, the Company 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

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

	£m
At 1 January 2020	192.8
Capital contribution to subsidiaries	0.8
At 31 December 2020	193.6
Additions	32.3
At 31 December 2021	225.9

In December 2021, the Company invested £30.0 million into its directly held subsidiary, The Gym Group Midco1 Limited. 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. A corresponding capital contribution of £2.3 million has been recognised within investments in subsidiaries (2020: £0.8 million). Details of the Company's share-based payment arrangements are shown in note 26 to the Consolidated Financial Statements.

The Company's subsidiary undertakings are shown in note 28 to the Consolidated Financial Statements.

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

FOR THE YEAR ENDED 31 DECEMBER 2021

5. TRADE AND OTHER RECEIVABLES

	31 December 2021 £m	31 December 2020 £m
Prepayments and accrued income	0.2	0.5
Amounts owed by Group undertakings	65.3	69.6
	65.5	70.1
Due in less than one year	65.5	53.1
Due in more than one year	–	17.0
	65.5	70.1

6. TRADE AND OTHER PAYABLES

	31 December 2021 £m	31 December 2020 £m
Trade payables	0.1	–
Amounts owed to Group undertakings	5.3	5.0
Accruals	1.7	0.6
	7.1	5.6

7. BORROWINGS

	31 December 2021 £m	31 December 2020 £m
<i>Non-current</i>		
Revolving credit facility	44.7	49.8
Loan arrangement fees	(0.4)	(0.6)
	44.3	49.2

8. ISSUED CAPITAL AND RESERVES

	31 December 2021 £m	31 December 2020 £m
<i>Allotted, called up and fully paid</i>		
Ordinary shares of £0.0001 each	–	–
Own shares held		
Deferred Ordinary shares of £1 each	0.1	0.1

The number of Ordinary shares in issue is as follows:

	31 December 2021	31 December 2020
Ordinary shares of £0.0001 each	177,519,174	165,751,888
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 a separate, non-voting class of shares which is held in treasury and not admitted to trading. The rights attached to the Deferred Shares are set out in the Company's Articles.

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.

Merger reserve

The amount subscribed for share capital in excess of nominal value attracting merger relief under the Companies Act 2006.

Retained earnings

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

Issued Share Capital and Capital Redemption Reserve are not included in the Consolidated Statement of Changes in Equity because the balances in these reserves are less than £0.1 million.

9. EVENTS AFTER THE REPORTING PERIOD

In March 2022, and in connection with the acquisition of the trade and assets of three sites by the Group, as disclosed in note 30 to the Group's financial statements, the Company obtained credit committee approval from its banks for certain changes to its RCF facility. These include a one-year extension of Facility A (£70 million) to October 2024; the cancellation in full of the temporary Facility B (£30 million) and replacement with a new £10 million Facility to October 2024; and further relaxation of finance lease restrictions. Funds borrowed under the RCF will bear interest at a minimum rate of 2.85%.

FINANCIAL STATEMENTS

FIVE-YEAR RECORD

FOR THE YEAR ENDED 31 DECEMBER 2021

The following table sets out a summary of selected key financial information and Key Performance Indicators for the business.

	2021 £m	2020 £m	2019 £m	2018 £m	2017 £m
Revenue	106.0	80.5	153.1	123.9	91.4
Group Adjusted EBITDA Less Normalised Rent	5.7	(10.2)	48.5	39.1	30.6
Group Operating Cash Flow	6.3	(16.3)	39.2	34.0	24.7
Non-Property Net Debt	44.1	47.3	47.4	46.0	37.5
Non-Property Net Debt to Group Adjusted EBITDA	7.74	(4.64)	0.98	1.17	1.23
Total number of Gyms (number)	202	183	175	159	128
Total number of Members ('000)	718	578	794	724	607
Average Revenue per Member per Month (£) ¹	17.60	17.20	16.02	14.89	14.41
Members that visit 4+ Times in a Month ²	32.6%	23.9%	44.0%	41.7%	40.7%
Number of Mature Gyms in operation (number)	175	155	109	89	74
Mature Gym Site EBITDA	22.5	3.9	48.1	39.0	32.4
Return on Invested Capital of Mature Sites ³	18%	18%	31%	30%	30%
Employee Engagement Score	61%	51%	n/a	n/a	n/a

1 In order to provide better year-on-year comparability for yield, the figures presented for 2021 and 2020 have been adjusted to exclude the impact of UK Government-enforced closure periods as a result of the COVID-19 pandemic. The 2021 figure is calculated for the period from July 2021 to December 2021 when all gyms were fully open and trading had returned to normal. The 2020 figure is calculated on a site-by-site basis and excluded days where the sites were required to be closed due to Government restrictions.

2 The 2021 and 2020 figures are impacted by closure days.

3 In order to provide better year-on-year comparability for ROIC, the figures presented for 2021 and 2020 have been adjusted to exclude the impact of UK Government-enforced closure periods as a result of the COVID-19 pandemic. The 2021 figure is calculated for the period from July 2021 to December 2021 when all gyms were fully open and trading had returned to normal. The 2020 figure is calculated to exclude those months when sites were required to be closed due to Government restrictions.

DEFINITION OF NON-STATUTORY MEASURES

Group Adjusted EBITDA – operating profit before depreciation, amortisation, long-term employee incentive costs and non-underlying items.

Normalised Rent – the contractual rent that would have been paid in normal circumstances without any agreed deferrals, recognised in the monthly period to which it relates.

Adjusted Loss/Profit before Tax – loss/profit before tax before non-underlying items.

Adjusted Earnings – loss/profit for the year before non-underlying items and the related tax effect.

Basic Adjusted EPS – loss/profit for the year before non-underlying items and the related tax effect, divided by the basic weighted average number of shares.

Group Operating Cash Flow – Group Adjusted EBITDA Less Normalised Rent, movement in working capital and maintenance capital expenditure.

Free Cash Flow – Group Operating Cash Flow less cash non-underlying items, bank and non-property lease interest and tax.

Non-Property Net Debt – bank and non-property lease debt less cash and cash equivalents.

Mature Gym Site EBITDA – Group Adjusted EBITDA Less Normalised Rent contributed by mature sites.

Return On Invested Capital of Mature Sites – Mature Gym Site EBITDA divided by total capital initially invested in the mature sites.

Maintenance capital expenditure – costs of replacement gym equipment and premises refurbishment.

Expansionary capital expenditure – costs of fit-out of new gyms (both organic and acquired), technology projects and other strategic projects. It is stated net of contributions towards landlord building costs.

CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2021

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Nadira Hussein

Company number

08528493

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HSBC Bank plc

Solicitors

Allen & Overy LLP

Auditors

Ernst & Young LLP

Joint Brokers

Numis Securities Limited
Peel Hunt LLP

Registrar

Link Group



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