

## Introduction

Welcome to The Gym Group Annual Report 2015. This interactive PDF allows you to easily access the information that you require.

Throughout this report there are links to pages, other sections and web addresses for additional information. The links are recognisable by the blue underline. Use these links, or the document controls located at the top of each page, to navigate through this report.

## Document controls

-  Search by keyword
-  Print a single page or whole section
-  Return to the contents page
-  Return to previous view
-  Forward
-  Backward



# the here for everybody, and every kind of body gym



**Our vision** is to provide affordable access to exercise facilities and expert help to every person who wants to improve their wellbeing, whatever their starting point, whatever their destination.

## Contents

### Overview

- 01 2015 Highlights
- 02 At a Glance
- 04 Our Journey

### Strategic Report

- 06 Chairwoman's Statement
- 07 Chief Executive's Review
- 10 Market Review
- 12 Business Model
- 14 Delivering our Business Model
- 20 Our Strategy
- 22 Key Performance Indicators
- 24 Financial Review
- 28 Principal Risks
- 30 Corporate Social Responsibility Statement

### Governance

- 34 Board of Directors
- 36 Corporate Governance Report
- 39 Report of the Nomination Committee
- 40 Report of the Audit and Risk Committee
- 43 Report of the Remuneration Committee
- 55 Directors' Report
- 58 Directors' Responsibility Statement

### Financial Statements

- 59 Independent Auditor's Report
- 65 Consolidated Statement of Comprehensive Income
- 66 Consolidated Statement of Financial Position
- 67 Consolidated Statement of Changes in Equity
- 68 Consolidated Cash Flow Statement
- 69 Notes to the Consolidated Financial Statements
- 96 Company Statement of Financial Position
- 97 Company Statement of Changes in Equity
- 98 Notes to the Company Financial Statements
- 103 Four Year Record
- 104 Corporate Information

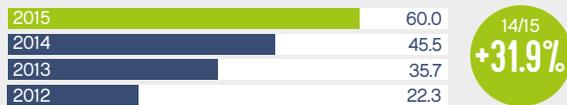
# 2015 Highlights

2015 has been a landmark year for The Gym. As well as delivering strong revenue and profit growth we have completed a successful IPO on the London Stock Exchange.

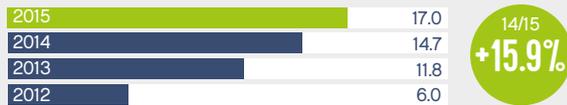
## Highlights



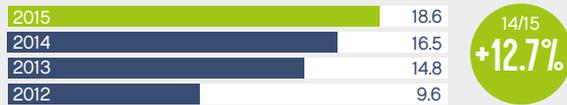
### Revenue £m



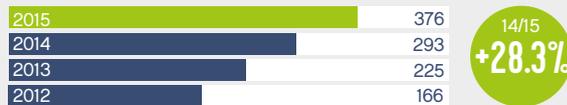
### Group Adjusted EBITDA £m



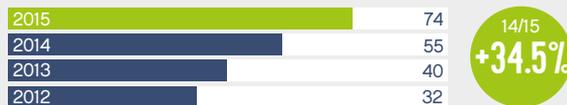
### Group Operating Cash Flow £m



### Total Number of Members '000



### Total Number of Gyms



### Net Debt £m



## Operational highlights



### Successful IPO on the London Stock Exchange



### 376,000 members at the end of 2015



### 19 new gym openings in 2015, bringing total to 74



### Strong pipeline for 2016



## At a Glance



# flexible low cost no-contract membership

## Our strengths

### Disruptive business model



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

Despite our market leading prices, our gyms are fitted out to a high specification and are well-equipped, with an average of 170 equipment stations per gym.

### Technology driven



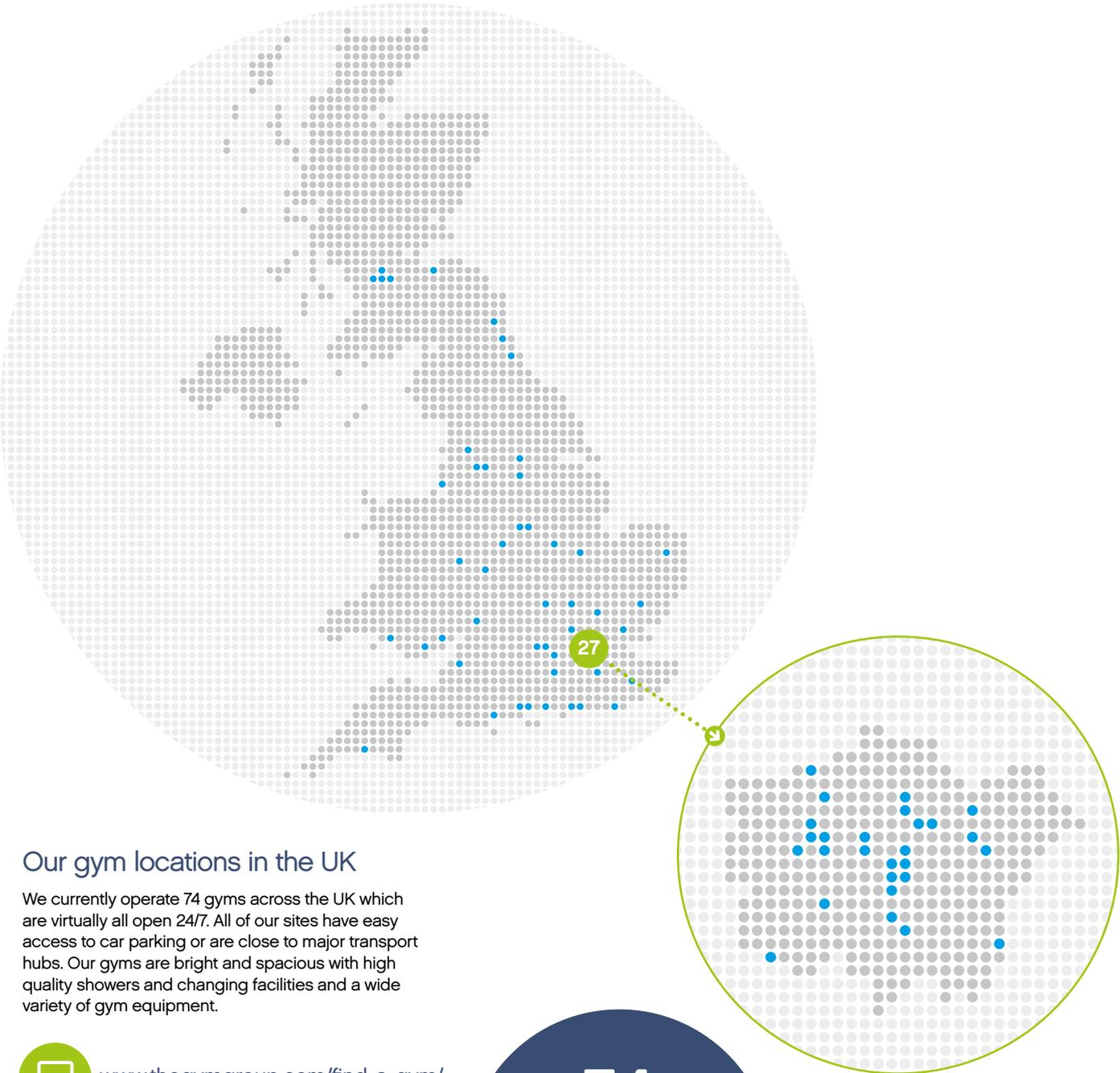
Our technology-led operating model enables us to continually improve our member experience, inform our operating and business strategy with comprehensive data and manage our costs to deliver a great price, strong margins and a high return on capital.

### High quality gym estate



Our rigorous site selection process and flexible model deliver high returns across a wide variety of locations and property types.

Our gyms are located in accessible, densely populated areas and provide a great environment for our members with lots of space and light.



### Our gym locations in the UK

We currently operate 74 gyms across the UK which are virtually all open 24/7. All of our sites have easy access to car parking or are close to major transport hubs. Our gyms are bright and spacious with high quality showers and changing facilities and a wide variety of gym equipment.

 [www.thegymgroup.com/find-a-gym/](http://www.thegymgroup.com/find-a-gym/)

**74  
GYMS**

**376,000  
MEMBERS**

**24/7**



## Our Journey

The Gym Group was founded in 2007 by our Chief Executive Officer, John Treharne – a former England national team squash player with extensive experience in the health and fitness sector – and Bridges Ventures LLP.

John and Bridges Ventures recognised that there was a significant opportunity in the UK health and fitness market for a low cost gym offering, with low cost gym membership in the UK being significantly lower than in a number of other countries and with price being identified as the largest obstacle to gym participation in the UK.

The founding concept was to provide high quality gym-only facilities to a wide demographic through 24/7 opening hours, no fixed-term membership contract and an affordable monthly membership fee.

2007



The Gym was founded by John Treharne with backing from Bridges Ventures



# a strong track record

2008



The first gym opened in Hounslow



2011



Awarded Budget Gym of the Year at the National Fitness Awards



2007

2008  
GYMS 1  
MEMBERS 7,000

2009  
GYMS 5  
MEMBERS 26,000

2010  
GYMS 10  
MEMBERS 58,000

2011  
GYMS 16  
MEMBERS 96,000

**2015** ⬇️

The Gym Group plc admitted to the Full List of the London Stock Exchange



**2013** ⬇️

Phoenix Equity Partners acquired a majority shareholding



**2012** ⬇️

Awarded our first Investors In People accreditation



# Chairwoman's Statement

2015 was an excellent year for The Gym. Revenue increased by 31.9% to £60.0 million, Group Adjusted EBITDA increased by 15.9% to £17.0 million and 19 new gyms were opened during the year. This demonstrates the ability of the business to drive top and bottom line growth by growing the estate efficiently and meeting the needs of our members.

Penny Hughes CBE  
Chairwoman



We are delighted to have listed on the Full List of the London Stock Exchange and welcome our new shareholders to this exciting business. The business has a well-defined operating and financial model and has further strengthened its balance sheet to support future growth. We are well positioned to take advantage of the substantial opportunity in the market.

### My first impressions

I joined The Gym shortly before the IPO of the Company. I am pleased to share with you my first impressions. This is a business which has pioneered the low cost gym model. It has a clear strategy and a passionate culture with the aim of providing every member the very best experience. Supported by a knowledgeable and experienced property team, it selects excellent sites that meet strict criteria and deliver high returns in a reassuringly predictable way. Operating a flexible, low cost, disruptive, technology led model, The Gym operates efficiently and is now driving further benefits from its increased scale.

The fact that The Gym has all these attributes as a relatively young business with much potential is testament to an experienced, talented and driven management team led by the Company's founder, John Treharne.

Future growth will enable the Company to further its vision to provide affordable exercise facilities to every person who wants to improve their wellbeing; a very positive purpose for a company.

### Strong governance

Strong governance is about putting in place a system and an openness to challenge in order to make good decisions. At IPO we strengthened our Board processes and committee structures, and we expect to appoint an additional Non-Executive Director in the coming months to complete this process. There is a strong commitment to a well organised and efficient Board to support the Executive team, and to enable swift and confident decision making.

### Looking ahead

The Gym has extensive opportunities to grow in the years ahead. Our low cost, no contract, high quality, 24 hour gym membership is highly attractive in today's fast moving, value conscious society. Our proposition is extremely competitive within the wider gym market and we are evidencing new members joining us from traditional higher cost gyms and other health and fitness operators. Importantly, more than a third of our new members are experiencing gym membership for the first time. We look forward to reaching more communities as we open more gyms to provide them with the same encouragement to enhance their wellbeing.

Our people are vital in delivering an outstanding service to our members. I am pleased to announce that in the coming weeks we plan to introduce a scheme where all of our staff will have the opportunity to become shareholders in the business.

I am delighted to have been appointed Chairwoman. I believe The Gym, with its attractive financial model and successful growth strategy, is well positioned to continue to enhance and create value for institutional and employee shareholders as we work every day to provide our members with an excellent experience.

**Penny Hughes**  
Chairwoman  
14 March 2016

delivering  
profitable  
growth and  
high returns  
on capital

# Chief Executive's Review

The Gym is the original pioneer of low cost gyms in the UK that are open 24/7. Underlying our disruptive concept is that we offer the products that members want at market leading prices without compromising on quality or fundamentals.

John Treharne  
Chief Executive Officer



I am pleased to present my first Chief Executive's Review following our listing on the Full List of the London Stock Exchange in November 2015.

### Introduction

This has been a landmark year for our business with a record number of new site openings, increasing our estate to 74 sites at 31 December 2015 from 55 in the prior year. Our financial metrics reflect the rapid growth that we have delivered: Total year end members increased by 28.3% to 376,000 (2014: 293,000); revenue of £60.0 million (2014: £45.5 million), an increase of 31.9%, and Group Adjusted EBITDA of £17.0 million, an increase of 15.9% (2014: £14.7 million).

We are a market leader in the low cost sector, enabling us to realise the benefits of increased scale to drive down operational and capital costs and deliver higher returns. Low cost gyms are a fast growing market, and we continue to drive the expansion of the sector by attracting members that are new to the gym market and also from more traditional gym operators. We constantly seek out ways to improve our business model to capitalise on this market opportunity. Equally, the strength of our financial covenant means that we are offered the best sites by landlords which underpins the growth of our estate and our pipeline.

### Strategic progress

#### Delivering performance from gyms

Our business model is straightforward with new sites taking time to reach maturity. Once mature they generate excellent levels of cash and good returns. We have been accelerating our rollout programme and so at the end of 2015, 34 of our 74 sites had been open for less than two years. We can expect to benefit from the growth of these sites as they mature during the current year and beyond.

#### Improving operating efficiencies

Our business model strips out the elements of the more traditional proposition that add unnecessary cost and are barely used, enabling us to operate a low cost environment. As we grow we will use the benefits of scale and operating expertise to continue to take costs out of the way that we deliver the business model. We deliver as low a cost base as possible. This enables us to pass on these benefits to the members through charging some of the lowest prices in the sector. The Gym charges an average fee of £16 per month.

An exercise to renegotiate operating cost contracts has identified £1 million of annualised savings on an ongoing basis and was implemented during the year.



**£16 AVERAGE  
MEMBERSHIP  
FEE**

## Chief Executive's Review **continued**

### Achieving our rollout strategy

The Gym operates a flexible low cost model that can be used in many different types of location. There remain substantial growth opportunities to expand our footprint across the UK. In 2015, gyms opened in sites previously used as retail space (Bedford and Reading) and a gentlemen's club (Charing Cross). We also opened a gym as part of a leisure park regeneration scheme (Hemel Hempstead), as well as gym spaces vacated by other operators (Eastbourne, Croydon Purley Way and Derby). Our new sites continue to trade well, in line with our expectations. Our pipeline is expanding rapidly. We are well positioned to open between 15 and 20 gyms in total in 2016 and per year thereafter over the medium term. The pipeline is stronger than at any point in our history; landlords are also recognising the strength of our covenant, assisted further by our newly acquired status as a publicly listed company.

We continue to refine and reduce the cost of building and fitting out a new site where we are provided with a clean shell by the landlord. Savings have been achieved on multiple stages of the fit-out process, including build costs, gym equipment and fixtures and fittings.

This is demonstrated by the decrease in the initial cost to fit out a new gym, from an average of £1.5 million for the 2008 to 2014 portfolio to an average cost of approximately £1.35 million for the 2015 gyms.

### Developing the customer proposition

The low cost sector is still at an early stage of development in the UK, particularly compared with older, low cost gym markets in mainland Europe and the United States. We continue to evolve our concept to address the needs of our members. This is achieved by monitoring customer feedback closely to ensure that we provide what members want at affordable prices. During 2015 we expanded group exercise classes in response to feedback from members. Similarly, scientific analysis of actual usage patterns indicated that members wanted additional space allocated for lighter free weights. The Gym also benefited from a brand relaunch to emphasise our brand personality at our sites. We are applying this to the new sites as we develop them, ensuring there is consistency across the sites as well as in our marketing messaging. This new branding will be rolled out into some of our earlier sites as they come up for refurbishment.

Monitoring member feedback about our offer and the service that we provide is a core component of the development of our business. Examples of feedback include measuring the use of machines to enable us to understand when to change the equipment in our gyms, ensuring that what we provide is in line with what members want to use. Equally we analyse our site openings to understand the demographics of our membership base and aid our decision making for future site acquisition. Member feedback about our operational performance is measured through Net Promoter Score with a score of 60.2% achieved in 2015. Our online measure of customer satisfaction, Feefo, score was 94% for the year. The business is constantly evolving the way it collects this type of feedback.

### Focusing on our people

Our people are instrumental to running a successful business. The Gym is made up of 74 gyms that act as local businesses drawing on a network of central head office support to fulfil their operational goals. As we grow we continue to enhance the quality of support to this network of sites. A regional operations structure has been put in place, along with the expansion of our commercial team to explore further revenue opportunities and enhance our monitoring of suppliers. We operate an outsourced support model where services are provided through a number of key suppliers.

Our people are highly engaged, passionate and committed. We have achieved a two star 'Outstanding' award in the Best Companies accreditation which measures workplace engagement. The Company recently achieved the Investors in People Silver award and is currently applying for the Gold award. The business continues to be the only low cost fitness provider with such accreditation.

We are pleased to give our people the opportunity to share in the success of the Group. In the coming weeks we will introduce an all-staff share scheme where all of our people will be granted an award of £1,000 free shares and also have the opportunity to invest in additional shares.

**a landmark  
year  
delivering  
strategic  
progress**

### Our use of technology

Technology and systems are at the heart of our business and facilitate the low cost environment that we operate. A simple online joining process is critical to our model. We are exploring ways to upgrade our capability in this area with the development of a new member management system. Our goal is for members to access their data in a more efficient way and for the business to communicate with members more effectively.

The business moved to a new email sales platform during the year that will enable us to reach new and lapsed members more effectively. More of our marketing is now online as we expand the scope of Pay per Click and Search Engine Optimisation. At the heart of our marketing effort is our ability to drive potential members in a local catchment to our website to join up. This critical difference in operation to the traditional health club market helps us to attract over 35% first time gym users. Our 24/7, CCTV controlled environment attracts a wider cross section of people who wish to exercise outside traditional gym opening hours when it suits them. As a result, over a third of the membership base are shift workers such as doctors, nurses, bus drivers, taxi drivers, hotel and restaurant workers, who find traditional opening hours too restrictive.

### Outlook

The new financial year has started well and in line with the Board's expectations. January and February are the two most significant trading months of the year for any gym business. Membership numbers at the end of February had increased to 418,000, a record level with an 11.2% increase since December 2015. This level of member growth will help to underpin our performance for the rest of the year. The pipeline continues to be strong and we expect to open 15 to 20 sites in the current year. As in 2015 these site openings will be weighted to the second half of the year, with six sites expected to be open in the first half of the year and a further four locations where contractors are on site.

Five months into our life as a public company our strategic priorities and financial results are progressing well. Our focus is on creating value for both our members and our shareholders.

The Strategic Report has been approved by the Board and signed on its behalf by:

**John Treharne**  
Chief Executive Officer  
14 March 2016



# Market Review

The UK health and fitness club market has experienced significant growth in recent years, with the low cost segment driving increases in membership.

**£4.3bn  
UK GYM  
MARKET  
VALUE**

**14% MARKET  
PENETRATION**

### Overview

The UK health and fitness club market has grown significantly over recent years, with annual membership revenue increasing from £3.6 billion in 2007 to £4.3 billion in 2015<sup>1,2</sup>.

Membership numbers also increased, with 7.2 million members across a total of 5,714 clubs in 2007, compared to 8.8 million members and 6,312 clubs in 2015<sup>1,2</sup>.

Part of the growth has been driven by an increase in market penetration, which has risen from 12% in 2007 to 14% in 2015<sup>1,2</sup>. This growth can be attributed to a number of factors, including increased consumer awareness of the benefits of an active lifestyle, and various government initiatives to promote healthier living.

However, potential health and fitness club members are still deterred from joining a gym due to the high cost of membership fees, being tied into a long-term contract, lack of accessibility and inconvenient opening times<sup>3</sup>.

We believe that recent growth in the market, combined with changing consumer demands, presents a compelling opportunity for investors. The Gym Group, with its innovative and disruptive business model, is perfectly positioned to exploit this opportunity.

### A fragmented market

The market is characterised by two types of operator: public clubs funded by local authorities representing 43.8% of the market; and private clubs funded and operated by commercial enterprises representing 56.2% of the market<sup>1</sup>.

The Group operates within the UK private health and fitness club market which is highly fragmented with over 1,800 operators and 5.5 million members. The ten largest operators account for only 18% of the market (by number of gyms) with 647 clubs in operation as at 31 March 2015<sup>1</sup>.

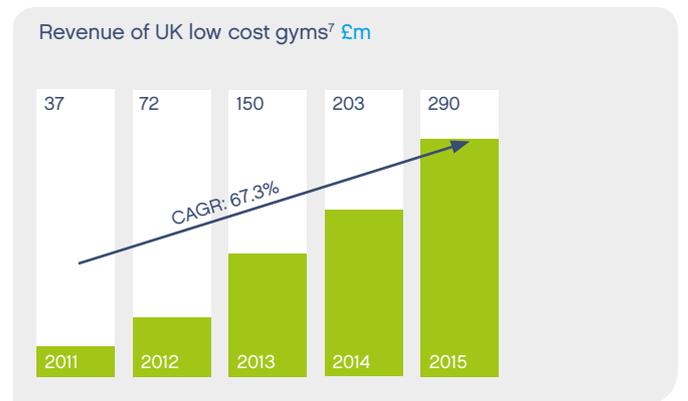
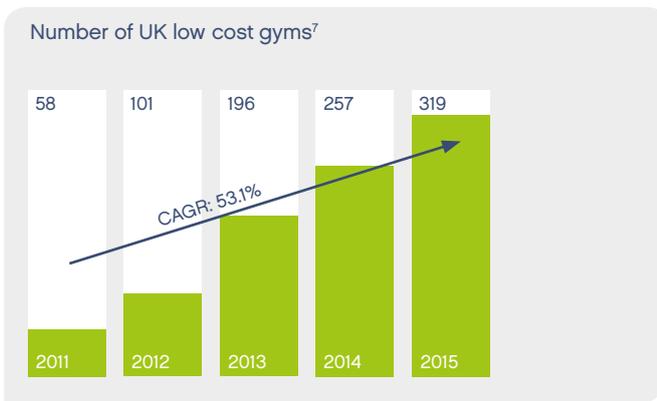
The private market comprises two main types of operator: traditional and low cost. The key differentiators between traditional and low cost gyms are pricing, contract terms and the facilities on offer. Traditional clubs often require their members to sign up to a fixed-term contract which typically includes early termination fees. Traditional clubs are often larger in size, with a wide range of facilities available such as swimming pools and saunas, racquet sports and member social areas. Traditional operators generally have higher operating costs compared to low cost clubs due to their larger size, higher staff count (for example, many clubs will have a dedicated in-club sales and marketing team) and higher maintenance costs.

Low cost clubs are those belonging to a health club chain with a non-contract membership option that is usually less than £20 per month<sup>2</sup>. Low cost clubs offer a more focused product for consumers who only want to pay for and use core fitness equipment such as cardiovascular machines, resistance training machines and free weights; and fitness studios. Low cost membership arrangements are typically more flexible than those of traditional operators with limited or no fixed-term contracts and easy sign-up and cancellation policies. In addition to flexible membership terms, the low cost gym segment also offers increased accessibility to gyms with longer opening hours compared to the traditional sector.

### Advantages of the operating model

The Gym Group's disruptive and low cost operating model has a number of advantages which have developed as the market has matured, the number of successful operators has decreased and the proven capabilities of experienced providers such as The Gym has increased.

there is  
substantial  
opportunity  
in the  
UK low cost  
gym segment



These include:

i) ability to source sites

Sourcing buildings in the right locations, with the right layout and demographic profile requires an experienced property team and strong leasing covenant.

ii) scale advantages

Operating margins and returns on capital are improved by leveraging scale to purchase more efficiently and amortise one-off or fixed costs across a larger estate.

iii) access to capital

A proven track record enables access to a wider pool of capital to support sustained growth, making raising capital difficult for new entrants or smaller operators.

iv) technology

Use of bespoke technology minimises the requirement for large back office support functions engaged in data processing and collection.

v) data analytics

We have an advantage over most other operators since we have built a business on capturing high levels of quality data which we use to improve the proposition and aid site selection.

### Growth opportunity

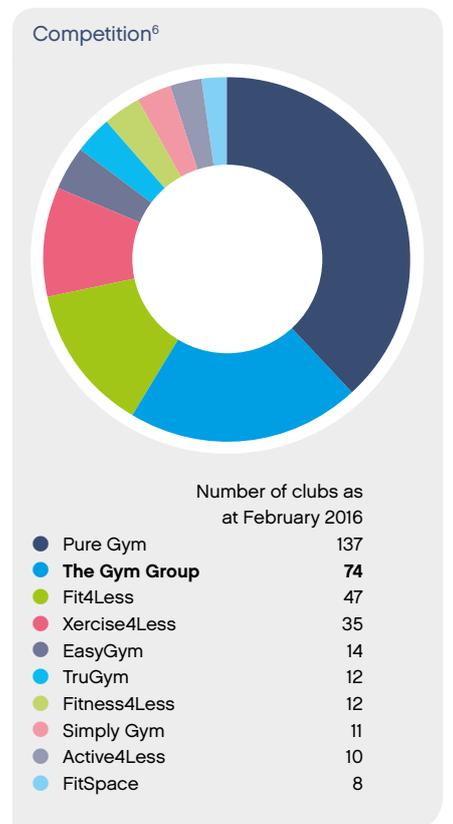
The UK private health and fitness club market has grown from 3,146 clubs in 2011 to 3,550 in 2015. This has largely been driven by the expansion of the low cost gym segment which has taken market share from traditional operators as well as growing the overall size of the market. Within the traditional sector, the number of gyms has only increased marginally from 3,088 in 2011

to 3,231 in March 2015, while the number of members has fallen from 4.3 million to 4.1 million over the same period. The decline in membership is partly due to a number of traditional operators exiting the market or downsizing their portfolios as well as traditional operators losing members to low cost operators. However, the number of low cost gyms has grown from 58 in 2011 to 319 in 2015 and membership has grown rapidly from 0.2 million to 1.3 million over the same period<sup>4</sup>.

As at March 2015, the top three operators had approximately 74% market share of low cost gym members and accounted for 70% of low cost gym openings from March 2013 to March 2015<sup>1,5</sup>.

From our well-developed, disruptive business model and our current position within the top three operators The Gym is well placed to exploit the opportunities within the UK health and fitness sector.

1 Leisure Database Company 2015 State of the UK Fitness Industry Report  
2 Leisure Database Company data  
3 Mintel Group Limited Health and Fitness Clubs UK July 2015  
4 Leisure Database Company 2011 State of the UK Fitness Industry Report  
5 Leisure Database Company 2013 State of the UK Fitness Industry Report  
6 Company analysis  
7 Leisure Database Company data



## Business Model

# a disruptive business model

### An attractive membership proposition

- Flexible membership options
  - 24/7 access
  - No fixed term contract
  - Transparent, low pricing
- High quality gym experience
  - Wide range of high specification equipment
  - Well lit, safe, clean and well maintained facilities
  - Professional, helpful staff
- Easy online joining and member management process

### Driven by technology

- Online services enhance the member experience
- Automated access control and 24 hour CCTV enhances safety and reduces staff costs
- Comprehensive data drives better commercial decisions
- Electronic monitoring of gym equipment usage means fit-outs are tailored to member requirements



The Gym Group delivers a compelling customer proposition through its disruptive, low cost, technology-led business model.

## Efficient operational structure

- Fit-out costs and underutilised gym floor space is minimised
- Staffing model means gym staff time is maximised to dedicate time to supporting members
- Outsourced support functions to reduce costs and enable focus on core operations
- Flexible and intensive use of space



## Delivering our Business Model

# flexible membership to suit every lifestyle

### Traditional gyms

- Limited opening hours
- Fixed term contracts
- High membership fees
- Expensive, under-utilised facilities e.g. swimming pools
- 55 equipment stations per gym on average

### The Gym

- 24/7 opening hours
- No fixed term contract
- £16 typical monthly cost
- Gyms fitted out based on member requirements
- 170 equipment stations per gym on average

### Benefits for members

- Opening times suit all lifestyles and occupations
- Increased flexibility
- Value-for-money membership
- Equipment and fit-out appeals to a wide range of members
- Plenty of equipment choice, even at peak times

“Even when I’m training, I feel relaxed at The Gym. It’s the little things that make the experience great – The Gym is well maintained, tidy and the cleanliness is second-to-none. The staff make everyone feel welcome, no matter if they’re shy, what their age or what their body shape is.”

**LLOYD**  
**GYM MEMBER**  
**CROYDON**  
**PURLEY WAY**



## Delivering our Business Model **continued**

# using technology to enhance the member experience

### Joining

Joining The Gym is a simple online process that can be completed in minutes. Membership and joining fees can be paid by credit or debit card, PayPal and direct debit. Members can also join using in-gym kiosks.



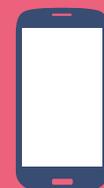
### In The Gym

Members enter the gym using an automated portal, which enables our gyms to open 24/7. We provide a safe environment using monitored CCTV and emergency help points. We analyse detailed usage data to ensure the selection of gym equipment is tailored to our members' requirements.



### Ongoing

Members can manage their accounts, view the gymfit class timetable, book exercise classes and book personal training sessions using computer, tablet or mobile. We use email, SMS and social media to communicate with our members and our comprehensive database to constantly improve our marketing strategy.





## Delivering our Business Model **continued**

# delivered with a high quality estate

### Using our network

We have a strong network of property agents, landlords and developers that provide us with access to a large number of site opportunities.

Our highly experienced property team operates a rigorous acquisition process to obtain high quality sites that meet our target return on capital.

### Securing competitive leases

Our proven track record, growth and financial results provide us with the ability to negotiate competitive arrangements with landlords.

Our leases are typically 15 years long with 12 month rent free periods and step-up provisions every five years. This gives us visibility of our future property costs and protects us from volatility in market rents.

### A variety of building types

Our flexible fit-out approach means we are able to use a wide variety of building types. We have gyms located in residential schemes, mixed leisure developments and office buildings. In 2015 we opened our Charing Cross gym in a former gentlemen's club.

Having a wide choice of locations means that we can be more flexible in selecting sites that meet our acquisition criteria.



# Our Strategy

The Gym Group's strategy is to continue our strong track record of opening and operating high quality, low cost gyms and deliver profitable growth and strong returns on capital. The key elements of the Group's strategy are:



## Drive the performance of recently opened gyms



The operational and financial performance of gyms opened as part of the rollout strategy and still maturing are key in delivering profitable growth.

We will continue to focus on improving member satisfaction, increasing membership and optimising yield.

Mature Gym Site EBITDA £m

2015	18.8
2014	16.2
2013	9.5
2012	6.0

### Progress

In 2015 our mature sites contributed £18.8 million towards our EBITDA, compared to £16.2 million in 2014.

We expect this contribution to increase in the future as the large number of sites opened in the last two years reach maturity.

## Improve operating efficiencies



We will seek to reduce gym fit-out costs and improve operating efficiencies, benefitting from scale economies.

We will do this by using competitive tender processes, negotiating improved terms with suppliers and value engineering the fit-out specification to avoid unnecessary cost.

We will leverage our head office cost base as our portfolio grows.

Group Adjusted EBITDA margin %

2015	28.4
2014	32.3
2013	32.9
2012	26.9

### Progress

Group Adjusted EBITDA Margin decreased as a result of investment in key central functions to support future growth and the rollout strategy resulting in the opening of some gyms with a smaller footprint.

An exercise to renegotiate operating cost contracts has identified £1 million of annualised savings on an ongoing basis and was implemented during the year.

## Rollout and expansion

We believe that there is a significant growth opportunity for low cost gyms in the UK. The Group is well placed to capitalise on this growth opportunity and is well-positioned to open between 15 and 20 gyms per year over the medium term.

We will consider the selective acquisition of existing gyms when there are appropriate opportunities.

### Total Number of Gyms

2015	74
2014	55
2013	40
2012	32

### Expansionary Capital Expenditure £m

2015	28.2
2014	20.3
2013	14.1
2012	21.6

### Progress

In 2015 we opened 19 new gyms.

Our pipeline is stronger than ever before, with six sites expected to be open in the first half of the year and a further four where contractors are on site.

## Continue to improve the member proposition

By focusing on improving the Group's proposition and member satisfaction, we believe that membership numbers will increase and there should be an opportunity to increase pricing and yield over time.

We will look to offer more services and products that enhance the experience of our members.

### Total Number of Members '000

2015	376
2014	293
2013	225
2012	166

### Progress

During the year we introduced group exercise sessions following positive customer feedback from in-gym trials.

We also added group exercise activity space and larger free weights areas where possible in our gyms in response to analysis of usage patterns.

We began measuring Net Promoter Score in May 2015 and achieved an average score of 60.2% for the period.

## Focus on people

Attracting, motivating and training people of the highest calibre, with the desire and ability to operate within our values and culture, is key to our continued success.

**Investors In People:**  
Silver

**Best Companies:**  
Two Star Outstanding

### Progress

We continue to be the only low cost fitness provider with a silver Investors In People award.

In 2016 we will introduce a scheme where all of our staff will have the opportunity to become shareholders in the business.



See the relevant risks that might impact progress on [p.28-29](#)

# Key Performance Indicators

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

## Financial



### Revenue £m

2015	60.0
2014	45.5
2013	35.7
2012	22.3

14/15  
**+31.9%**

#### Definition

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

#### 2015 performance

Revenue increased by 31.9% as a result of increased member numbers and a 0.7% increase in average revenue per member per month.

### Group Adjusted EBITDA £m

2015	17.0
2014	14.7
2013	11.8
2012	6.0

14/15  
**+15.9%**

#### Definition

Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, exceptional items and other income.

#### 2015 performance

Group Adjusted EBITDA increased by 15.9% largely due to the increase in the number of gyms in operation resulting from the Group's ongoing rollout strategy.

### Group Adjusted EBITDA before Pre-Opening Costs £m

2015	19.7
2014	16.7
2013	12.9
2012	7.6

14/15  
**+18.1%**

#### Definition

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

#### 2015 performance

Group Adjusted EBITDA before Pre-Opening Costs has increased by 18.1% reflecting the increase in the gym estate.

### Group Operating Cash Flow £m

2015	18.6
2014	16.5
2013	14.8
2012	9.6

14/15  
**+12.7%**

#### Definition

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

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

#### 2015 performance

Group Operating Cash Flow increased by 12.7% due to an increase in Group Adjusted EBITDA and efficient use of working capital.

### Group Operating Cash Flow Conversion %

2015	109.4
2014	112.4
2013	125.5
2012	160.4

14/15  
**-2.7%**

#### Definition

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

#### 2015 performance

Group Operating Cash Flow Conversion decreased as a result of increased maintenance capital expenditure due to the growing estate, but still remains high.

### Expansionary Capital Expenditure £m

2015	28.2
2014	20.3
2013	14.1
2012	21.6

14/15  
**+38.8%**

#### Definition

Expansionary Capital Expenditure is the expenditure in relation to the fit-out of new gyms. Expansionary Capital Expenditure is stated gross of amounts funded by finance leases.

#### 2015 performance

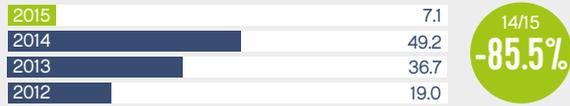
Expansionary Capital Expenditure has increased by 38.8% due to 19 sites being opened in 2015 compared to 15 openings in 2014, and also due to timing differences in payments.

Excluding cash flow timing differences, Expansionary Capital Expenditure was £26.7 million in 2015 and £22.3 million in 2014. Included in 2015 is £1.1 million related to enhancements and IT projects.

## Financial



### Net Debt £m



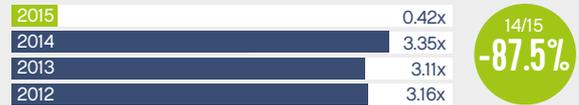
#### Definition

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

#### 2015 performance

Net Debt has reduced significantly due to proceeds received from the Group's IPO being used to repay existing third party debt and internal cash generation.

### Net Debt to Group Adjusted EBITDA



#### Definition

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

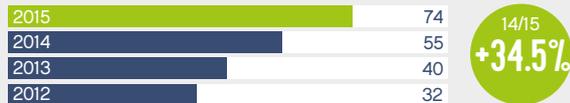
#### 2015 performance

Net Debt to Group Adjusted EBITDA has reduced significantly due to the reduction in Net Debt.

## Non-Financial



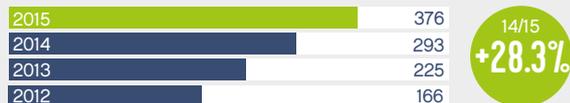
### Total Number of Gyms



#### 2015 performance

The Group opened 19 gyms in 2015 as part of the rollout strategy.

### Total Number of Members '000



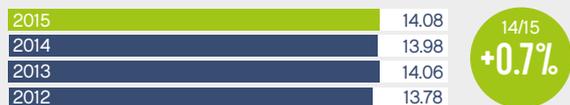
#### Definition

Number of members reflects gym memberships at the year end.

#### 2015 performance

The 28.3% increase in member numbers was primarily due to sites reaching maturity and the opening of 19 gyms during 2015.

### Average Revenue per Member per Month £



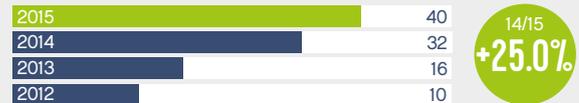
#### Definition

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.

#### 2015 performance

Average Revenue per Member per Month increased by 0.7% due to the strong performance of new sites.

### Number of Mature Gyms in Operation



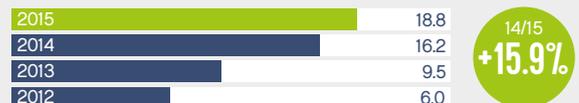
#### Definition

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

#### 2015 performance

The Group's progressive rollout strategy means that gyms opened in 2013 are considered to be Mature in 2015.

### Mature Gym Site EBITDA £m



#### Definition

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

#### 2015 performance

Mature Gym site EBITDA has increased by 15.9% due to the gyms opened in 2013 reaching maturity in the current year.



See the relevant KPIs against our strategy on [p.20-21](#)

# Financial Review

The Group delivered another excellent performance in 2015, with revenue growth of 31.9% and Group Adjusted EBITDA growth of 15.9%, with strong performances from both mature and new gyms.

Richard Darwin  
Chief Financial Officer



## Summary

	2015 £'000	2014 £'000
Total number of gyms	74	55
Number of year end members ('000)	376	293
Revenue	59,979	45,480
Group Adjusted EBITDA <sup>1</sup>	17,016	14,688
Group Adjusted EBITDA before Pre-Opening Costs <sup>2</sup>	19,681	16,668
Adjusted Earnings <sup>3</sup>	(1,107)	(4,452)
Group Operating Cash Flow <sup>4</sup>	18,616	16,514

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

Our Group Adjusted EBITDA growth has been achieved despite the substantial pre-opening costs of £2.7 million incurred with the opening of 19 new gyms, and additional investment in our key central functions.

Group Operating Cash Flow increased by 12.7%, as a result of the conversion of Group Adjusted EBITDA offset by increases in maintenance capital expenditure as our estate increases in size.

## Result for the year

	2015 £'000	2014 £'000
Revenue	59,979	45,480
Cost of sales	(1,073)	(1,040)
<b>Gross profit</b>	<b>58,906</b>	<b>44,440</b>
Administration expenses	(55,105)	(39,452)
Exceptional costs	(7,607)	(2,653)
Other income	1,105	–
<b>Operating (loss) / profit</b>	<b>(2,701)</b>	<b>2,335</b>
Finance income	265	20
Finance costs	(9,946)	(11,797)
<b>Loss before tax</b>	<b>(12,382)</b>	<b>(9,442)</b>
Tax credit	909	659
<b>Loss for the year</b>	<b>(11,473)</b>	<b>(8,783)</b>

## Revenue

The strength of The Gym's member proposition has continued to be reflected in our membership performance. Year end membership numbers increased significantly in 2015, with 376,000 members at 31 December 2015 compared to 293,000 at 31 December 2014.

The average number of members increased by 31.0% during the year to 355,000 (2014: 271,000), primarily due to the opening of 19 new gyms. Average member numbers were split between mature sites of 234,000 and new sites of 121,000<sup>5</sup>. Average revenue per member per month increased from £13.98 in 2014 to £14.08.

As a result Group revenue increased by 31.9% to £60.0 million in the year ended 31 December 2015, from £45.5 million in the year ended 31 December 2014.

<sup>5</sup> Mature sites are defined as gyms that have been open for 24 months or more measured at the end of the year. New sites are defined as gyms that have been open for less than 24 months at the end of the year.

31.9%  
REVENUE  
GROWTH

15.9%  
GROUP  
ADJUSTED  
EBITDA  
GROWTH

	2015 £'000	2014 £'000
<b>Group Adjusted EBITDA</b>		
<b>Operating (loss) / profit</b>	<b>(2,701)</b>	2,335
Exceptional items	7,607	2,653
Other income	(1,105)	–
Depreciation of property, plant and equipment	10,907	7,600
Amortisation of intangible assets	2,308	2,100
<b>Group Adjusted EBITDA</b>	<b>17,016</b>	14,688

**Administration expenses**

Administration expenses increased by 39.7%, driven primarily by an increase in the total number of gyms from 55 as at 31 December 2014 to 74 as at 31 December 2015. Due to the higher number of site openings in 2015, pre-opening costs associated with new site openings increased from £2.0 million to £2.7 million.

Property lease rentals and staff costs form a significant part of our administration expenses. Property lease rentals increased from £7.8 million in 2014 to £11.2 million in 2015 due to a larger portfolio of gyms. Staff costs increased from £5.5 million to £8.4 million. This was driven by both gym openings and head office support staff costs.

Depreciation charges increased from £7.6 million in 2014 to £10.9 million in 2015, largely as a result of the increased number of sites. The Group's depreciation charges appear high in relation to operating loss / profit as leasehold improvements and fit-out costs start to be depreciated as soon as a gym is opened, whereas it takes time for a gym to reach mature profit levels.

Head office costs increased from £4.0 million to £6.3 million. This is due to investments in key business functions, including property, commercial and finance. We believe that our core functions are now well-placed to support the growth of the business in the foreseeable future.

**Other income**

Other income of £1.1 million relates to proceeds received in relation to a lease surrender for one of the Group's sites that did not reach opening.

**Group Adjusted EBITDA**

Group Adjusted EBITDA increased during the year mainly due to the increase in the number of gyms in operation resulting from the Group's ongoing rollout strategy, and from gyms reaching maturity in member numbers and revenue.

Group Adjusted EBITDA was adversely affected by pre-opening costs, with gym openings being weighted towards the second half of the year. Group Adjusted EBITDA before Pre-Opening Costs increased by 18.1% to £19.7 million (2014: £16.6 million).

As a result of the ongoing rollout strategy Site EBITDA contributed by the 40 mature sites demonstrated strong growth, increasing by 15.9% to £18.8 million (2014: £16.2 million from 32 sites).

EBITDA from the 34 new sites performed strongly and increased by 81.2% to £4.5 million (2014: £2.5 million from 23 new sites). Growth was driven by an increased number of new gyms and the strength of gyms opened during 2014 and early 2015 as they mature. This strong performance has offset losses associated with gyms opening later in 2015 which are in the process of growing their membership numbers. The impact of gym openings was magnified as a result of 11 out of the 19 total openings occurring in the second half of 2015.

**strong  
performances  
from  
mature  
and  
new sites**

# Financial Review continued

## Exceptional items

In the year ended 31 December 2015 exceptional costs of £7.6 million were incurred (2014: £2.7 million).

This includes £5.7 million of costs in relation to the Group's IPO. An additional £2.6 million of costs associated with the issue of new shares have been recognised within share premium.

In accordance with IFRS 2, a non-cash charge of £1.0m (2014: £nil) has been recognised in respect of share options granted to staff and senior managers in connection with the capital restructuring on the date of the IPO.

Additionally £0.9 million was incurred in relation to the exploration of strategic options prior to the IPO.

## Finance costs

Finance costs decreased by 15.7% to £9.9 million in the year ended 31 December 2015, from £11.8 million in the year ended 31 December 2014.

This included £1.6 million (2014: £nil) of exceptional finance items relating to the write off of capitalised financing fees and interest on finance lease creditors, which occurred as part of the refinancing activity in November 2015. Excluding exceptional items, finance costs decreased by 30.0%, driven primarily by a decrease in Preference share interest of £2.5 million following a change in the Company's Articles of Association in 2014, and fair value gains on interest rate derivatives.

Finance costs will decrease in 2016 due to the refinancing carried out in 2015. Based on the December 2015 interest charge, the proforma annualised interest charge for 2015 was £0.8 million.

## Taxation

The Group has incurred an income tax credit for the year ended 2015 of £0.2 million (2014: £nil) due to the trading loss position and adjustments in respect of prior years. Trading losses were offset by disallowable exceptional costs and disallowable interest charges arising under the previous private equity funding structure. A deferred tax credit of £0.7 million (2014: £0.7 million) has arisen in relation to the reversal of temporary differences.

## Earnings

The loss for the year increased from £8.8 million for the year ended 31 December 2014 to £11.5 million for the year ended 31 December 2015 as a result of the factors discussed above.

Basic earnings per share ('EPS') was a loss of £0.19 (2014: loss of £0.18).

Adjusted EPS was a loss of £0.02 (2014: loss of £0.09). Adjusted EPS is calculated by excluding amortisation, exceptional items, other income and the resultant tax effect from basic earnings. The improvement in Adjusted EPS results from both an increase in Adjusted Earnings and the dilution arising on the issue of shares on IPO.

	2015 £'000	2014 £'000
<b>Cash Flow</b>		
Group Adjusted EBITDA	17,016	14,688
Movement in working capital	4,348	3,407
Maintenance capital expenditure <sup>1</sup>	(2,748)	(1,581)
<b>Group Operating Cash Flow</b>	<b>18,616</b>	16,514
Expansionary capital expenditure <sup>2</sup>	(28,230)	(20,335)
Other income	1,105	–
Exceptional items	(7,001)	(2,653)
Taxation	(73)	(244)
Finance costs	(4,108)	(5,726)
IPO proceeds	89,931	–
Repayment of debt	(89,842)	(2,617)
Other net cash flows from financing activity	16,886	16,546
<b>Net cash flow</b>	<b>(2,716)</b>	1,485

- 1 Maintenance capital expenditure comprises the replacement of gym equipment and premises refurbishment.  
2 Expansionary capital expenditure relates to the Group's investment in the fit-out of new gyms and central IT projects. It is stated gross of amounts funded by finance leasing (£3.1 million, 2014: £4.7 million) and net of contributions towards landlord building costs.

	2015 £'000	2014 £'000
<b>Net debt at 1 January</b>	<b>49,205</b>	36,743
Group Operating Cash Flow	(18,616)	(16,514)
Expansionary capital expenditure	28,230	20,335
Other non-operating cash flow	(4,275)	8,641
IPO proceeds	(89,931)	–
Drawdown of new bank facility	10,000	–
Financing fees and costs of IPO	9,828	–
Repayment of shareholder loans	22,699	–
<b>Net debt at 31 December</b>	<b>7,140</b>	49,205

### Dividend

Due to the short period of time between the IPO and the year end, the Board has not recommended a final dividend for 2015.

The Directors intend to declare an interim dividend in respect of the first half of 2016. The total dividend for 2016 is expected to be 10% to 20% of Adjusted Earnings.

### Cash Flow

The Group continues to deliver strong cash generation with Group Operating Cash Flow 12.7% higher at £18.6 million (2014: £16.5 million) due to an increase in EBITDA resulting from a greater number of gyms and efficient use of working capital, offset by increased investment in maintenance capital expenditure as the estate grows. These factors result in a small decrease in Group Operating Cash Flow Conversion to 109.4% (2014: 112.4%).

Expansionary capital expenditure of £28.2 million arises as a result of the fit-out of new gyms.

Proceeds from the Group's IPO of £89.9 million and a new term loan of £10.0 million were used to repay £53.9 million of borrowings under the Group's previous bank loan facilities (including accrued interest), £22.7 million of outstanding shareholder loans, £10.0 million of outstanding finance leases and £8.8 million of cash costs associated with the IPO.

As a result of the Group's IPO and refinancing, combined with the strong operating performance, Net Debt: Group Adjusted EBITDA decreased to 0.42x (2014: 3.35x).

### Balance sheet

Our business model, strong conversion from revenue to cash and debt restructuring during the year results in an uncomplicated balance sheet.

The non-current assets of the Group have increased by £16.0 million to £134.4 million. This is as a result of capital expenditure in property, plant and equipment and computer software totalling £29.2 million, offset by depreciation and amortisation of £13.2 million.

Cash balances have decreased as a result of the net funding of the capital expenditure programme from operating cash flows.

Other current assets primarily relate to prepaid property costs and have remained consistent year on year. Trade and other payables have increased by £4.7 million largely as a result of lease incentives associated with new gyms opening during the year.

The Group has drawn £10.0 million of its five year bullet repayment facility. £25.0 million of the facility was undrawn at 31 December 2015 and will be utilised to fund new sites, working capital and capital expenditure.

**Richard Darwin**  
Chief Financial Officer  
14 March 2016

Balance sheet	2015 £'000	2014 £'000
<b>Non-current assets</b>		
Property, plant and equipment	85,237	67,510
Intangible assets	49,137	50,870
Deferred tax asset	177	–
<b>Total non-current assets</b>	<b>134,551</b>	118,380
<b>Current assets</b>		
Inventories	122	75
Trade and other receivables	5,654	4,282
Cash and cash equivalents	2,860	5,576
<b>Total current assets</b>	<b>8,636</b>	9,933
<b>Total assets</b>	<b>143,187</b>	128,313
<b>Current liabilities</b>		
Trade and other payables	25,546	20,797
Income taxes payable	–	246
Borrowings	–	3,613
<b>Total current liabilities</b>	<b>25,546</b>	24,656
<b>Non-current liabilities</b>		
Borrowings	8,966	70,253
Provisions	232	223
Financial instruments	–	1,037
Deferred tax liabilities	–	559
<b>Total non-current liabilities</b>	<b>9,198</b>	72,072
<b>Total liabilities</b>	<b>34,744</b>	96,728
<b>Net assets</b>	<b>108,443</b>	31,585

# Principal Risks

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

We use our risk management process as described to identify, monitor, evaluate and escalate risks as they emerge, enabling management to take appropriate action wherever possible in order to control them and also enabling the Board to keep risk management under review. During the year the Board carried out a robust assessment of the principal risks facing the Group, including those that would threaten the Group's business model, future performance, solvency or liquidity.

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

Principal risk	Impact	Mitigation
<p><b>Competition</b> The Group may face increased competition and pressure from competitor pricing decisions.</p>	<p>The ability of the Group to hold or increase prices and therefore achieve performance targets could be affected.</p>	<ul style="list-style-type: none"> <li>• Maintain price discipline and leadership.</li> <li>• Maintain focus on choosing the best sites in a geographical area.</li> <li>• Continue to invest in the member proposition.</li> </ul>
<p><b>Organic rollout</b> Site scarcity may affect the delivery of our rollout plan.</p>	<p>Delays to our rollout plan may have adverse impact on growth targets and operational returns.</p>	<ul style="list-style-type: none"> <li>• Our highly experienced property team are focused on site selection and sourcing the best deals.</li> </ul>
<p><b>Member experience</b> Failure to provide members with a high quality product and service would damage the Group's reputation.</p>	<p>Reductions in actual or perceived customer service could result in a decrease in membership numbers and revenue generation.</p>	<ul style="list-style-type: none"> <li>• Monitor utilisation, NPS &amp; Feefo scores.</li> <li>• Enhance monitoring and feedback processes.</li> <li>• Ongoing review of equipment usage to ensure we meet member requirements.</li> </ul>
<p><b>Staff retention</b> Loss of key staff through retention policy and failure to manage succession.</p>	<p>A lack of experienced and motivated staff will have a detrimental impact on all areas of the business, from operations to central functions.</p>	<p>The Group uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include:</p> <ul style="list-style-type: none"> <li>• Competitive remuneration packages.</li> <li>• Opportunities to own shares in the Company.</li> <li>• Opportunities for training and progression.</li> <li>• Short, clear reporting lines.</li> <li>• Succession planning.</li> </ul>
<p><b>Information technology dependency</b> 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>Disruption in critical IT systems could have a negative impact on our reputation and our ability to collect revenue.</p>	<ul style="list-style-type: none"> <li>• Our primary data systems are hosted by fully-qualified organisations in suitable data centres.</li> <li>• Our primary IT infrastructure is fully managed by specialist IT companies who provide best-practice architecture and support.</li> <li>• All membership and business information is backed up using third party locations.</li> <li>• Robust disaster recovery and business continuity plans are in place.</li> </ul>
<p><b>Data protection</b> The Group holds business critical and confidential information electronically. A breach of security or data protection rules is a key risk.</p>	<p>Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.</p>	<ul style="list-style-type: none"> <li>• The Group's networks are protected by firewalls and secure passwords.</li> <li>• All sensitive online data capture and data presentation is SSL encrypted. Our website and member management system are scanned quarterly to be PCI compliant. Access to the central member database requires 2-Factor Authorisation.</li> <li>• All financial data relating to customers is stored on external PCI Compliant and, where relevant, BACS approved systems managed by external payment providers. The Group does not store or retain any customer financial data in its own online systems.</li> </ul>

Principal risk

Impact

Mitigation

**Outsourcing model**

The Group operates a largely outsourced model, including areas such as information technology systems, payment processing and marketing. It risks overdependence on third party operational delivery.

As the Group grows there is risk that delivery from service providers is either unreliable or of unsatisfactory quality.

- Ensure quality suppliers are chosen through well-run tender processes.
- Understand and seek to mitigate supplier key-man risks.
- Service level agreements for all key suppliers.
- Members of management monitor service levels and hold suppliers to account.
- Ongoing assessment of whether any services should be moved to an insourced resource.

**Operational gearing**

High operational gearing from the fixed cost base.

A limited number of corrective options in the cost base could be made to correct any underperformance in membership numbers, which could have an adverse impact on profitability.

- Monthly monitoring and reforecasting of business performance at site level.
- Active yield management on a gym by gym basis.
- Regular financial management by senior management team and Board.

**Regulatory**

Failure to adhere to regulatory requirements such as the Listing Rules, taxation, the Data Protection Act, health and safety requirements, planning regulations, noise abatement and advertising and marketing regulations.

Potential reputational damage and penalties.

- The Board has oversight over the management of regulatory risk and compliance, and delegates specific responsibilities to senior management.
- Expert opinion sought where relevant.
- Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act.
- Third party health and safety risks assessments and audits carried out. Staff conduct periodic health and safety assessments.
- Employment and continuous training and development of appropriately qualified staff.

**Going Concern**



On 12 November 2015, the Company's shares were admitted to trading on the main market of the London Stock Exchange and a new £35.0 million, five year bullet repayment loan facility was entered into. Refer to [note 18](#) of the Financial Statements for further details of the loan facility.

The principal use of the net proceeds from the IPO and refinancing were:

- £74.6 million to facilitate the refinancing of previous facilities; and
- the remainder for general corporate purposes.

The Directors believe that this has:

- strengthened The Gym's capital structure and positioned the Group for the continued implementation of its growth strategy;
- given the Company access to a wider range of capital-raising options which may be of use in the future to support the rollout of new gyms or to support possible future acquisitions; and
- further improved the ability of the Company to recruit, retain and incentivise its key management and staff.

As a consequence, the Group is in a strong financial position to continue in operational existence for the foreseeable future. For this reason, the Directors have adopted the going concern basis in preparing the Financial Statements. The Directors have made this assessment after consideration of the Company's budgeted cash flows and related assumptions and in accordance with the Going Concern and Liquidity Risk: Guidance for Directors of UK Companies 2009 published by the UK Financial Reporting Council.

**Viability Statement**



In accordance with provision C.2.2 of the UK Corporate Governance Code 2014, the Directors have assessed the viability of the Group taking into account the Group's current position and the potential impact of the principal risks documented above that would threaten its business model, future performance, solvency or liquidity. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2018.

The Directors have determined that the three year period to 31 December 2018 is an appropriate period over which to assess its

viability statement as this aligns with the period covered by the Group's Board approved strategic plan. The three year period covers the maturity of recently opened sites and those planned to be opened in 2016 and is a reasonable period over which the Group assesses the environment in which it operates. The Board considers the plan annually and on a rolling three year basis. The output of this plan is used to perform debt and headroom profile analysis, which includes a review of sensitivity to risks which are considered possible with a serious but not severe impact, and risks considered less probable with a severe impact.

In stress testing for these types of risks, the Group considered a number of sensitivities both individually and in combination (e.g. membership, pricing, gym maturity profile and lease rentals). The strategic planning model was then flexed to the extent required to adversely affect the viability of the business across all principal risks. The risks detailed above which have the greatest effect on financial results are considered to be competition, organic rollout and member experience. Scenarios were also modelled taking into account the effect of mitigation against these threats which generally involved delaying or cancelling phases of the gym rollout programme.

# Corporate Social Responsibility Statement

Our vision is to provide affordable access to exercise facilities and expert help to every person who wants to improve their wellbeing, whatever their starting point, whatever their destination.

In delivering our vision we focus on five key areas:

## 1. Our members

Two thirds of the adults in the UK are overweight or obese, with the annual cost of obesity estimated at £27 billion per year. As well as having a reduced life expectancy, obese adults are less likely to be in employment and can face discrimination and stigmatisation<sup>1</sup>.

The Gym is helping to remove barriers to better health. We offer 24/7, no fixed term membership contracts with gyms in accessible locations. 35% of our members have never used a gym before.

We listen carefully to our members and look to introduce services and products that meet their requirements. We use data analysis to monitor equipment usage and exercise patterns, and use our findings to tailor members' experiences to their needs.

Our investment in a compelling membership proposition is reflected in our membership numbers and our member satisfaction scores. Although a low cost is a key driver for our members, it is not their sole priority.

During 2015 our membership numbers increased by 28.3% and our Net Promoter Score was 60.2%. We aim to maintain our Net Promoter Score year on year.

## 2. Our people

We employ more than 200 people and our team increases in number with every gym that we open. We invest in the careers of our people, creating genuine job satisfaction that results in exceptional service to our members.

We are proud that our Investors In People accreditation was further endorsed in 2015 with a Silver award, demonstrating our commitment to realising the potential of our people. We are the only low cost fitness provider to win this award.

We have also achieved a Two Star 'Outstanding' award in the Best Companies accreditation.

Even more satisfying is how our people focus translates into retaining high-performing staff, with retention rates in 2015 of 87.7%.

Our flat structure also gives local teams the autonomy to develop their people. This includes training programmes for new General Managers, and the expert input of our in-house Marketing Academy. In 2015 we invested £331 in training on average for each of our staff.

Personal trainers perform an important service for our members. As well as providing training sessions, the self-employed personal trainers conduct gym tours, carry out member inductions and provide an important role in supporting our members. Many personal trainers apply to become and are considered for Assistant General Manager positions at our gyms.

We believe that no individual should be discriminated against on the ground of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability.

A breakdown of our Board, senior managers and all employees by gender is as follows:

Number of employees at 31 December 2015	Female	Male
Board	1 (14%)	6 (86%)
Senior managers	5 (23%)	17 (77%)
All staff	58 (27%)	155 (73%)

<sup>1</sup> Public Health England: Making the case for tackling obesity.

a business  
driven by  
social  
responsibility

### 3. Health and safety

From the design of our gyms to the expert guidance of our gym teams, safety sits at the heart of our operations.

We comply with all safety legislation; we act on specialist guidance from safety experts Peninsular; and we commission independent health and safety managers to perform continuous safety audits. The output from their findings is actioned by regional managers, and monthly accident / incident reports are reviewed by the Board.

We are determined to maintain our very low accident rate but are well equipped to act as first responders if needed. For example, every site has a defibrillator to treat sudden cardiac arrest and our experience shows that this can save lives.

### 4. Integration with the community

We help bring new life to communities by using spaces which other service providers often avoid. In 2015 we have built gyms in vacant retail space, in gym locations vacated by previous operators and as part of town regeneration schemes.

Our gyms are also active in community and charity fundraising, and The Gym Group was the proud sponsor of the #BeAGameChanger awards in 2015.

### 5. Environmental responsibility

From the design of a gym itself, to the way we equip and operate it, we seek to minimise our environmental impact at each stage.

#### Energy efficiency

We demand excellent energy efficiency from our gym equipment, heating, lighting and air conditioning systems. Only one of our pieces of gym equipment requires an external power source. Under a building energy management programme we are phasing in efficient LED lighting wherever possible, and our lighting and air conditioning systems automatically adjust to quieter times in our gyms.

Greenhouse Gas ('GHG') emissions for the year ended 31 December 2015 have been measured as required under the Large and Medium-Sized Companies and Groups (Account and Reports) Regulations 2008 as amended in 2013. There is no comparative data as this is the first time that the Group has presented its GHG data. The main activities which release GHG include usage of purchased gas and electricity to power our gyms. We have used the GHG Protocol Corporate Accounting and Reporting standards (revised edition) and data gathered to fulfil the requirements under the CRC Energy Efficiency scheme to calculate the disclosures.

	tCO <sub>2</sub> e
Emissions from operations (scope 1)	–
Emissions from energy usage (scope 2)	10,251
<b>Total</b>	
Intensity ratio (tCO <sub>2</sub> e per gym)	<b>138.5</b>

#### Water conservation

Our washrooms are equipped to minimise water consumption and waste, and our cleaning equipment uses 70% less water than conventional machines.

We are also proud to support African communities by selling Thirsty Planet bottled water, helping to provide them with clean water supplies.

#### Waste

From online joining to cardless memberships, we minimise our consumption of resources. Where we do produce waste, we have active programmes to recycle it.

On a new site, we will typically recycle 90% of the materials we strip out, and fit-outs are based on BREAM standards, incorporating environmental considerations into every project. We also minimise pollution, for example by using chemical-free products for cleaning.



## Corporate Social Responsibility Statement [continued](#)

# our people are at the heart of our success

### Engaging our people



Adi, a martial arts enthusiast, joined The Gym in Vauxhall in 2013 as a Personal Trainer. After 12 months of coaching from the Vauxhall team she became an Assistant General Manager.

In March 2015 Adi joined our Trainee General Manager programme. Having the opportunity to work at a variety of gyms and work alongside a number of experienced General Managers gave her the confidence to progress further and she became General Manager of our Croydon Purley Way gym in December 2015.

“My job is fun! I love the freedom and responsibility I have, and being at work gives me a buzz. It’s a great opportunity to work for The Gym, and I’m proud to represent the business in front of our members.”

**ADI ANDREEVA**  
**GENERAL MANAGER**



# Board of Directors

Penny Hughes CBE



## Independent Non-Executive Chairwoman

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

Since January 2010 she has been a non-executive director of The Royal Bank of Scotland plc where she has been chairwoman of the remuneration committee and now leads the sustainable banking committee. Penny is also a non-executive director of SuperGroup plc, sitting on the audit and nominations committees.

Penny has experience as chairwoman of each board committee within former non-executive director roles which include Morrison Supermarkets plc, The Body Shop plc, Home Retail group plc, Gap Inc., Vodafone plc, Reuters plc and Skandinaviska Enskilda Banken AB.

Penny has acted as adviser to Bridgepoint Capital, with representation on the board of Molton Brown during its sale and spent the majority of her executive career at CocaCola and was appointed President CocaCola Great Britain & Ireland in 1992.

Having been President of the Advertising Association for six years, Penny received a CBE for services to the media in the Queen's Birthday Honours list in June 2011.

Penny is Chairwoman of the Nomination Committee and a member of the Audit and Risk and Remuneration Committees.

John Treharne



## Chief Executive Officer

John founded The Gym in 2007 and has served as its Chief Executive Officer since its inception. John has over 20 years' experience with the health and fitness industry and has considerable experience in developing successful and profitable businesses in the private sector.

John launched Dragons Health Clubs plc in 1991 and grew the business to 22 health clubs and nine golf clubs by 2002. Dragons Health Clubs successfully floated on AIM in 1997 and was sold to Crown Sports plc in 2000. John served as a managing director of Crown Sports plc from 2000 to 2002.

John is on the board of ukactive, a not-for-profit trade body comprised of members and partners from across the UK active lifestyle sector. He was recognised as the 'CEO of the Year (South East)' by the British Private Equity and Venture Capital Association Management Team Awards in 2013.

Jim Graham



## Chief Operating Officer

Jim joined The Gym in April 2014 as Chief Operating Officer after leaving Phoenix Equity Partners where he was the operating partner advising the management teams on a range of investments, including The Gym. He held a similar position at Candover Partners from 2007 to 2011.

Prior to joining the private equity industry, Jim was managing director of Orange's pay-as-you-go mobile business from 2005 to 2007 and also held the role of director of strategy and led the marketing services function.

He has worked as a management consultant with Accenture and spent 15 years in the Royal Navy. He has an MA in engineering, an MSc in mathematics and an MBA from London Business School.

Richard Darwin



## Chief Financial Officer

Richard joined The Gym as Chief Financial Officer in May 2015. He possesses extensive experience working for leisure and FMCG companies in the UK and internationally.

He has previously held the positions of chief financial officer of Essenden plc from 2009 to 2015 and chief financial officer of Paramount Restaurants from 2003 to 2008. He led both companies through periods of significant strategic and operational change.

After qualifying as a Chartered Accountant with Coopers & Lybrand, Richard worked with a number of high profile brands in strategic development roles, including The Rank Group plc, Hard Rock Café International and Diageo plc, where he completed a number of high value mergers and acquisitions.

Paul Gilbert 



**Senior Independent Non-Executive Director**

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

In March 2014 he was appointed as non-executive chairman of Clothingsites.co.uk Ltd, an online branded menswear retailer. Paul was also appointed as the non-executive chair of Hiring Hub, an online recruitment business, in October 2014 and Sykes Cottages, an online travel business, in July 2015.

Paul's previous roles include non-executive chairman of Betterbathrooms, chief financial officer and acting chief executive officer at Matalan, chief financial officer at TJ Hughes and chief financial officer at National Car Parks. He has held senior finance management roles at GUS plc, Littlewoods and News International plc.

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

Paul is Chairman of the Audit and Risk and Remuneration Committees, and a member of the Nomination Committee.

Philip Newborough 



**Non-Independent Non-Executive Director**

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Philip is a co-founder of Bridges Ventures and has been its managing partner since 2002. He chairs all the firm's investment committees. He is currently involved in much of the portfolio and has negotiated the successful exits of Simply Switch, The Office Group and The Hoxton, among others. Philip led Bridges Ventures' investment in The Gym and cofounded the business with John Treharne.

Prior to founding Bridges Ventures, Philip had 14 years of experience as a chief executive officer of three growth businesses. He previously worked at Aiwa UK Ltd and Aiwa Europe Ltd as director and general manager and was then appointed managing director of MWB Business Exchange Ltd, a serviced office provider.

Philip is an economics graduate from York University and a Chartered Accountant.

Philip is a member of the Nomination and Remuneration Committees.

David Burns 



**Non-Independent Non-Executive Director**

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David is a managing partner of Phoenix Equity Partners and has held this post since July 2014. He is also chairman of Phoenix's management committee and a member of its investment committee. He leads Phoenix's investment activities in the leisure and consumer sector.

David has worked in the private equity market for nearly 20 years and has approximately 17 years of experience as a private equity investor in the UK. He is also a director of Riviera Travel and LK Bennett.

David has an MSc in international economics and finance and a BSc in economics from Cardiff University.

David is a member of the Audit and Risk Committee.

# Corporate Governance Report

## Chairwoman's Introduction

Penny Hughes CBE



### Dear Shareholders,

I am pleased to be introducing our first Corporate Governance Report.

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

As part of our preparation for the Company's listing, we recognised that while our internal governance processes were fit for purpose, additional work was required to enhance these processes to meet the obligations of being a company listed on the London Stock Exchange. Accordingly, a significant amount of work was carried out to ensure that the Company's operations as a listed company complied with relevant regulation and guidance. This work included creating and embedding the necessary policies and procedures to meet the various corporate governance and regulatory requirements applicable to the Company post listing.

As you will see from our Corporate Governance Report, due to the fact that we have only been a listed company since 12 November 2015, there are some areas of the 2014 UK Corporate Governance Code that we are not yet compliant with or have not yet had the chance to complete, including a board evaluation. As mentioned above, the Board is committed to maintaining high standards of corporate governance and our intention is to be fully compliant with the UK Corporate Governance Code for the next financial year.

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

### Penny Hughes

Chairwoman  
14 March 2016

## Board governance

### Overview

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

### Compliance with the Governance Code

Except as described below, the Board has complied with all the provisions set out in the Governance Code since Admission.

- Provision B.1.2 recommends that a company outside the FTSE 350 should have at least two independent non-executive directors in addition to the chairperson. For the purposes of assessing compliance with the Governance Code, the Board considers that the Senior Independent Director, Paul Gilbert, is considered to be independent of management and free from any business or other relationship that could materially interfere with the exercise of his judgement. The Board also considers that Penny Hughes, as Chairwoman of the Company, was independent at the time of appointment. As well as the three Executive Directors, the Company has two other Non-Executive Directors who are nominated by major shareholders and are therefore not considered to be independent for the purposes of the Governance Code.

In order to comply with the Governance Code's requirements, the Company will appoint one further independent Non-Executive Director. The recruitment for this position is progressing and the Company will update the market when an appointment has taken place.

- Provisions B.2.1, C.3.1 and D.2.1 recommend that the Audit and Risk Committee, Nomination Committee and Remuneration Committee should be made up of a majority of independent Non-Executive Directors, excluding the Chairwoman. The Company intends to be fully compliant with these provisions as soon as a new independent Non-Executive Director has been appointed.
- Provision B.6.1 recommends that a performance evaluation is carried out on an annual basis. An exercise was undertaken before the IPO to evaluate the skills and experience of the Executive Directors and non-independent Non-Executive Directors to identify independent Non-Executives who would add to their experience of a listed company to promote the effectiveness of the Board. Given that the Company has only been listed since November 2015, the Board did not carry out an evaluation before the year end but an evaluation of the performance of the Board, the Directors and Committees will be undertaken during 2016 and reported in next year's Annual Report.

### The Board and Sub-Committees

The Board comprises seven members, including two independent Non-Executive Directors (including the Chairwoman), two non-independent Non-Executive Directors and three Executive Directors. A list of the Directors and their biographies can be found on [pages 34 to 35](#).

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

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

The Board has established a formal schedule of matters reserved for its approval, and has delegated other specific responsibilities to its principal sub committees: the Audit and Risk Committee, Remuneration Committee and Nomination Committee. Each Committee's roles and responsibilities are set out in formal terms of reference, which are determined by the Board. These are available for review on the Company's website. Reports from each of these Committees are provided on [pages 39 to 54](#).

All Board and Committee meetings are minuted and formally approved at the next meeting. Board minutes contain details of the Directors' decision making processes and any concerns raised by the Directors.

During the year various matters reserved for the Board were reviewed and where necessary amended. The schedule of matters reserved for the Board includes the consideration and approval of:

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

The senior management team are responsible for executing the strategy determined by the Board.

### Chairwoman and Chief Executive Officer

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

### Senior Independent Director ('SID')

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

### Non-Executive Directors

Various funds managed by Phoenix Equity Partners 2010 LP ('the Phoenix Advised Funds') continue to be significant investors in the Company following its IPO. Pursuant to the Relationship Agreement entered into at the time of the IPO, the Phoenix Advised Funds are entitled to appoint one Non-Executive nominee Director to the Board for so long as the Phoenix Advised Funds are entitled to exercise or control, directly or indirectly, 10% or more of the votes able to be cast on all or substantially all matters at general meetings of the Company. The first such appointee as non-independent Non-Executive nominee Director is David Burns.

Bridges Community Development Venture Fund II LP also continues to be a significant investor in the Company. Philip Newborough, co-founder of Bridges Ventures, has been appointed as a Non-Executive Director of the Company. Philip's appointment as non-independent Non-Executive Director for up to 12 months after Admission will provide support and continuity to the Company in the near term following the Group's IPO.

### Relationship Agreement

On 6 November 2015 the Company entered into a Relationship Agreement with the Phoenix Advised Funds. The principal purpose of the Relationship Agreement is to ensure that the Company will be capable of carrying on its business independently of the Phoenix Advised Funds, that i) transactions and arrangements with the Phoenix Advised Funds will be conducted at arm's length and on normal commercial terms; ii) none of the Phoenix Advised Funds nor any of their associates will take any action that would have the effect of preventing the Company from complying with its obligations under the Listing Rules; and iii) none of the Phoenix Advised Funds nor any of their associates will propose or procure the proposal of a shareholder resolution which is intended or appears to be intended to circumvent the proper application of the Listing Rules.

The Relationship Agreement will continue for so long as the Phoenix Advised Funds and any of their associates together are entitled to exercise or to control, directly or indirectly, the exercise of 10% or more of the rights to vote at general meetings of the Company.

Under the Relationship Agreement, the Phoenix Advised Funds are able to nominate one Non-Executive nominee Director for appointment to the Board for so long as the Phoenix Advised Funds and their associates are, either alone or together, entitled to exercise, or to control, directly or indirectly, the exercise of, 10% or more of the rights to vote at general meetings of the Company.

<sup>1</sup> The Governance Code is available on the Financial Reporting Council website at [www.frc.org.uk](http://www.frc.org.uk).

# Corporate Governance Report **continued**

## Board meetings

There were 11 Board meetings held in 2015 (one after the IPO) and there are eight Board meetings scheduled for 2016 with additional ad-hoc Board meetings as required. The Board and Committee meetings have standing agenda items, which ensures that all aspects of the business are given due consideration as appropriate.

Directors' attendance at the Board meetings between the IPO on 12 November 2015 and 31 December 2015 is as follows:

Attendance	2015
Penny Hughes	1 of 1
John Treharne	1 of 1
Jim Graham	1 of 1
Richard Darwin	1 of 1
Paul Gilbert	1 of 1
Philip Newborough	1 of 1
David Burns	1 of 1

## Appointment and election of Directors

The Board considers all Directors to be effective, committed to their roles and have sufficient time to perform their duties. Accordingly, all members of the Board will be offering themselves for re-election at the Company's first Annual General Meeting ('AGM') on 16 May 2016.

All of the Directors have service agreements or letters of appointment and the details of their terms are set out in the Report of the Remuneration Committee. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours. No other contract with the Company or any subsidiary undertaking of the Company in which any Director was materially interested existed during or at the end of the financial year other than the Relationship Agreement with Phoenix Advised Funds discussed on [page 37](#).

## Directors' induction and professional development

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

In 2016 the Chairwoman will review training and development needs with each Director.

## Board evaluation and effectiveness

An exercise was undertaken before the IPO to evaluate the skills and experience of the Executive Directors and non-independent Non-Executive Directors to identify independent Non-Executives who would add to their experience of a listed company to promote the effectiveness of the Board. Penny Hughes was recruited as Chairwoman on 6 November 2015, and the search for a further independent Non-Executive Director is progressing.

An external consultancy firm, Spencer Stuart & Associates Limited, was used in the search and appointment of the Chairwoman. Spencer Stuart & Associates Limited has no other connection with the Group.

An evaluation of the performance of the Board, the Directors and Committees will be undertaken during 2016 and reported in next year's Annual Report.

## Directors' conflicts of interest

Closewall Limited ('Closewall') is a building firm owned by the brother and sister-in-law of John Treharne. Closewall is one of three fit-out contractors that tender for contracts for the design and construction of the Group's gyms with which the Group has long-term relationships. The Group paid £7.6 million (2014: £5.3 million) to Closewall in connection with the fit-out of new gyms during the year ended 31 December 2015. John Treharne has never been involved in decision making in relation to the fit-out contractors that the Group engages and the Group operates a robust purchasing process overseen by a number of senior employees. In the opinion of the Directors such decision making is subject to appropriate governance procedures.

David Burns is a managing partner of Phoenix Equity Partners Limited, adviser to Phoenix Equity Partners 2010 Guernsey Limited. Phoenix Equity Partners 2010 Guernsey Limited is the manager of various Phoenix entities which control 28.1% of the voting rights in the Company as at 14 March 2016.

Philip Newborough is a managing partner of Bridges Ventures. Bridges Ventures is the manager of Bridges Community Development Venture Fund II LP, which controls 13.9% of the voting rights in the Company as at 14 March 2016.

Save as set out in the paragraphs above, there are no potential conflicts of interest between any Directors or senior management of the Company and their private interests or other duties.

## Information and support

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

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

## Relationship with shareholders

The Board is committed to maintaining good communications with existing and potential shareholders based on the mutual understanding of objectives. As part of the IPO process the Chief Executive, Chief Operations Officer and Chief Financial Officer met with a large number of potential shareholders. On an ongoing basis 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.

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

Presentations given to analysts and investors covering the annual and interim results, along with all results and other regulatory announcements and further information for investors are included on the Company's website at [www.tggplc.com](http://www.tggplc.com).

# Report of the Nomination Committee

## Chairwoman

Penny Hughes CBE



Other Members: Paul Gilbert and David Burns



### Roles and responsibilities

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

This involves:

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

### Diversity

Our policy is that no individual should be discriminated against on the ground of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability. Whilst we have not currently established diversity targets this policy is reflected in our approach to recruitment at all levels, including Board level. As at 31 December 2015 the board comprised 14% (1) female and 86% (6) male Board members.

### Governance processes

The Committee meets at least twice a year and at such other times as the Committee Chair or any member of the Committee may request. The Committee did not meet between the IPO and the end of the financial period. The Committee met for the first time on 11 March 2016.

The Company does not comply with the UK Corporate Governance Code in respect of there being two independent Non-Executive Directors (excluding the Chairwoman of the Board) serving on the Committee. The Board believes this will not have an impact on the Group's governance in practice and following the recruitment of one additional independent Director will achieve full compliance with the Governance Code.

The Committee has formal terms of reference which can be viewed on the Company's website [www.tggplc.com](http://www.tggplc.com).

### Main activities

On 11 March 2016 the Committee met to review the terms of reference, the structure of the Board and Sub-Committees and consider succession planning.

### Annual evaluation of the Nomination Committee's performance

Due to the short period of existence for the Nomination Committee, an evaluation has not been undertaken. The first full evaluation will be completed in 2016 and reported on in next year's Annual Report.

### Penny Hughes

Chairwoman of the Nomination Committee  
14 March 2016

# Report of the Audit and Risk Committee

## Chairman

Paul Gilbert



Other Members: Penny Hughes and David Burns



Attendance	2015
Paul Gilbert	1 of 1
Penny Hughes	1 of 1
David Burns	1 of 1

### Roles and responsibilities

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

### Governance processes

The Audit and Risk Committee meets at least four times a year and as requested by the external auditor. The Committee held a private session with the external auditor without members of management being present at the December 2015 meeting.

The Company does not comply with the UK Corporate Governance Code in respect of there being two independent Non-Executive Directors (excluding the Chairwoman of the Board) serving on the Committee. The Board believes this will not have an impact on the Group's governance in practice and following the recruitment of one additional independent Director will achieve full compliance with the Governance Code.

The Committee is deemed to be financially literate by their business experience, with the Chairman being a Chartered Accountant.

The Committee has formal terms of reference which can be viewed on the Company's website [www.tggplc.com](http://www.tggplc.com).

### Main activities

In the period since IPO, the Committee:

- adopted the Terms of Reference for the Committee;
- reviewed draft accounts for the financial period to 31 December 2015;
- reviewed the Group's accounting policies and key accounting judgements;
- reviewed and approved the external audit plan and subsequent audit findings;
- considered the effectiveness of the internal control environment; and
- reviewed and approved the Annual Report and Financial Statements.

### Critical accounting judgements and key sources of estimation uncertainty

Prior to each meeting of the Audit Committee at which they are to be considered, management produces a paper providing details of any significant accounting judgements and key sources of estimation uncertainty. Management are also invited to attend these meetings where further guidance is required. The significant issues considered by the Audit Committee in respect of the 2015 Annual Report are as follows:

Critical judgement	How the item was addressed
<b>Recognition of membership income</b>	The Audit Committee places reliance on management controls over revenue recognition. As membership income is principally generated by direct debit receipts, monthly reconciliations regarding membership and cash receipts are key controls in this area and have functioned robustly throughout the year.
<b>Potential impairment of goodwill and intangible assets</b>	Impairment reviews have been performed by management on the Group's cash generating units to which goodwill and other intangible assets have been allocated. The cash flow forecasts used were based on the budgets approved by the Board together with assumed growth rates thereafter. The key assumptions around future growth rates and discount rates used were reviewed and considered by the Audit Committee. The Committee is satisfied that there was no impairment of goodwill and other intangible assets as at 31 December 2015. Please refer to note 13 to the Financial Statements for further information.
<b>Accounting for the IPO and related refinancing transactions</b>	Costs associated with the IPO have been apportioned between costs on issuing new share capital (recognised in share premium) and IPO costs (recognised within profit or loss). The apportionment was calculated based on the number of new shares issued as a proportion of the total share capital.  The Committee has reviewed and is satisfied with this rationale.

### External auditor

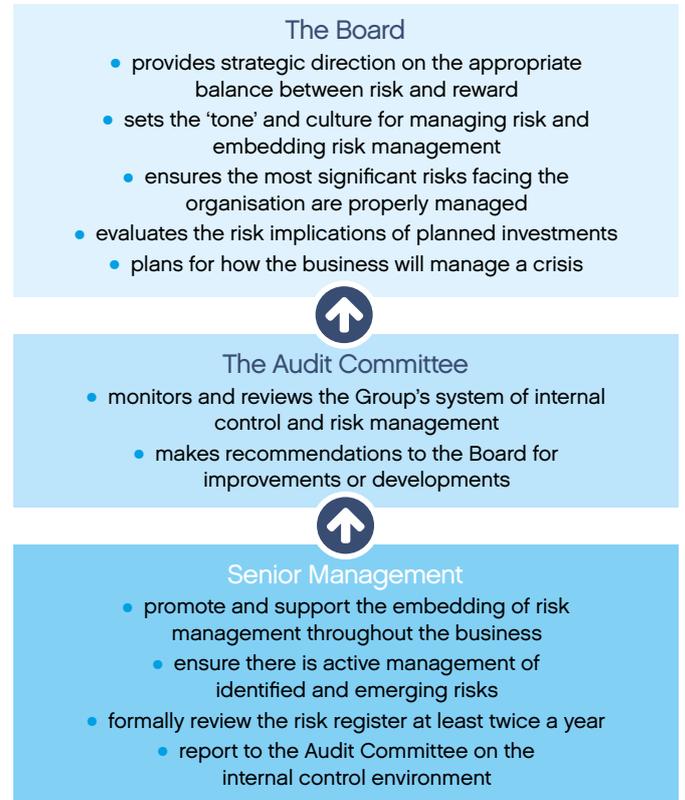
The external auditor, Ernst & Young LLP, was appointed on 28 July 2015. This appointment was made having considered the capabilities and experience of Ernst & Young LLP in comparison to the incumbent audit firm. We reviewed the effectiveness of the auditor through:

- reviewing the 2015 audit plan;
- discussing the results of the audit including their views on material accounting issues and key judgements and estimates;
- considering the robustness of the audit process; and
- confirming their independence and objectivity.

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

### Risk management

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



On an ongoing basis, all business functions evaluate their respective risks using a consistent methodology of identification, categorisation and weighting, with the exercise led by a member of senior management. The risks which are considered to be the principal risks of the Group are detailed on pages 28 and 29.

### Internal control

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

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

The above risk management and internal control systems have been in place during 2015 and up to at least 14 March 2016. The Audit and Risk Committee, on behalf of the Board, has reviewed the effectiveness of the internal control systems and risk management processes in place during the year, taking account of any material developments since the year end. The Committee has not identified, nor been advised of, any failings or weaknesses that it has determined to be significant. As part of their review the Audit and Risk Committee has considered the FRC's 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'.

## Report of the Audit and Risk Committee continued

The Group did not have an internal audit function during the year. As part of its review of financial position, prospects and procedures during the IPO, the Committee considered the need for an internal audit function. It was concluded that an internal audit function is not necessary at this time, given the relatively straightforward nature of the Group's operations and the low levels of portable assets such as cash in hand and inventory. The necessity of an internal audit function will be kept under review.

### Whistleblowing

The Group encourages staff to report any concerns which they believe need to be brought to management's attention concerning any financial or other impropriety.

All staff receive a copy of the employee handbook, which includes whistleblowing arrangements and sets out the procedures that apply for a member of staff to raise concerns in respect of suspicions of wrongdoing or unethical conduct.

The Audit and Risk Committee reviewed the effectiveness of the Group's whistleblowing procedures at the March 2016 meeting.

### Non-audit services

During the year the auditors provided other services in relation to their work as reporting accountants in connection with the Company's IPO and advisory services in relation to the exploration of other strategic options. The fees for these services totalled £925,000, compared to a fee for the statutory audit of £90,000. Excluding the work as reporting accountants and other services in relation to the IPO, non-audit services totalled £129,000 and related to services delivered before Ernst & Young LLP were appointed as statutory auditor.

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

The Audit Committee approves any non-audit services provided by the auditor for any projects with an expected cost greater than 15% of the statutory audit fee to ensure the independence of Ernst & Young LLP is maintained.

### Annual evaluation of the Audit Committee's performance

Due to the short period of existence for the Audit Committee, an evaluation has not been undertaken. The first full evaluation will be completed in 2016 and reported upon in the Annual Report.

### Fair, balanced and understandable

The Board recognises its duty to ensure that the Annual Report and Accounts, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the performance, strategy and business model of the Company. The Board has placed reliance on the following to form this opinion:

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

As detailed in the Directors' Responsibility Statement on [page 58](#), each of the Directors has confirmed that, to the best of each person's knowledge and belief, the Annual Report is fair, balanced and understandable.

### Paul Gilbert

Chairman of the Audit and Risk Committee  
14 March 2016

# Report of the Remuneration Committee

**Chairman**  
Paul Gilbert



Other Members: Penny Hughes and Philip Newborough



## Dear Shareholder

I am pleased to welcome you to the first Report of the Remuneration Committee which The Gym Group has prepared since its IPO in November 2015 and to introduce myself as Chairman of the Remuneration Committee.

This Report contains details of the remuneration received by our three Executive Directors during 2015, which was a transformational year for the Company as a whole and a transitional year for the Executive Directors in terms of their remuneration. In addition, as this is the first Report published since Admission, it also contains our future remuneration policy which, if approved by shareholders at our 2016 AGM, will apply to all payments made to our Directors for three years from that date.

## Summary of our Directors' remuneration policy

In the IPO prospectus, a summary was provided of our approach to executive remuneration post Admission. This approach was agreed following a review, undertaken with the assistance of independent advisers, of the Group's remuneration policy for senior management, including the Executive Directors, in order to ensure that it was appropriate for a listed company environment.

The principal objectives of our pay policy are:

- to attract, retain and motivate the Group's Executive Directors and senior management, provide reward opportunities that align with, and support, the Group's business strategy as it evolves, and align incentives with the creation of long-term shareholder value;
- to ensure that the Executive Directors are fairly rewarded for the Group's performance over the short and long-term; and
- for a significant proportion of their potential total remuneration to be performance-related.

We are very aware that our policy must be capable of being operated so as to take account of the Company's evolution following Admission. In particular, the policy must reflect the fact that our senior executive pay arrangements need to transition over time from ones that are reflective of a non-listed private equity-backed entity in which senior executives have very material stakes to a more standard plc structure, as summarised in the table below.

As a result, we believe it very much in our shareholders' interests to reserve an appropriate degree of flexibility in our policy. For example, as explained below, the Executive Directors' remuneration packages have been structured so that annual bonus and long-term incentive opportunity increases over the years following Admission towards a more market standard listed company level, albeit with additional headroom in terms of maximum reward opportunity reserved in both plans to offer higher incentive opportunity in later years if considered appropriate. Also, a conservative approach has been taken to salary in 2016 (our first full year following Admission) on the basis that, as the Company develops in the forthcoming years, there may be a need to make above inflationary salary increases to move fixed pay to levels consistent with those of a more mature business.

Element of pay	Private equity-backed pay practice	Listed Plc pay practice
<b>Base salary</b>	Lower than plc norms.	Higher levels typically offered.
<b>Pension and benefits</b>	Lower than plc norms.	Higher levels typically offered.
<b>Annual bonus</b>	Lower bonus opportunity than plc norms. Often less formulaic/more discretionary. Payable in cash.	Higher bonus opportunity typically offered. More formulaic, with a broader range of financial and non-financial measures.
<b>Long-term incentives</b>	Potentially most valuable element of the package. Large 'one-off' equity-based awards granted, linked to a successful exit event.	Smaller, but still significant, element of the package. Regular annual grants made which vest over at least three years subject to achievement of performance targets.

# Report of the Remuneration Committee continued

I have set out below some key points of our approach to Executive Director remuneration which we believe delivers against these objectives:

Element	Summary of approach
<b>Base salary</b>	<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. Also as stated above, we will ensure that base salary levels and annual increases take due account of the Company's development following, and the conservative base salary positioning on, Admission.</p> <p>Base salaries for the Executive Directors for 2016 (which are unchanged from Admission) will be: John Treharne £240,000; Jim Graham £180,000; Richard Darwin £180,000.</p>
<b>Pension</b>	<p>The Executive Directors will receive defined contribution pension provision (or cash supplement) which for 2016 will equal 15% of base salary for John Treharne and 10% for Jim Graham and Richard Darwin.</p>
<b>Annual bonus</b>	<p>While the overall bonus plan maximum will be 100% of salary, for 2016 the Executive Directors' bonus cap will be 47.5% of salary, with the intention that this be increased to 75% in 2017. For 2016, 70% of the bonus will be based on financial targets (namely EBITDA, albeit subject to a minimum site openings threshold), with the remaining 30% based on personal / strategic targets relating to KPIs such as site openings, Net Promoter Score and staff engagement. Going forward, we are committed to providing as transparent disclosure as is practicable and is in shareholders' interests of the bonus targets used in the prior year. Bonuses will be payable in cash.</p> <p>For 2015, and as stated in the prospectus, the Executive Directors participated in a discretionary annual bonus plan which, given that the IPO occurred towards the end of the year, was allowed to continue for the remainder of 2015. Having considered the Company's overall performance in what was a transformational year in which key financial highlights included 31.9% revenue growth and 15.9% growth in Group Adjusted EBITDA, the Remuneration Committee determined that the Executive Directors should receive bonuses totalling £118,667 which reflected their vital contribution to the Company's success.</p>
<b>Long-term incentives</b>	<p>Share based long-term incentives will be provided to the Executive Directors (and other selected senior management) via a Performance Share Plan ('PSP'), which was established on Admission. While the normal individual plan maximum grant level will be shares equal in value to 200% of base salary, the first award made to John Treharne in 2016 will be over shares worth 87.5% of salary, with Jim Graham and Richard Darwin receiving an award over 75% of salary worth of shares. Award levels for 2017 and subsequent years are currently intended to be 175% of salary for John Treharne and 150% of salary for Jim Graham and Richard Darwin (although actual participation levels will be kept under regular review). The 2016 awards will vest three years after grant based upon performance against stretching adjusted Earnings Per Share and relative Total Shareholder Return targets.</p> <p>In addition, to encourage Executive Directors to build or maintain a shareholding in the Company, formal shareholding guidelines apply which require the current Executive Directors to hold shares worth at least 300% of base salary, reflecting their existing large holdings. For any future Executive Directors, the required level of holding will be 200% of salary.</p>
<b>Malus/Clawback</b>	<p>Consistent with best practice, malus/clawback provisions may be operated at the discretion of the Remuneration Committee in respect of awards granted under the PSP and the annual bonus in certain circumstances.</p>

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

The regulations governing the Directors' remuneration reports of listed companies require that we split our report into two sections: the Policy Report sets out the Company's forward-looking Directors' Remuneration Policy and the separate Implementation Report gives details of the payments made to Directors in 2015, as well as other required disclosures.

Therefore, at our 2016 AGM we will be holding two votes on remuneration matters:

- a vote on the Directors' Remuneration Policy as set out in Part A of this Remuneration Report; and
- a vote on the remaining implementation sections of this Report.

I hope that you will support our approach on remuneration matters as we complete the transition to listed company practices.

**Paul Gilbert**  
Chairman of the Remuneration Committee  
14 March 2016

### 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 Directors' Remuneration Policy. This policy will take effect, subject to the approval of the shareholders, immediately after the 2016 AGM.

Part B constitutes the implementation sections of the Remuneration Report ('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 Directors' Remuneration Policy as set out in this section of the Remuneration Report will take effect for all payments made to Directors from the date of the AGM, which is expected to be held on 16 May 2016. The policy has been developed with regard to the UK Corporate Governance Code and is felt to be appropriate to support the long-term success of the Company while ensuring that it does not promote inappropriate risk-taking.

### Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures
<p><b>Base salary</b> 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>	<p>Base salaries will typically be reviewed annually, with consideration given to the performance of the Company and the individual, any changes in responsibilities or scope of the role, as well as pay practices in relevant comparator companies of a broadly similar size and complexity (with due account taken of both market capitalisation and turnover).</p> <p>The Committee does not strictly follow benchmark pay data but, instead, uses it as one of a number of reference points when considering, in its judgement, the appropriate level of salary. Base salary is paid monthly in cash.</p>	<p>It is anticipated that salary increases will generally be in line with those awarded to salaried staff. That said, in certain circumstances (including, but not limited to, changes in role and responsibilities, market levels, individual and Company performance and to reflect the conservative salary positioning at IPO), the Committee may make larger salary increases to ensure they are market competitive. The rationale for any such increase will be disclosed in the relevant Annual Report. However, an overriding cap applies, the effect of which is that no Executive Director's base salary will be increased if the result of such increase is that their base salary would be higher than the median CEO salary in the FTSE All-Share Travel &amp; Leisure sector from time to time.</p>	n/a
<p><b>Benefits</b> To provide benefits valued by recipients.</p>	<p>The Executive Directors currently receive private medical cover, a car parking space (in the case of the CFO) and additional mobile telephone contracts (in the case of the CEO).</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, but the provision of benefits is currently intended to be limited in value to £10,000 (or such higher amount as the Committee determines), plus a further 100% of base salary in the case of relocations.</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

# Report of the Remuneration Committee continued

## Executive Directors (continued)

Element and purpose	Policy and operation	Maximum	Performance measures
<p><b>Pension</b> To provide retirement benefits.</p>	<p>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.</p>	<p>The maximum employer's contribution is limited to up to 15% of base salary.</p>	<p>n/a</p>
<p><b>Annual bonus plan</b> 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>	<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 are currently paid in cash following the determination of achievement against performance measures and targets (although the flexibility is reserved to pay a portion in deferred shares which may also allow for a dividend accrual feature).</p> <p>Clawback provisions apply to the annual bonus plan as explained in more detail in the <a href="#">notes to the policy table</a>.</p>	<p>The maximum level of annual bonus plan outcomes is 100% of base salary for the duration of this policy. However, in 2016 the Executive Directors' bonus cap will be 47.5% of salary, with it currently intended that this be increased to 75% of salary in 2017. Actual bonus opportunity each year will be kept under regular review, subject to the 100% overall cap.</p>	<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 pay-out of more than 20% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full pay-out for maximum performance. However, the annual bonus plan remains a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust the outcome of the annual bonus plan for any performance measure (from zero to any cap) should it consider that to be appropriate.</p>
<p><b>Long-term incentives</b> To motivate and incentivise delivery of sustained performance over the long-term, and to promote alignment with shareholders' interests, the Company operates the PSP.</p>	<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.</p> <p>The PSP rules allow that the number of shares subject to vested PSP awards may be increased to reflect the value of dividends that would have been paid in respect of any record dates falling between the grant of awards and the expiry of any vesting period.</p> <p>Clawback and malus provisions apply to PSP awards and are explained in more detail in the <a href="#">notes to the policy table</a>.</p>	<p>The PSP allows for awards over shares with a maximum value of 200% of base salary per financial year (300% in exceptional circumstances). Actual participation levels will be kept under regular review, and the Committee expressly reserves discretion to make such awards as it considers appropriate within the plan limit.</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.</p>

### Executive Directors (continued)

Element and purpose	Policy and operation	Maximum	Performance measures
<p><b>Share ownership guidelines</b> 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. To the extent that the prescribed level has not been reached, Executive Directors will be expected to retain a proportion of the shares vesting under the Company's PSP until the guideline is met.</p>	<p>300% of base salary for the current Executive Directors, 200% of salary for any future Executive Director.</p> <p>The Committee reserves the power to amend, but not reduce, these levels in future years.</p>	n/a
<p><b>All-staff share plans</b> To encourage share ownership by staff, thereby allowing them to share in the long-term success of the Group and align their interests with those of the shareholders.</p>	<p>The Company has decided to operate an all-staff share scheme (under which an award of 'free shares' can be made, as well as 'partnership shares' and 'matching shares'). The Company also has the facility to operate a Sharesave scheme.</p> <p>These all-staff share plans are established under HMRC tax-advantaged regimes and follow the usual form for such plans.</p> <p>Executive Directors would be able to participate in all-employee share plans on the same terms as other Group staff.</p>	<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 would not be subject to performance conditions.</p>

### Chairwoman and Non-Executive Directors

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

# Report of the Remuneration Committee continued

## Notes to the policy table

### Malus and clawback

The Remuneration Committee may apply malus and clawback to a PSP award where there are circumstances which would justify such action. The relevant circumstances include but are not limited to:

- 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 a material 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; and
- circumstances arose or continued to arise during the vesting period of an award which would have warranted the summary dismissal of the participant.

Normally, clawback can operate for up to three years following the vesting of an award. Similar clawback provisions apply to the annual bonus plan.

### Stating maximum amounts for the remuneration policy

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

### Travel and hospitality

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

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

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

## Committee discretions

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

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

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

In addition, while performance measures and targets used in the annual bonus plan and PSP will generally remain unaltered, if events occur which, in the Committee's opinion, would make a different or amended target a fairer measure of performance, such amended or different target can be set provided that it is not materially more or less difficult to satisfy, having regard to the event in question.

Any use of these discretions would, where relevant, be explained in the Directors' Remuneration Report and may, where appropriate and practicable, be the subject of consultation with the Company's major shareholders. In addition, for the avoidance of doubt, in approving this policy report, authority is given to the Company to honour any commitments entered into with current or former Directors prior to the adoption of this policy.

The Committee may make minor amendments to the policy set out above for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation, without obtaining shareholder approval for that amendment.

### 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 set out above and structure a package in accordance with that policy. Consistent with the DRR Regulations, any caps contained within the policy for fixed pay do not apply to new recruits, although the Committee would not envisage exceeding these caps in practice.

The annual bonus plan and PSP, including the maximum award levels, will operate as detailed in the general policy in relation to any newly appointed Executive Director. For an internal appointment, any variable pay element awarded in respect of the prior role may either continue on its original terms or be adjusted to reflect the new appointment as appropriate.

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate.

For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy out awards forfeited by the individual on leaving a previous employer.

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

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

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

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

### Service contracts

#### Executive Directors

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

The Committee reserves flexibility to alter these principles if necessary to secure the recruitment of an appropriate candidate and if appropriate introduce a longer initial notice period of up to two years reducing over time.

#### Non-Executive Directors

The independent Non-Executive Directors are appointed by letters of appointment.

The Chairwoman's and Paul Gilbert's appointments are for initial periods of three years, are subject to re-election at each Annual General Meeting of the Company and are terminable on one months' notice given by either party.

David Burns is appointed to the Board by various funds managed by Phoenix Equity Partners 2010 Guernsey Limited pursuant to the terms of the Relationship Agreement. His appointment is terminable on one months' notice given by either party, subject to the terms of the Relationship Agreement.

Philip Newborough is appointed to the Board for up to 12 months after Admission. His appointment is terminable on one months' notice given by either party.

The Non-Executive Directors cannot participate in the Company's incentive plans from Admission, are not entitled to any pension benefits and are not entitled to any additional payment in compensation for early termination of their appointment beyond the notice referred to above.

For each Non-Executive Director the effective date of their latest letter of appointment (which are available for inspection at the Company's registered office) is:

Name	Date of appointment
Penny Hughes	6 November 2015
Paul Gilbert	6 November 2015
David Burns	6 November 2015
Philip Newborough	6 November 2015

# 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 and PSP. The potential treatments on termination under these plans are as follows:

### Annual Bonus Plan

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

### Performance Share Plan

If, during the performance or vesting period, a participant:

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

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

The 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.

## External appointments

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

## Statement of consideration of employment conditions elsewhere in the Group

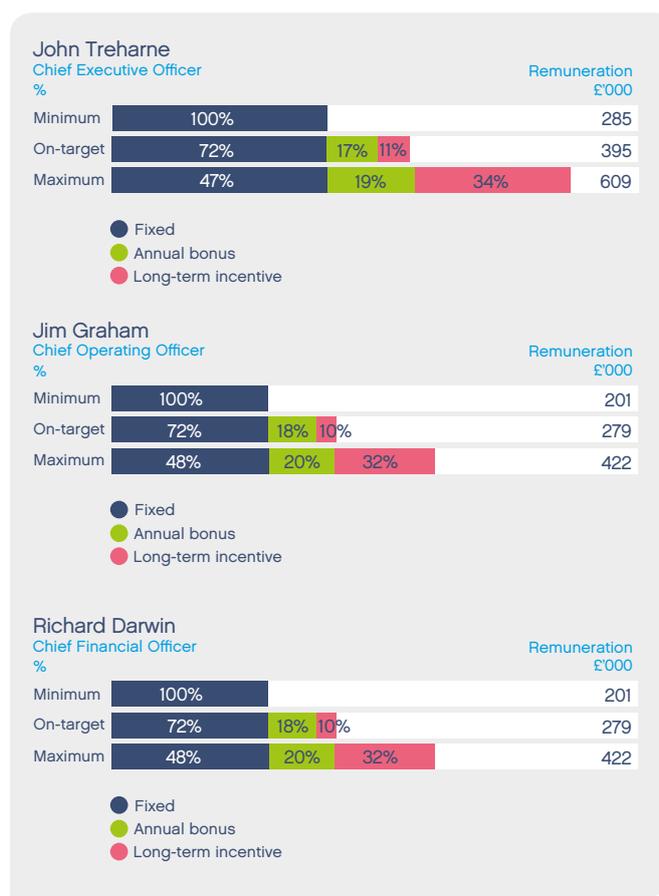
Pay and employment conditions generally in the Group will be taken into account when setting Executive Directors' remuneration. The Committee will receive regular updates on overall pay and conditions in the Group, including (but not limited to) changes in base pay and any staff bonus pools in operation. There is also oversight of the all-staff share plans which Executive Directors and all other Group staff can participate in on the same terms and conditions. Reflecting standard practice, the Company will not consult with staff in drawing up the Company's annual Remuneration Report or when determining the underlying policy.

## Statement of consideration of shareholder views

The 2016 AGM is the first occasion on which the Company will seek the support of its shareholders for matters relating to the remuneration of Executive Directors. The Committee will ensure that it considers all of the feedback which it receives from its shareholders during this process.

## Illustrations of application of remuneration policy

The following charts show how the remuneration policy for 2016 set out above for Executive Directors is applied using the following assumptions:



<b>Minimum</b>	<ul style="list-style-type: none"> <li>Consists of base salary, benefits and pension.</li> <li>Base salary is the salary to be paid in 2016.</li> <li>Benefits measured as benefits paid in the year ended 31 December 2015 on an annualised basis.</li> <li>Pension measured as the defined contribution or cash allowance in lieu of Company contributions of 10% to 15% of salary.</li> </ul>				
		Base salary	Benefits	Pension	Total fixed
	John Treharne	£240,000	£8,810	£36,000	£284,810
	Jim Graham	£180,000	£3,046	£18,000	£201,046
	Richard Darwin	£180,000	£2,820	£18,000	£200,820
<b>Target</b>	<p>Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends):</p> <ul style="list-style-type: none"> <li>Annual bonus: consists of the on-target bonus (60% of maximum opportunity used for illustrative purposes).</li> <li>LTI: consists of the threshold level of vesting (20% vesting) under the PSP.</li> </ul>				
<b>Maximum</b>	<p>Based on the maximum remuneration receivable (excluding share price appreciation and dividends):</p> <ul style="list-style-type: none"> <li>Annual bonus: consists of maximum bonus of 47.5% of base salary.</li> <li>LTI: consists of the face value of awards (at 87.5% of salary for John Treharne and 75% of salary for Jim Graham and Richard Darwin) under the PSP.</li> </ul>				

It should be noted that, as explained above, the Executive Directors' annual bonus opportunity and PSP award levels in 2017 will be increased. An amended chart will be contained in next year's Report to reflect these changes.

## Part B: Implementation report

### Single total figure table (audited)

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

As the Group listed in November 2015, a significant part of the 2015 and all of the 2014 remuneration related to when the Group was privately owned.

For the year ended 31 December 2015:

Director	Salary/fees <sup>1</sup>	Taxable benefits <sup>2</sup>	Bonus	Long-term incentives	Pension	Other <sup>3</sup>	Total remuneration
John Treharne	£205,444	£8,810	£60,000	–	£13,539	–	£287,793
Jim Graham	£168,141	£3,046	£36,000	–	£8,523	–	£215,710
Richard Darwin	£113,346	£1,022	£22,667	–	£2,709	£66,710	£206,454
Paul Gilbert	£93,190	£2,575	–	–	–	–	£95,765
Penny Hughes <sup>4</sup>	£19,861	–	–	–	–	–	£19,861
David Burns	£30,000	–	–	–	–	–	£30,000
Philip Newborough	£30,000	–	–	–	–	–	£30,000
Andrew Mathews <sup>5</sup>	£74,688	£857	–	–	£2,604	–	£78,149

Notes:

- Fees are payable to the Phoenix Advised Funds and Bridges Ventures in relation to monitoring and the appointments of David Burns and Philip Newborough.
- Taxable benefits comprise private medical cover, a car parking space (in the case of the CFO) and additional mobile telephone contracts (in the case of the CEO).
- Relates to a non-recurring joining bonus on appointment as a Director prior to Admission.
- Appointed with effect from 6 November 2015. As disclosed in the Prospectus, on Admission Penny Hughes became entitled to receive a fee of £50,000 for services provided to the Company prior to the date of Prospectus with it agreed that, conditional on Admission, she would subscribe for an amount equal to the net amount of such fee, being 13,589 new Ordinary shares of the Company at the Offer Price. This is in addition to the remuneration highlighted in the table above.
- Resigned as a Director on 18 May 2015. Remuneration relates to Andrew Mathews's period as a Director.

# Report of the Remuneration Committee continued

For the year ended 31 December 2014:

Director	Salary/fees <sup>1</sup>	Taxable benefits <sup>2</sup>	Bonus	Long-term incentives	Pension	Other	Total remuneration
John Treharne	£185,000	£8,399	£60,000	–	£9,220	–	£262,619
Jim Graham	£108,000	£2,031	£108,000	–	£4,717	–	£222,748
Paul Gilbert	£133,332	£1,896	–	–	–	–	£135,228
David Burns	£30,000	–	–	–	–	–	£30,000
Philip Newborough	£30,000	–	–	–	–	–	£30,000
Andrew Mathews	£124,800	£684	£20,000	–	£6,500	–	£151,984

**Notes:**

- 1 Fees are payable to the Phoenix Advised Funds and Bridges Ventures in relation to monitoring and the appointments of David Burns and Philip Newborough.  
 2 Taxable benefits comprise private medical cover and additional mobile telephone contracts (in the case of the CEO).

The aggregate emoluments (being salary / fees, bonuses, benefits and pension allowances) of all Directors for 2015 was £963,732 (2014: £832,579).

### Further information on the 2015 annual bonus (audited)

For 2015, and as stated in the Prospectus, the Executive Directors participated in a discretionary annual bonus plan which, given that the IPO occurred towards the end of the year, was allowed to continue for the remainder of 2015. Having considered the Company's overall performance in what was a transformational year in which key financial highlights included 31.9% revenue growth and 15.9% growth in Group Adjusted EBITDA, the Remuneration Committee determined that the Executive Directors should receive bonuses totalling £118,667 which reflected their vital contribution to the Company's success. The Committee believes that the actual performance indicators it used to determine the 2015 bonus outturn are commercially sensitive and so will not be disclosed. However, the Committee is committed to adhering to principles of transparency in terms of annual bonus target disclosure going forward and will, therefore, provide appropriate and relevant levels of disclosure of the bonus targets applied for (and performance against) the 2016 bonus in next year's Report.

### 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 2015:

Director	John Treharne	Jim Graham <sup>1</sup>	Richard Darwin <sup>2</sup>	Paul Gilbert	Penny Hughes	David Burns	Philip Newborough
<b>Number of Ordinary shares held as at 31 December 2015</b>	4,510,937	1,142,047	959,321	1,220,489	13,589	–	–

1 Jim Graham also has an indirect investment in the Company as an investor in Phoenix Equity Partners 2010 GP L.P.

2 The total number of Ordinary shares in which Richard Darwin or persons connected with him is or are interested includes 35,758 Ordinary shares owned by Charlotte Darwin.

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

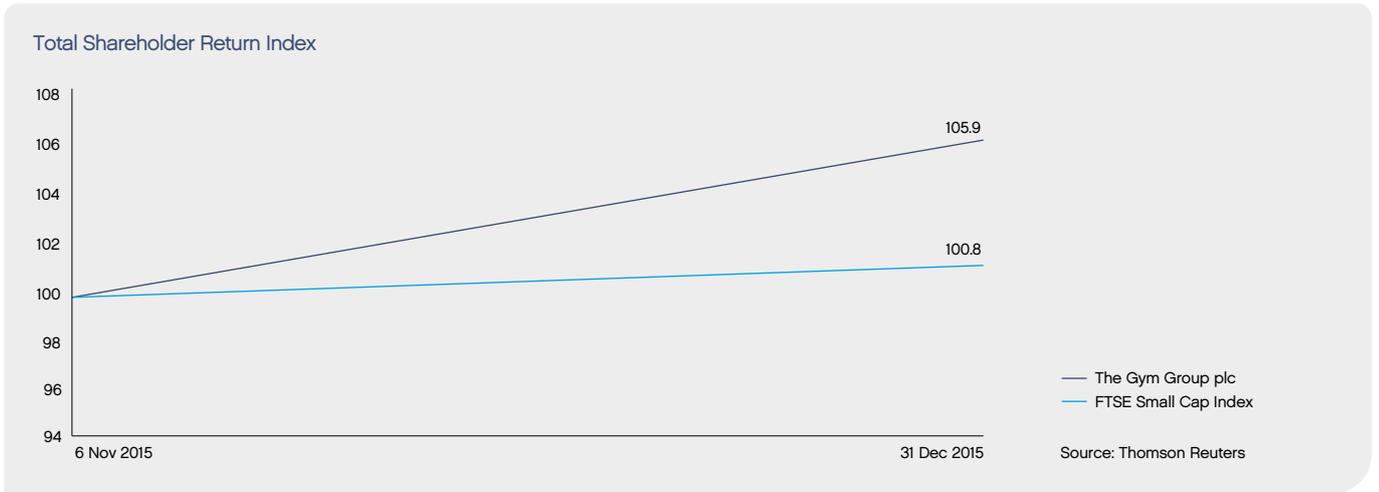
Under share ownership guidelines implemented by the Remuneration Committee, the existing Executive Directors are required to build and then maintain a shareholding equivalent to at least 300% of base salary. At the 2015 year end, the Executive Directors complied with this requirement.

### Payments to past Directors (audited)

Andrew Mathews resigned as a Director on 18 May 2015. His remuneration has been disclosed to the date of termination.

### Payments for loss of office (audited)

No payments were made to any Director in respect of loss of office during the year.



**Performance graph and CEO remuneration table (unaudited)**

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

The table below details certain elements of the CEO's remuneration over the year:

	Single figure of total remuneration	Annual bonus pay-out	Long-term incentive vesting rates against maximum opportunity %
2015	£287,793	£60,000	n/a

There was no formal cap on annual bonus opportunity in 2015. Therefore, we have stated the bonus actually paid to the CEO for 2015 in the above table, as opposed to the percentage of overall bonus opportunity earned. No long-term incentive awards vested in 2015.

As the Company listed in November 2015, part of the 2015 remuneration relates to when the Group was privately owned.

**Percentage change in remuneration of Director undertaking the role of CEO (unaudited)**

The below table presents the year on year percentage change in remuneration received by the CEO, compared with the change in remuneration received by all UK staff:

	CEO	All staff
Salary and fees	11.1%	2.5%
Short-term incentives	–	2.5%
All taxable benefits	26.8%	3.9%

**Relative importance of spend on pay (unaudited)**

The table below details the change in total staff pay between 2014 and 2015 as detailed in note 8 of the Financial Statements, compared with distributions to shareholders by way of dividend, share buy backs on any other significant distributions or payments. These figures have been calculated in line with those in the audited Financial Statements.

	% change	2015 £'000	2014 £'000
Total gross staff pay	51.1%	7,520	4,977
Dividends / share buy backs	–	–	–

**Implementation of Policy for 2016 (unaudited information)**

**Base salary**

Base salaries from Admission, which will also apply for 2016, are as follows:

- John Treharne: £240,000;
- Jim Graham and Richard Darwin: £180,000.

**Pension**

Contributions rates for John Treharne for 2016 will be 15% of salary, and 10% for Jim Graham and Richard Darwin. Contributions may be made as cash supplements in full or in part.

**Benefits**

Details of the benefits received by Executive Directors are set out in note 2 to the single figure table on page 51.

There is no intention to introduce additional benefits in 2016.

# Report of the Remuneration Committee continued

## Annual bonus

While the overall bonus plan maximum will be 100% of salary, for 2016 the Executive Directors' bonus cap will be 47.5% of salary. 70% of the bonus will be based on financial targets (namely EBITDA, albeit subject to a minimum site openings threshold), with the remaining 30% based on personal/strategic targets relating to KPIs such as site openings, Net Promoter Score and staff engagement. Due to issues of commercial sensitivity, we do not believe it is in shareholders' interests to disclose any further details of these targets on a prospective basis. However, the Committee is committed to adhering to principles of transparency in terms of retrospective annual bonus target disclosure and will, therefore, provide appropriate and relevant levels of disclosure of the bonus targets applied for (and performance against) the 2016 bonus in next year's Report. Bonuses are payable in full in cash.

## Long-term incentives

Awards will be made in 2016 under the PSP to John Treharne over shares worth 87.5% of salary, with Jim Graham and Richard Darwin receiving an award over 75% of salary worth of shares. These awards will vest three years after grant based upon performance against the following stretching equally weighted Adjusted Earnings Per Share and relative TSR targets:

### Adjusted EPS

2016 Adjusted EPS <sup>1</sup>	% of that part of the award that vests
Below 9p	0%
9p	20%
13.6p	100%
Between 9p and 13.6p	Pro rata straight-line between 20% and 100%

<sup>1</sup> Adjusted EPS is calculated as basic earnings less amortisation, exceptional items and the resultant tax effect, unless the Committee determines otherwise.

### Relative TSR vs FTSE Small Cap (excluding investment trusts) as at 1 January 2016

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

## Non-Executive Directors' fees

Penny Hughes will receive an annual fee of £130,000 as Chairwoman. Paul Gilbert will receive a fee of £50,000 as Senior Independent Director. The Company has agreed to pay Phoenix Advised Funds a fee of £30,000 per annum (payable monthly) for so long as a Non-Executive Director appointed by various funds managed by Phoenix Equity Partners 2010 Guernsey Limited (currently David Burns) pursuant to the Relationship Agreement remains on the Board. The Company has agreed to pay Bridges Ventures a fee of £30,000 per annum (payable monthly) for as long as Philip Newborough remains a Non-Executive Director.

## The Committee (unaudited information)

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

The Chief Executive Officer and other Executive Directors as necessary are invited to attend meetings of the Committee, except when their own remuneration is being directly discussed. Penny Hughes takes no part in any discussions relating to her own remuneration. The Committee did not meet between the IPO and the end of the financial period. The Committee met on 28 January 2016 and 9 March 2016 and reviewed the Terms of Reference, the Executive Directors' bonus outturn for 2015 and the 2016 remuneration policy, amongst other matters.

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

FIT Remuneration Consultants LLP ('FIT'), signatories to the Remuneration Consultants Group's Code of Conduct, were appointed by the Committee during the year. FIT provides 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 2015 were £59,000. FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

## Statement of voting at general meeting

As the Company only listed in November 2015, there has not yet been an AGM where a resolution to pass each of the Directors' Remuneration Policy and Directors' Remuneration Report has been put forward for voting. In next year's Annual Report this section will have the voting breakdown of those two resolutions from this year's AGM.

On behalf of the Board

### Paul Gilbert

Chairman of the Remuneration Committee  
14 March 2016

# Directors' Report

## 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	(appointed 6 November 2015)
John Treharne	
Jim Graham	
Richard Darwin	(appointed 5 May 2015)
Paul Gilbert	
David Burns	(appointed 6 November 2015)
Philip Newborough	(appointed 6 November 2015)
Bridges Ventures LLP	(resigned 6 November 2015)
Andrew Mathews	(resigned 18 May 2015)

The roles and biographies of the Directors as at the date of this report are on [pages 34 to 35](#).

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

## Appointment and replacement of Directors

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

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

## Directors' indemnity

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

## Compensation for loss of office

The Company does not have arrangements with any Director that 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. Further information is provided in the Report of the Remuneration Committee on [page 46](#).

## Dividend

Due to the short period of time between the IPO and the year end, the Board has not recommended a final dividend for 2015.

The Directors intend to declare an interim dividend in respect of the first half of 2016.

## Future developments in the business of the Company

The likely future developments in respect to the business of the Company can be found in the Strategic Report on [pages 6 to 33](#) 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 36 to 38](#), and forms part of this report by reference.

## Health and safety

An overview of health and safety is provided in the Corporate Social Responsibility Statement on [page 31](#) and forms part of this report by reference.

## Greenhouse gas emissions

Information on the Group's greenhouse gas emissions is set out in the Corporate Social Responsibility Statement on [page 31](#) and forms part of this report by reference.

## Political donations

The Company made no political donations in 2015 (2014: £nil).

## Employee involvement and policy regarding disabled persons

The Gym Group operates an equal opportunities policy that 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 that allow them to fulfil their potential. Where a member of staff becomes disabled in the course of their employment the Company will actively seek to retain them wherever possible by making adjustments to their work content and environment or by retraining them to undertake new roles.

The Group provides staff with information on the Group's performance and on matters concerning them on a regular basis. Considerable value is placed on the involvement of its staff; regular, open, fair and respectful communication; zero tolerance for human rights violations; fair remuneration and, above all, a safe working environment.

## Directors' interests

The beneficial interests of the Directors of the Company at 31 December 2015, and their connected persons, in the issued Ordinary shares are provided on [page 52](#), within the Report of the Remuneration Committee.

# Directors' Report continued

## Major interests in shares

As at 14 March 2016, 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
Phoenix Advised Funds	35,990,866	28.1%
Bridges Community Development Venture Fund II LP	17,813,090	13.9%
Quantum Partners LLP	7,400,000	5.8%
FIL Investments International	6,921,322	5.4%
Hargreave Hale Ltd	6,835,325	5.3%
Standard Life Investments Limited	6,057,644	4.7%
Threadneedle Asset Management Limited	5,125,172	4.0%
John Treharne	4,510,937	3.5%

## Share capital

The details of the issued share capital can be found in [note 22](#) to the Consolidated Financial Statements. The rights attached to the Company's Ordinary shares, being the only share class of the Company, are set out in the Articles of Association.

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

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

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

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

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

- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the Company's Share Dealing Code whereby the Directors and designated staff 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 that 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

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

- (i) the maximum number of Ordinary shares authorised to be purchased is 12,810,527 representing 10% of the Company's existing share capital immediately following Admission;
- (ii) the minimum price (exclusive of expenses) which may be paid for an Ordinary share is £0.0001 (being the nominal value of the Ordinary shares);
- (iii) the maximum price (exclusive of expenses) which may be paid for each Ordinary share purchased under this authority is the higher of:
  - (a) an amount equal to 105% of the average of the middle market price shown in the quotations for an Ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased; and
  - (b) an amount equal to the higher of the price of the last independent trade of an Ordinary share and the highest current independent bid for an Ordinary share as derived from the London Stock Exchange Trading System; and
- (iv) the authority shall expire at the close of the next AGM of the Company after the passing of this resolution or, if earlier, on 30 June 2016.

### Authority to allot shares

Following Admission, the allotment of equity securities in connection with an offer or fresh issue to or, in favour of:

- (i) holders of Ordinary shares in proportion (as nearly as practicable) to their existing holdings;
- (ii) holders of equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, and so that the Directors may impose any limits, exclusions or restrictions or make other arrangements as they consider appropriate in relation to treasury shares, fractional entitlements, record dates, legal or practical problems under the laws in any territory or the requirements of any regulatory body or stock exchange or any other matter; the Company may allot equity securities for cash up to a maximum nominal amount of £640,526,375.

### Significant agreements

The Company is not a party to any significant agreements that would take effect, alter or terminate on 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 20](#) to the Consolidated Financial Statements.

### Information presented in other sections

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

Section	Listing Rule Requirement	Location
4	Details of long-term incentive schemes	Report of the Remuneration Committee ( <a href="#">page 46</a> )

### Auditor

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

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

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

### AGM

Your attention is drawn to the Notice of AGM accompanying this Annual Report which sets out the resolutions to be proposed at the forthcoming AGM.

On behalf of the Board

### Richard Darwin

Chief Financial Officer and Company Secretary  
14 March 2016

# Directors' Responsibility Statement

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

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

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

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

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

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

## Responsibilities statement

We confirm that to the best of our knowledge:

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

On behalf of the Board

### Richard Darwin

Chief Financial Officer and Company Secretary  
14 March 2016

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

## Our opinion on the Financial Statements

In our opinion:

- 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 2015 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

## What we have audited

The Gym Group plc's Financial Statements comprise:

Group	Parent Company
Consolidated Statement of Financial Position as at 31 December 2015	Statement of Financial Position as at 31 December 2015
Consolidated Statement of Comprehensive Income for the year then ended	Statement of Changes in Equity for the year then ended
Consolidated Statement of Changes in Equity for the year then ended	Related <a href="#">notes 1 to 9</a> to the Financial Statements
Consolidated Cash Flow Statement for the year then ended	
Related <a href="#">notes 1 to 27</a> to the Consolidated Financial Statements	

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

## Overview of our audit approach

Risks of material misstatement	<ul style="list-style-type: none"> <li>• Recognition of membership income.</li> <li>• Annual goodwill impairment testing cash flow and discount rate assumptions.</li> <li>• Accounting for the IPO and related refinancing transactions.</li> </ul>
Audit scope	<ul style="list-style-type: none"> <li>• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further two components.</li> <li>• The components where we performed full or specific audit procedures accounted for 100% of Earnings before interest, tax and depreciation ('EBITDA') pre-exceptional items and other income, 100% of the Loss before tax, 100% of Revenue and 100% of Total assets.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall Group materiality of £340,000 which represents 2% of EBITDA pre-exceptional items and other income.</li> </ul>

## Our assessment of risk of material misstatement

We identified the risks of material misstatement described below as those that had the greatest effect on our overall audit strategy, the allocation of resources in the audit and the direction of the efforts of the audit team. In addressing these risks, we have performed the procedures below which were designed in the context of the Financial Statements as a whole and, consequently, we do not express any opinion on these individual areas.

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

Risk	Our response to the risk	What we concluded to the Audit Committee
<p><b>Recognition of membership income – year ended 31 December 2015: £59.4 million (31 December 2014: £44.9 million)</b></p> <p>Refer to the Report of the Audit and Risk Committee (page 41); Accounting policies (page 70); and note 4 of the Consolidated Financial Statements (page 74).</p> <p>Member's monthly subscription payments are collected each month on or just after the same day of the month in which they joined. Consequently, in preparing the annual accounts management need to estimate the amount of payments collected which relate to membership after the year end date and hence needs to be deferred.</p> <p>Although this process is not highly judgemental, given the number of members, varying subscription rates, the reliance on outsourced membership data systems, manual general ledger postings etc. there is an increased risk of material error in making this estimate. Further, consistent with Auditing Standards, the recognition of revenue is assessed as a material fraud risk on every audit engagement with only rare exceptions.</p>	<p>We obtained an understanding of the Group's revenue streams, processes and related controls over these processes, including assessing the design and testing the implementation of internal controls over these revenue streams.</p> <p>We tested a sample of revenue transactions (including journals) to ensure properly processed, recognised and measured.</p> <p>We tested a sample of management's deferred revenue estimate to ensure complete and reasonably measured.</p> <p>We considered the risk of management override in the revenue process including the deferred revenue estimate.</p> <p>The Group audit team performed the full scope audit procedures on the membership income of the sole trading entity within the Group.</p>	<p>Based on our procedures we did not identify any material errors in the recognition of membership income in the year ended 31 December 2015.</p>
<p><b>Annual goodwill impairment testing cash flow and discount rate assumptions – 31 December 2015: £45.2 million (31 December 2014: £45.2 million)</b></p> <p>Refer to the Report of the Audit and Risk Committee (page 41); Accounting policies (page 70); and note 13 of the Consolidated Financial Statements (page 78).</p> <p>As disclosed in note 13 to the Consolidated Financial Statements goodwill recognised in the Group statement of financial position of £45.2 million arising on the acquisition of The Gym Limited in 2013 has been allocated to the group of cash generating units ('CGUs') comprising The Gym chain of health and fitness facilities.</p> <p>As required management have undertaken an annual impairment review in respect of this goodwill in accordance with the requirements of IAS 36 'Impairment of Assets' and concluded that no impairment arises at 31 December 2015.</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, 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 13 to the Consolidated Financial Statements.</p>	<p>We obtained and considered management's impairment testing, considering the calculation methodology, sources for key assumptions and sensitivities applied.</p> <p>We discussed with management the basis of the key assumptions used in the impairment model, being the discount rate, long-term growth rate, revenue growth and cost inflation as disclosed in note 13 to the Consolidated Financial Statements. We then challenged the reasonableness of these assumptions by reference to historical data, external benchmarks and the risk of management bias.</p> <p>We also assessed the historical accuracy of management's forecasting by comparing actual financial performance to management's previous forecasts / budgets.</p> <p>We considered management's sensitivity analysis showing the impact of a reasonable change in impairment assumptions to determine whether an impairment charge was required. This consideration included performing our own sensitivity analysis by reference to the results of our assessment of assumptions referred to above.</p> <p>We ensured that the financial statement disclosures, particularly those in note 13 to the Consolidated Financial Statements, met the requirements of IAS 36 and IAS 1R 'Presentation of Financial Statements' (IAS 1R), particularly those related to judgements, estimation uncertainty and sensitivities.</p> <p>The Group audit team performed the full scope audit procedures on the impairment model prepared for The Gym.</p> <p>As part of our work we utilised EY valuations specialists to assist in our assessment of the discount rate and long-term growth rate assumptions used in the impairment model and the methodology of the model.</p>	<p>Based on our procedures, we believe that the cash flow and discount rate assumptions used by management in The Gym impairment model are within acceptable ranges and that reasonably possible changes in the key assumptions would not cause an impairment to arise. Furthermore we consider that management's impairment model methodology is acceptable.</p> <p>The financial statement disclosures, particularly those in note 13 to the Consolidated Financial Statements, materially comply with the applicable requirements of IAS 36 and IAS 1R.</p>

Risk	Our response to the risk	What we concluded to the Audit Committee
<p><b>Accounting for the IPO and related refinancing transactions</b></p> <p>Refer to the Consolidated Cash Flow Statement and <a href="#">notes 6, 10, 18, 20</a> and <a href="#">22</a> of the Consolidated Financial Statements (pages 68 to 86).</p> <p>The £81.5m net proceeds of the IPO (£89.9m gross proceeds less £8.4m costs) have primarily been used to settle shareholder loans (£22.7m), bank facilities (£53.9m), finance lease obligations (£9.9m) and interest rate derivatives (£0.8m).</p> <p>The Group also entered into a new term loan facility with HSBC, drawing down £10m, with fees of £1.1m being incurred. Unamortised finance costs on the previous debt facilities of £1.3m have also been written off to the income statement.</p> <p>Management have considered the accounting treatments of these various transactions and costs in light of the requirements of IAS 32 Financial Instruments: Presentation ('IAS 32'), IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') and IAS 17 'Leases' ('IAS 17').</p> <p>Management have apportioned £8.4m IPO costs between the newly issued shares and the existing shares in the ratio of 34:66, accordingly £2.6m has been apportioned to the issue of new shares being recognised as a deduction from the share premium within equity.</p> <p>We focused on these transactions due to their one off nature, complexity and significance to the Consolidated Financial Statements.</p>	<p>We tested the flow of funds arising in relation to the IPO, debt refinancing, finance lease repayments and swap breaks etc., including agreeing amounts to supporting documentation and bank statements. We also assessed the reasonableness of the measurement, de-recognition or recognition and presentation of these various transactions to ensure the treatment adopted in the Group's accounts accords with the requirements of IAS 32, IAS 39 and IAS 17.</p> <p>In respect of the IPO costs of £8.4m we tested a sample of these costs to supporting documentation to ensure their inclusion as IPO costs was appropriate and that these costs were correctly measured. We also tested the allocation of these costs between the newly issued shares and the existing shares, including verifying that the resultant recognition in the income statement or within equity was correct based upon this allocation. In particular we considered the appropriateness of management's 34:66 ratio in light of the requirements of IAS 32 and the underlying share position.</p> <p>We also assessed the measurement and presentation of the IPO and refinancing transactions within the cash flow statement in light of the requirements of IAS 7 'Statement of Cash Flows'.</p> <p>We assessed whether the disclosures given in respect of the IPO, refinancing and related financial instruments are reasonable and materially compliant with the requirements of IFRS 7 'Financial Instruments: Disclosures' and IFRS 13 'Fair value measurement'.</p> <p>The Group audit team performed the full scope audit procedures on the accounting treatment adopted in respect of the IPO and related refinancing transactions.</p>	<p>Based on our procedures we did not identify any material errors in the recognition, measurement or presentation of the IPO and related refinancing transactions within the Consolidated Financial Statements.</p> <p>The disclosures in respect of the IPO and related refinancing transactions, particularly those in <a href="#">notes 6, 10, 18, 20</a> and <a href="#">22</a> of the Consolidated Financial Statements, materially comply with the applicable IFRS requirements.</p>

The year ended 31 December 2015 is the first year in respect of which we have audited the annual Financial Statements of the Group and Parent Company.

## The scope of our audit

### Tailoring the scope

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

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

Of the four components selected, we performed an audit of the complete financial information of two components ('full scope components') which were selected based on their size or risk characteristics. These full scope components comprise the Parent Company and the sole trading entity within the Group. For the remaining two components (specific scope components) which are intermediate holding companies, we performed audit procedures on specific accounts within each 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.

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

The reporting components where we performed audit procedures accounted for 100% of the Group's Revenues, EBITDA pre-exceptional items and other income, Loss before tax and Total assets. For the current year, the full scope components contributed 101% of the Group's EBITDA pre-exceptional items and other income, (25)% of the Group's Loss before tax, 100% (2014: 100%) of the Group's Revenue and 100% (2014: 100%) of the Group's Total assets. The specific scope components contributed (1)% of the Group's EBITDA pre-exceptional items and other income, and 125% of the Group's Loss before tax. None of the Group's Revenue and Total assets related to specific scope components. The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant tested for the Group.

The remaining one component is an intermediate holding company that represents none of the Group's Revenues, EBITDA pre-exceptional items and other income, Loss before tax and Total assets. In respect of that component we performed other procedures, including enquiries of management, analytical review, testing of related consolidation journals and intercompany eliminations to respond to any potential risks of material misstatement to the Group Financial Statements.

## **Involvement with component teams**

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

## **Our application of materiality**

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

## **Materiality**

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

We determined materiality for the Group to be £340,000, which is 2% of EBITDA pre-exceptional items and other income. We have used an earnings based measure as our basis of materiality. It was considered inappropriate to calculate materiality using the Group Loss before tax given that this loss arises primarily from the private equity funding structure of the Group prior to its IPO on the London Stock Exchange on 9 November 2015 and costs related to that IPO. Consequently, in the current year we do not consider that such a measure reflects the continuing performance of the Group. EBITDA pre-exceptional items and other income was selected as the basis of our measure of materiality on the grounds that is a key performance indicator for the Group and is also a key metric used by the Group in the assessment of the performance of management. We also noted that the IPO prospectus together with market and analyst commentary on the performance of the Group, use EBITDA pre-exceptional items and other income as a key metric. We therefore considered EBITDA pre-exceptional items and other income to be the most appropriate performance metric on which to base our materiality calculation as we considered that to be the most relevant performance measure to the stakeholders of the entity.

During the course of our audit, we reassessed initial materiality from an amount of £330,000 based on pre year end forecasts to the amount indicated above once actual results were available.

### 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 50% of our planning materiality, namely £170,000. We have set performance materiality at this percentage primarily due to this being our first year of auditing the Group and Parent Company Annual Financial Statements.

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 £34,000 to £170,000.

### Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £17,000, 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.

### Scope of the audit of the Financial Statements

An audit involves obtaining evidence about the amounts and disclosures in the Financial Statements sufficient to give reasonable assurance that the Financial Statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the Financial Statements. In addition, we read all the financial and non-financial information in the Annual Report and Accounts to identify material inconsistencies with the audited Financial Statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibility Statement set out on [page 58](#), the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the Financial Statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report is made solely to the Company's members, as a body, in accordance with Chapter three 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.

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

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

## Matters on which we are required to report by exception

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to report to you if, in our opinion, financial and non-financial information in the Annual Report is:</p> <ul style="list-style-type: none"> <li>materially inconsistent with the information in the audited Financial Statements; or</li> <li>apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or</li> <li>otherwise misleading.</li> </ul> <p>In particular, we are required to report whether we have identified any inconsistencies between our knowledge acquired in the course of performing the audit and the Directors' statement that they consider the Annual Report and Accounts taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the entity's performance, business model and strategy; and whether the Annual Report appropriately addresses those matters that we communicated to the Audit Committee that we consider should have been disclosed.</p>	We have no exceptions to report.
<b>Companies Act 2006 reporting</b>	<p>We are required to report to you if, in our opinion:</p> <ul style="list-style-type: none"> <li>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</li> <li>the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or</li> <li>certain disclosures of Directors' remuneration specified by law are not made; or</li> <li>we have not received all the information and explanations we require for our audit.</li> </ul>	We have no exceptions to report.
<b>Listing Rules review requirements</b>	<p>We are required to review:</p> <ul style="list-style-type: none"> <li>the Directors' statement in relation to going concern and longer-term viability, set out on page 29; and</li> <li>the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.</li> </ul>	We have no exceptions to report.

## Statement on the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the entity

<b>ISAs (UK and Ireland) reporting</b>	<p>We are required to give a statement as to whether we have anything material to add or to draw attention to in relation to:</p> <ul style="list-style-type: none"> <li>the Directors' confirmation in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;</li> <li>the disclosures in the Annual Report that describe those risks and explain how they are being managed or mitigated;</li> <li>the Directors' statement in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements; and</li> <li>the Directors' explanation in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.</li> </ul>	We have nothing material to add or to draw attention to.
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### Keith Jess

Senior statutory auditor  
for and on behalf of Ernst & Young LLP, Statutory Auditor  
Belfast  
14 March 2016

#### Notes:

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

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2015

	Note	31 December 2015 £'000	31 December 2014 £'000
Revenue	4	59,979	45,480
Cost of sales		(1,073)	(1,040)
<b>Gross profit</b>		<b>58,906</b>	<b>44,440</b>
Administration expenses		(62,712)	(42,105)
Other income		1,105	–
<b>Operating (loss) / profit</b>	5	<b>(2,701)</b>	<b>2,335</b>
Being:			
– Group Adjusted EBITDA <sup>1</sup>		17,016	14,688
– Depreciation	12	(10,907)	(7,600)
– Amortisation	13	(2,308)	(2,100)
– Exceptional items and other income	5,6	(6,502)	(2,653)
Finance income	9	265	20
Finance costs	10	(9,946)	(11,797)
<b>Loss before tax</b>		<b>(12,382)</b>	<b>(9,442)</b>
Tax credit	11	909	659
<b>Loss for the year attributable to equity shareholders</b>		<b>(11,473)</b>	<b>(8,783)</b>
Other comprehensive income for the year		–	–
<b>Total comprehensive loss attributable to equity shareholders</b>		<b>(11,473)</b>	<b>(8,783)</b>
<b>Earnings per share</b>		£	£
Basic and Diluted	7	(0.19)	(0.18)
Adjusted	7	(0.02)	(0.09)

<sup>1</sup> Group Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure.

The notes on [pages 69 to 95](#) form an integral part of the Financial Statements.

# Consolidated Statement of Financial Position

As at 31 December 2015

	Note	31 December 2015 £'000	31 December 2014 £'000	31 December 2013 £'000
<b>Non-current assets</b>				
Property, plant and equipment	12	85,237	67,510	51,418
Intangible assets	13	49,137	50,870	52,738
Deferred tax asset	11	177	–	–
<b>Total non-current assets</b>		<b>134,551</b>	118,380	104,156
<b>Current assets</b>				
Inventories	14	122	75	138
Trade and other receivables	15	5,654	4,282	3,060
Cash and cash equivalents	16	2,860	5,576	4,091
<b>Total current assets</b>		<b>8,636</b>	9,933	7,289
<b>Total assets</b>		<b>143,187</b>	128,313	111,445
<b>Current liabilities</b>				
Trade and other payables	17	25,546	20,797	14,125
Income taxes payable		–	246	–
Borrowings	18	–	3,613	2,363
<b>Total current liabilities</b>		<b>25,546</b>	24,656	16,488
<b>Non-current liabilities</b>				
Borrowings	18	8,966	70,253	106,195
Provisions	19	232	223	131
Derivative financial instruments	20	–	1,037	177
Deferred tax liabilities	11	–	559	1,708
<b>Total non-current liabilities</b>		<b>9,198</b>	72,072	108,211
<b>Total liabilities</b>		<b>34,744</b>	96,728	124,699
<b>Net assets/(liabilities)</b>		<b>108,443</b>	31,585	(13,254)
<b>Capital and reserves</b>				
Issued capital	22	12	9	8
Own shares held	22	48	–	–
Capital redemption reserve	22	4	–	–
Share premium	22	136,280	48,974	550
Retained deficit	22	(27,901)	(17,398)	(13,812)
<b>Total equity shareholders' funds/(deficit)</b>		<b>108,443</b>	31,585	(13,254)

The notes on pages 69 to 95 form an integral part of the Financial Statements.

These Financial Statements were approved by the Board of Directors on 14 March 2016.

Signed on behalf of the Board of Directors

**John Treharne**  
Chief Executive Officer

**Richard Darwin**  
Chief Financial Officer

Company registration number 08528493

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2015

	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Retained deficit £'000	Total £'000
At 1 January 2014	8	–	–	550	(13,812)	(13,254)
Loss for the year and total comprehensive loss	–	–	–	–	(8,783)	(8,783)
Waiver of Preference share interest	–	–	–	–	5,197	5,197
Issue of Ordinary share capital	1	–	–	29	–	30
Reclassification of Preference shares	–	–	–	48,395	–	48,395
At 31 December 2014	9	–	–	48,974	(17,398)	31,585
Loss for the year and total comprehensive loss	–	–	–	–	(11,473)	(11,473)
Share based payments	–	–	–	–	1,018	1,018
Conversion of Preference share capital into Ordinary share capital	2	–	–	–	–	2
Cancellation of share capital	(4)	–	4	–	–	–
Issue and repurchase of share capital	–	48	–	–	(48)	–
Costs associated with the issue of share capital	–	–	–	(2,620)	–	(2,620)
Issue of Ordinary share capital	5	–	–	89,926	–	89,931
<b>At 31 December 2015</b>	<b>12</b>	<b>48</b>	<b>4</b>	<b>136,280</b>	<b>(27,901)</b>	<b>108,443</b>

The notes on [pages 69 to 95](#) form an integral part of the Financial Statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2015

	31 December 2015 £'000	31 December 2014 £'000
	Note	
<b>Cash flows from operating activities</b>		
Operating (loss) / profit	(2,701)	2,335
Adjustments for:		
Other income	(1,105)	–
Exceptional items	6 7,607	2,653
Depreciation of property, plant and equipment	12 10,907	7,600
Amortisation of intangible assets	13 2,308	2,100
Loss on disposal of property, plant and equipment	98	39
(Increase) / decrease in inventories	(47)	65
Increase in trade and other receivables	(1,372)	(1,223)
Increase in trade and other payables	5,669	4,526
Cash generated from operations	21,364	18,095
Tax paid	(73)	(244)
Interest paid	(4,124)	(5,726)
Net cash flows from operating activities before exceptional items and other income	17,167	12,125
Other income	1,105	–
Exceptional items	(7,001)	(2,653)
<b>Net cash flow from operating activities</b>	<b>11,271</b>	<b>9,472</b>
<b>Cash flows from investing activities</b>		
Proceeds from disposals of property, plant and equipment	–	1,036
Purchase of property, plant and equipment	(27,330)	(17,785)
Purchase of intangible assets	(575)	(231)
Interest received	16	–
<b>Net cash flows used in investing activities</b>	<b>(27,889)</b>	<b>(16,980)</b>
<b>Cash flows from financing activities</b>		
Proceeds of issue of Ordinary shares	89,931	30
Drawdown of bank loans	17,500	11,580
Payment of financing fees	(1,067)	–
Costs associated with IPO	(2,620)	–
Repayment of bank loans	(53,902)	–
Repayment of shareholder loans	(22,699)	–
Repayment of finance leases	(13,241)	(2,617)
<b>Net cash flows from financing activities</b>	<b>13,902</b>	<b>8,993</b>
Net (decrease) / increase in cash and cash equivalents	(2,716)	1,485
Cash and cash equivalents at 1 January	5,576	4,091
<b>Cash and cash equivalents at 31 December</b>	<b>2,860</b>	<b>5,576</b>

The notes on pages 69 to 95 form an integral part of the Financial Statements.

# Notes to the Consolidated Financial Statements

For year ended 31 December 2015

## 1. General information

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

The Company is a public limited company listed on the premium listing segment of the Official List of the Financial Conduct Authority and is incorporated and domiciled in the United Kingdom.

The registered address of the Company is Woodbridge House, Woodbridge Meadows, Guildford, Surrey, United Kingdom, GU1 1BA.

## 2. Summary of significant accounting policies

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

### Statement of compliance

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

### Basis of preparation

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

This is the Group's first set of Financial Statements prepared in accordance with IFRS. The Group previously prepared its Financial Statements under UK Generally Accepted Accounting Practice. The Group's deemed transition date to IFRS is 1 January 2014, the beginning of the first period presented, and the requirements of IFRS 1 First-time Adoption of International Financial Reporting Standards ('IFRS 1') have been applied as of that date. IFRS 1 allows certain exemptions in the application of particular IFRS to prior periods in order to assist companies with the transition process. The exemptions applied are detailed in [note 27](#).

### Standards issued not yet effective

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

- IAS 16 and IAS 38 amendments – Clarification of Acceptable Methods of Depreciation and Amortisation (effective 1 January 2016)
- IFRS 11 amendments – Accounting for Acquisitions of Interests in Joint Operations (effective 1 January 2016)
- IAS 16 and IAS 41 amendments – Agriculture: Bearer Plants (effective 1 January 2016)
- IAS 27 amendments – Equity Method in Separate Financial Statements (effective 1 January 2016)
- IFRS 10 and IAS 28 amendments – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture (effective 1 January 2016)
- IAS 1 amendments – Disclosure Initiative (effective 1 January 2016)
- Annual Improvements 2012–2014 Cycle (effective 1 January 2016)
- IFRS 15 – Revenue from Contracts with Customers (effective 1 January 2018)

- IFRS 9 – Financial Instruments (effective 1 January 2018)
- IFRS 16 – Leases (effective 1 January 2019)

With the exception of IFRS 16, the adoption of these Standards and Interpretations is not expected to have a material impact on the Financial Statements of the Group in the period of initial application when the relevant standards come into effect. IFRS 16 specifies the recognition, measurement, presentation and disclosure of leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. While the Group continues to assess the detailed impact of adopting IFRS 16, given significant leasing arrangements within the Group, the adoption of this standard is expected to have a material impact on the Group's Financial Statements.

### Going concern

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

### Consolidation

#### Subsidiaries

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

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

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

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

The Group re-assesses 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.

# Notes to the Consolidated Financial Statements continued

For year ended 31 December 2015

## 2. Summary of significant accounting policies (continued)

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

### Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of Directors. The Group's activities consist solely of the provision of high quality health and fitness facilities within the United Kingdom. It is managed as one entity and management have consequently determined that there is only one operating segment.

Segment results are measured using earnings before interest, tax, depreciation, amortisation, exceptional items and other income. Segment assets are measured at cost less any recognised impairment. Revenue is attributed to geographical regions based on the country of residence of the customer. All revenue arises in and all non-current assets are located in the United Kingdom. The accounting policies used for segment reporting reflect those used for the Group.

### Revenue

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

Revenue from upfront annual membership fees are recognised and spread over the 12 month period. Monthly membership fees paid upfront are recognised on completion of each month the fee relates to.

Non-refundable joining fees associated with monthly members are recognised immediately as revenue. Provisions are made for cancellations and refunds based on the Group's experience over the previous 12 months.

Revenue from the sale of goods is recognised at the point of sales as this reflects the transfer of risks and rewards of ownership.

### Cost of sales

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

### Exceptional items

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

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

### Property, plant and equipment

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

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

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

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

### Intangible assets

#### Goodwill

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

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

#### Brands and customers lists

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

#### Contract related

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

#### Technology related

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

## 2. Summary of significant accounting policies (continued)

### Computer software

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

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

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

Costs that qualify for capitalisation include both internal and external costs, but are limited to those that are directly related to the specific project. Computer software costs are included at capitalised costs 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 a maximum of three years. Useful lives are reviewed at the end of each reporting period and adjusted if appropriate.

### Impairment of non-financial assets

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

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

Any impairment charge is recognised in the income statement in the period in which it occurs. Impairment losses relating to goodwill cannot be reversed in future periods. Where an impairment loss on other assets, subsequently reverses due to a change in the original estimate, the carrying amount of the asset is increased to the revised estimate of its recoverable amount.

## Financial instruments

### Financial assets

The Group classifies its financial assets as loans and receivables. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for those with maturities greater than 12 months after the reporting date. These are classified as non-current assets. The Group's loans and receivables comprise trade and other receivables and cash and cash equivalents. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

### Financial liabilities

The Group's financial liabilities comprise trade and other payables, borrowings and derivative financial liabilities.

The Group initially recognises its financial liabilities at fair value net of transaction costs where applicable and subsequently they are measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest method over the maturity of the loan.

### Borrowing costs

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

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

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

### Derivative financial instruments

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

All derivative financial instruments are initially measured at fair value on the contract date and are also measured at fair value at subsequent reporting dates.

### Pensions

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

# Notes to the Consolidated Financial Statements **continued**

For year ended 31 December 2015

## 2. Summary of significant accounting policies (continued)

### Leases

#### Finance leases

Assets funded through finance leases are capitalised as property, plant and equipment and are depreciated over their estimated useful lives or the lease term, whichever is shorter. The amount capitalised is the lower of the fair value of the asset or the present value of the minimum lease payments during the lease term at the inception of the lease. The resulting lease obligations are included within liabilities net of finance charges. Finance costs on finance leases are charged directly to the income statement on an effective interest basis.

#### Operating leases

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

#### Lease incentives

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

### Share based payments

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

### Inventories

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

### Trade and other receivables

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

### Cash and cash equivalents

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

### Trade and other payables

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

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

### Current taxation

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

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

### Deferred taxation

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

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

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

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

### Provisions

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

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

### 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 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 in applying the Group's accounting policies

##### Depreciation and amortisation

Judgement is used in assessing useful lives and residual values of property, plant and equipment and intangible assets. The assets are depreciated or amortised over their estimated useful lives to their residual values.

##### Goodwill impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its CGUs. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information including carrying values is included in [note 13](#).

##### Provisions

Provisions have been made for dilapidations in respect of leased premises. These provisions are estimates, in particular the assumptions relating to restoration expenses, and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Further management have determined that in the majority of cases that likelihood of a liability arising is remote in the majority of instances as the Group enjoy security of tenure as tenant and therefore are unlikely to give up a site where it is trading profitably. However, if circumstances indicate otherwise the Group will recognise an appropriate provision. Details of provisions are set out in [note 19](#).

##### Income taxes

The Group recognises expected liabilities for tax based on an estimation of the likely taxes due, which requires significant judgement as to the ultimate tax determination of certain items. Where the actual liability arising from these issues differs from these estimates, such differences will have an impact on income tax and deferred tax provisions in the period when such determination is made. Detail of the tax charge and deferred tax are set out in [note 11](#).

Determining carrying values of intangible assets identified in business combinations

Valuation of separable intangible assets identified on business combinations during the period requires management to make assumptions and estimates regarding the expected future cash generation or replacement cost of the intangibles identified. Management employed the use of external valuation services to facilitate this exercise. Details of the intangible assets identified are set out in [note 26](#).

##### Lease classification

The Group is required to assess whether operating leases to which the Group is party have the characteristics of finance leases in which case they are capitalised within property, plant and equipment and a lease liability recorded. In order to do this management consider a number of indicators which require management to make estimates as follows:

- useful expected economic life;
- implicit interest rate under the lease; and
- present value of future cash flows under the lease.

##### Share based payments

The Group measures the cost of equity-settled transactions with staff by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share based payment transactions requires determination of the most appropriate valuation model, which is dependent on the terms and conditions of the grant. Judgements are applied in relation to estimations of the number of options that will vest and of the fair value of the options granted to staff. Estimates of fair value are made using a widely recognised share option value model and are referred to third party experts where necessary. Judgement is applied in determining the assumptions input into the share option value model. Refer to [note 23](#) for further details.

# Notes to the Consolidated Financial Statements *continued*

For year ended 31 December 2015

## 4. Revenue

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

	2015 £'000	2014 £'000
Membership income	59,400	44,993
Other income	579	487
	<b>59,979</b>	<b>45,480</b>

## 5. Operating loss / profit

Operating loss / profit is stated after charging / (crediting):

	2015 £'000	2014 £'000
Other income	(1,105)	–
Depreciation of property, plant and equipment	10,907	7,600
Amortisation of intangible assets (included in administration expenses)	2,308	2,100
Operating lease rentals	11,186	7,781
Loss on disposal of property, plant and equipment	98	39
Cost of inventory recognised as an expense	197	225
<b>Auditors' remuneration</b>		
Fees payable for the audit of the Company's annual accounts	40	6
<b>Fees payable for other services</b>		
Audit of the Company's subsidiaries pursuant to legislation	50	37
Tax compliance services	–	25
Tax advisory services	3	–
Reporting accountant services in relation to IPO	883	–
Other non-audit services in relation to IPO	42	–
Corporate finance services	126	–
	<b>1,144</b>	<b>68</b>

The amounts above for 2015 relate to Ernst & Young LLP, with the comparative figures in 2014 relating to Grant Thornton UK LLP.

Other income received in the year of £1,105,000 (2014: £nil) relates to a payment received on the surrender of a lease.

## 6. Exceptional items

	2015 £'000	2014 £'000
Costs in relation to IPO	5,731	–
Share based payment costs associated with IPO	1,018	–
Exploration of strategic options	809	–
Costs in relation to aborted merger with Pure Gym	49	1,950
Gym relocation	–	703
	<b>7,607</b>	<b>2,653</b>

An additional £2,620,000 of exceptional costs associated with the issue of share capital as part of the IPO have been recognised directly in reserves.

## 7. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity shareholders by the weighted average number of Ordinary shares outstanding during the year.

As the Company issued shares and changed its capital structure on IPO, the number of shares in the prior period has been adjusted to match the post restructuring position such that the figures remain comparable.

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 current and prior year the Group had no convertible financial instruments, options or other dilutive instruments.

## 7. Earnings per share (continued)

The following reflects the income and share data used in the basic earnings per share calculation:

	2015	2014
Loss for the year £'000	(11,473)	(8,783)
Basic and diluted weighted average number of shares	60,485,605	48,802,414
<b>Basic and diluted earnings per share £</b>	<b>(0.19)</b>	<b>(0.18)</b>

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

	2015 £'000	2014 £'000
Loss for the year	(11,473)	(8,783)
Amortisation of intangible assets	2,308	2,100
Other income	(1,105)	–
Exceptional administration expenses	7,607	2,653
Exceptional finance costs	1,623	–
Tax effect of amortisation and exceptional items	(67)	(422)
<b>Adjusted earnings</b>	<b>(1,107)</b>	<b>(4,452)</b>
Basic weighted average number of shares	60,485,605	48,802,414
<b>Adjusted earnings per share £</b>	<b>(0.02)</b>	<b>(0.09)</b>

## 8. Employee information

	2015 £'000	2014 £'000
Wages and salaries	7,367	4,942
Social security costs	899	503
Employers' pension costs	153	35
	<b>8,419</b>	<b>5,480</b>

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

	2015 Number	2014 Number
Operational	143	109
Administration	50	30
	<b>193</b>	<b>139</b>

## 9. Finance income

	2015 £'000	2014 £'000
Bank interest receivable	16	20
Fair value gains on derivative financial instruments	249	–
	<b>265</b>	<b>20</b>

## 10. Finance costs

	2015 £'000	2014 £'000
Bank loans and overdrafts	4,950	4,937
Shareholder loans	1,809	1,899
Preference share interest	–	2,533
Finance leases and hire purchase contracts	1,112	1,073
Unwinding of discount	9	3
Amortisation of financing fees	443	492
Exceptional finance costs	1,623	–
Fair value losses on derivative financial instruments	–	860
	<b>9,946</b>	<b>11,797</b>

Exceptional finance costs comprise the write-off of £1,290,000 of outstanding capitalised financing fees and interest incurred on the repayment of finance lease creditors of £333,000 (see [note 18](#)).

# Notes to the Consolidated Financial Statements **continued**

For year ended 31 December 2015

## 11. Taxation

The major components of taxation are:

### a) Tax on profit

	2015 £'000	2014 £'000
<b>Current income tax</b>		
Current tax on profits for the year	–	246
Adjustments in respect of prior years	(173)	244
<b>Total current income tax</b>	<b>(173)</b>	<b>490</b>
<b>Deferred tax</b>		
Origination and reversal of temporary differences	(700)	(628)
Change in tax rates	(91)	44
Adjustments in respect of prior years	55	(565)
<b>Total deferred tax</b>	<b>(736)</b>	<b>(1,149)</b>
<b>Tax credit in the Income Statement</b>	<b>(909)</b>	<b>(659)</b>

### b) Reconciliation of tax credit

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

	2015 £'000	2014 £'000
Loss before tax	(12,382)	(9,442)
Tax calculation at standard rate of corporation tax of 20.25% (2014: 21.49%)	(2,507)	(2,029)
Expenses not deductible for tax purposes	786	1,647
Exceptional IPO costs not deductible	1,023	–
Change in tax rates	(93)	44
Adjustments in respect of prior years	(118)	(321)
	<b>(909)</b>	<b>(659)</b>

### c) Deferred tax

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

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Other £'000	Total £'000
At 1 January 2013	(1,386)	1,683	–	125	422
Prior year adjustment	(177)	213	–	(30)	6
Acquisitions	–	–	(1,898)	–	(1,898)
Recognised in income statement	(414)	(315)	248	(29)	(510)
Change in deferred tax rate	264	(198)	215	(9)	272
At 31 December 2013	(1,713)	1,383	(1,435)	57	(1,708)
Prior year adjustment	526	39	–	–	565
Recognised in income statement	(581)	829	393	(57)	584
At 31 December 2014	(1,768)	2,251	(1,042)	–	(559)
Prior year adjustment	(55)	–	–	–	(55)
Recognised in income statement	1,545	(1,245)	400	–	700
Change in deferred tax rate	91	–	–	–	91
<b>At 31 December 2015</b>	<b>(187)</b>	<b>1,006</b>	<b>(642)</b>	<b>–</b>	<b>177</b>

### d) Unrecognised tax losses

The Group has tax losses of £nil (2014: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

### e) Change in tax rate

The Finance Act 2013 reduced the main rate of corporation to 21% from 1 April 2014 to 20% with effect from 1 April 2015. Further future rate reductions have been announced as part of the 2015 Budget to 19% from 1 April 2017 and 18% from 1 April 2020. Therefore a blended tax rate of 20.25% (2014: 21.49%) has been applied in calculating the income tax charge. Deferred tax assets and liabilities have been measured at the rate expected to be in effect when the deferred tax asset or liability reverses.

## 12. Property, plant and equipment

	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Gym and other equipment £'000	Computer equipment £'000	Total £'000
<b>Cost</b>					
At 1 January 2013	32,780	2,265	15,276	272	50,593
Additions	9,080	818	4,264	95	14,257
Disposals	(19)	–	(280)	(2)	(301)
At 31 December 2013	41,841	3,083	19,260	365	64,549
Additions	15,978	1,054	7,526	178	24,736
Disposals	(1,067)	(104)	(1,129)	(10)	(2,310)
At 31 December 2014	56,752	4,033	25,657	533	86,975
Additions	17,364	1,549	9,428	391	28,732
Disposals	(89)	(13)	(298)	–	(400)
<b>At 31 December 2015</b>	<b>74,027</b>	<b>5,569</b>	<b>34,787</b>	<b>924</b>	<b>115,307</b>
<b>Accumulated depreciation</b>					
At 1 January 2013	2,276	523	4,496	137	7,432
Charge for the year	1,961	524	3,411	83	5,979
Disposals	–	–	(280)	–	(280)
At 31 December 2013	4,237	1,047	7,627	220	13,131
Charge for the year	2,602	672	4,225	101	7,600
Disposals	(233)	(47)	(980)	(6)	(1,266)
At 31 December 2014	6,606	1,672	10,872	315	19,465
Charge for the year	5,745	656	4,329	177	10,907
Disposals	(42)	(7)	(253)	–	(302)
<b>At 31 December 2015</b>	<b>12,309</b>	<b>2,321</b>	<b>14,948</b>	<b>492</b>	<b>30,070</b>
<b>Net book value</b>					
At 31 December 2013	37,604	2,036	11,633	145	51,418
At 31 December 2014	50,146	2,361	14,785	218	67,510
<b>At 31 December 2015</b>	<b>61,718</b>	<b>3,248</b>	<b>19,839</b>	<b>432</b>	<b>85,237</b>

The net book value of tangible fixed assets includes an amount of £nil (2014: £9,995,000; 2013: £8,484,000) in respect of assets held under finance leases. The related depreciation charge on these assets for the period was £1,472,000 (2014: £2,964,000; 2013: £2,691,000).

# Notes to the Consolidated Financial Statements *continued*

For year ended 31 December 2015

## 13. Intangible assets

	Goodwill £'000	Brand £'000	Customer list £'000	Technology £'000	Contract £'000	Computer software £'000	Total £'000
<b>Cost</b>							
At 1 January 2013	–	–	–	–	–	495	495
Additions	45,188	2,219	3,550	776	1,709	148	53,590
At 31 December 2013	45,188	2,219	3,550	776	1,709	643	54,085
Additions	–	–	–	–	–	237	237
Disposals	–	–	–	–	–	(5)	(5)
At 31 December 2014	45,188	2,219	3,550	776	1,709	875	54,317
Additions	–	–	–	–	–	575	575
<b>At 31 December 2015</b>	<b>45,188</b>	<b>2,219</b>	<b>3,550</b>	<b>776</b>	<b>1,709</b>	<b>1,450</b>	<b>54,892</b>
<b>Accumulated amortisation</b>							
At 1 January 2013	–	–	–	–	–	156	156
Charge for the year	–	244	651	142	43	111	1,191
At 31 December 2013	–	244	651	142	43	267	1,347
Charge for the year	–	444	1,183	259	77	137	2,100
At 31 December 2014	–	688	1,834	401	120	404	3,447
Charge for the year	–	448	1,209	265	78	209	2,209
Accelerated write offs	–	–	–	–	–	99	99
<b>At 31 December 2015</b>	<b>–</b>	<b>1,136</b>	<b>3,043</b>	<b>666</b>	<b>198</b>	<b>712</b>	<b>5,755</b>
<b>Net book value</b>							
At 31 December 2013	45,188	1,975	2,899	634	1,666	376	52,738
At 31 December 2014	45,188	1,531	1,716	375	1,589	471	50,870
<b>At 31 December 2015</b>	<b>45,188</b>	<b>1,083</b>	<b>507</b>	<b>110</b>	<b>1,511</b>	<b>738</b>	<b>49,137</b>

### Impairment test for goodwill

The goodwill balance relates to the Group's acquisition of The Gym Limited during 2013 (note 26) and is allocated to the respective group of CGUs that represent that acquisition. In this instance the CGUs to which goodwill has been allocated and the level at which it is monitored is deemed to be the chain of health and fitness facilities acquired. Goodwill acquired through business combinations has been allocated for impairment testing purposes accordingly as follows:

	2015 £'000	2014 £'000	2013 £'000
The Gym Limited	<b>45,188</b>	45,188	45,188

This represents the lowest level within the Group at which goodwill is monitored for internal management purposes. The recoverable amount of the CGU has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by the Board covering a three to five 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:

	2015	2014	2013
Discount rate	<b>11.7%</b>	20.0%	20.0%
Growth rate	<b>3.0%</b>	2.5%	2.5%

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

Growth rates in subscriptions rates and increases applied to costs reflect the effect of inflationary prices at 2%. Membership growth for mature gyms has been modelled on a site by site basis.

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

### Sensitivity to changes in assumptions

The estimates of the recoverable amounts associated with this CGU affords significant head room over the carrying value, consequently only significant adverse changes in these key assumptions would cause the Group to recognise an impairment loss.

#### 14. Inventories

	2015 £'000	2014 £'000	2013 £'000
Finished goods and goods for resale	122	75	138

#### 15. Trade and other receivables

	2015 £'000	2014 £'000	2013 £'000
Other receivables	394	474	102
Income and other taxes	717	151	–
Prepayments and accrued income	4,543	3,657	2,958
	5,654	4,282	3,060

#### 16. Cash and cash equivalents

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

#### 17. Trade and other payables

	2015 £'000	2014 £'000	2013 £'000
Trade payables	2,689	4,516	1,830
Social security and other taxes	6	4	475
Other creditors	–	1	230
Lease incentives and rental increases	13,872	9,737	7,391
Accruals and deferred income	8,979	6,539	4,199
	25,546	20,797	14,125

Trade payables are non-interest bearing and are payable on average within 22 days (2014: 30 days; 2013: 30 days).

#### 18. Borrowings

	2015 £'000	2014 £'000	2013 £'000
<b>Non-current</b>			
Bank facility A	10,000	–	–
Former bank facility A (principal and PIK interest)	–	34,813	31,786
Former bank facility B (principal and PIK interest)	–	9,800	1,010
Finance leases	–	6,555	5,675
Shareholder loans and accrued interest	–	20,785	18,992
Preference share capital and accrued interest	–	–	50,924
Loan arrangement fees	(1,034)	(1,700)	(2,192)
	8,966	70,253	106,195
<b>Current</b>			
Finance leases	–	3,613	2,363

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

On 12 November 2015 the Group refinanced its former bank facilities and shareholder loans using the net proceeds of its IPO.

##### HSBC and Barclays bank facility

On 12 November 2015 the Group entered into a new five year bullet repayment facility with HSBC and Barclays. The facility comprises a £10.0 million term loan ('facility A') for the purposes of refinancing the Group's finance leases, a £25.0 million term loan ('facility B') to fund acquisitions and capital expenditure, and a £5.0 million revolving credit facility. Interest is charged at LIBOR plus a 2.5% margin.

At 31 December 2015, facility A was fully drawn and facility B and the revolving credit facility were undrawn.

# Notes to the Consolidated Financial Statements **continued**

For year ended 31 December 2015

## 18. Borrowings (continued)

### Proventus term loan under the £30.0 million bank facility ('Former bank facility A')

On 13 June 2013 the Group entered into a five year, £30.0 million bullet repayment credit facility to finance the Group's acquisition of The Gym Group Midcol Limited. The variable interest rate payable under the facility is LIBOR plus margin plus mandatory costs and is repayable in June 2018. Margin means the PIK Margin (10%) prior to the second anniversary and thereafter the Cash Margin (9%). Interest on the Cash Margin is payable at the end of each interest period. Interest on the PIK Margin is accrued and compounded on each anniversary.

The facility was repaid on 12 November 2015.

### Proventus term loan under the £20.0 million bank facility ('Former bank facility B')

On 13 June 2013 the Group entered into a five year, £20.0 million amortising credit facility to part finance the Group's acquisition of The Gym Group Midcol Limited and site development capital expenditure. The variable interest rate payable under the facility is LIBOR plus margin plus mandatory costs and is repayable in June 2018. Margin means the rate equal to the aggregate of the Cash Margin (6%) and the PIK Margin (4%). Interest on the Cash Margin is payable at the end of each interest period. Interest on the PIK Margin is accrued and compounded on each anniversary.

The facility was repaid on 12 November 2015.

### HSBC £3.0 million Revolving credit facility

On 13 June 2013 the Group entered into a five year, £3.0 million multi-currency revolving credit facility to provide financing for general corporate and working capital requirements. The variable interest rate payable under the facility is LIBOR plus margin plus mandatory costs. Each drawing under the facility is repayable at the end of the interest period and subject to the terms of the facility agreement these amounts are available to be redrawn. Margin is defined as the Cash Margin (4.5%). Interest on the Cash Margin is payable at the end of each interest period. All amounts outstanding under the facility are repayable in June 2018. Ancillary facilities are available under the revolving credit facility to provide financing for overdraft, short term loans and guarantees/bonding/letter of credit. This may constitute all or part of the revolving credit facility from time to time.

The facility was cancelled on 12 November 2015.

### Term loan under the £17.1 million 10% Fixed Rate Unsecured Midco Loan Notes 2023 ('Shareholder loans')

On 13 June 2013 the Group entered into a 10 year, £17.1 million credit facility to part finance the Group's acquisition of The Gym Limited. Interest is accrued on the loan at the rate of 10% per annum and compounded on each anniversary. Interest is then also payable on the PIK notes at a rate of 10% per annum by the issue of further PIK notes. The shareholder loans are repayable in full in June 2023.

The loans were repaid on 12 November 2015.

### Term loan under the £0.9 million 10% Fixed Rate Unsecured Topco Loan Notes 2023 ('Shareholder loans')

On 13 June 2013 the Group entered into a 10 year, £0.9 million credit facility to part finance the Group's acquisition of The Gym Limited. Interest is accrued on the loan at the rate of 10% per annum and compounded on each anniversary. Interest is then also payable on the PIK notes at a rate of 10% per annum by the issue of further PIK notes. The shareholder loans are repayable in full in June 2023.

The loans were repaid on 12 November 2015.

### Preference share capital £50.9 million ('Preference share capital')

On 14 May 2013 Preference shares were issued. These shares attract a fixed cumulative preferential dividend at an annual rate of 10%, compounded annually on each anniversary. This accrued dividend becomes due and payable immediately prior to Sale or Listing but does not otherwise become payable without the consent of holders of 75% of the Preference and Roll-out Preference shares. On 23 July 2014 the terms of these shares was altered such that the dividend was only payable at the discretion of the Board of Directors as such they were reclassified from debt to equity. Interest of £5.1m accrued on these shares up to 23 July 2014 waived by shareholders has been credited directly to equity.

### Covenants

The Group is currently subject to financial covenants in relation to Facility A, B and the Revolving Credit Facility.

In prior periods the Group was subject to financial covenants in relation to Former facility A, B and the previous Revolving Credit Facility.

The current covenants relate to leverage and interest cover. The previous covenants related to cash flow cover, interest cover, leverage, minimum levels of EBITDA and maximum levels of capital expenditure.

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

## 18. Borrowings (continued)

### Available facilities

The total borrowing facilities available to the Group are:

	2015 £'000	2014 £'000	2013 £'000
Facility A	10,000	–	–
Facility B	25,000	–	–
Former facility A	–	30,000	30,000
Former facility B	–	20,000	20,000
Revolving credit facility	5,000	3,000	3,000
Shareholder loans	–	18,000	18,000
	<b>40,000</b>	<b>71,000</b>	<b>71,000</b>

Facilities undrawn and available are:

	2015 £'000	2014 £'000	2013 £'000
Facility A	–	–	–
Facility B	25,000	–	–
Former facility A	–	–	–
Former facility B	–	10,500	19,000
Revolving credit facility	5,000	3,000	3,000
Shareholder loans	–	–	–
	<b>30,000</b>	<b>13,500</b>	<b>22,000</b>

Loan maturity:

	2015 £'000	2014 £'000	2013 £'000
Within one year	–	3,613	2,363
Between one and two years	–	6,795	2,704
Between two and five years	10,000	42,673	33,574
After five years	–	22,484	72,109
	<b>10,000</b>	<b>75,565</b>	<b>110,750</b>

## 19. Provisions

	Dilapidations £'000
At 1 January 2013	41
New provisions	89
Unwinding of discount	1
At 31 December 2013	131
New provisions	89
Unwinding of discount	3
At 31 December 2014	223
Unwinding of discount	9
<b>At 31 December 2015</b>	<b>232</b>

## 20. Financial instruments

	2015 £'000	2014 £'000	2013 £'000
Interest rate cap	–	–	–
Interest rate swap	–	1,037	177
	<b>–</b>	<b>1,037</b>	<b>177</b>

# Notes to the Consolidated Financial Statements **continued**

For year ended 31 December 2015

## 20. Financial instruments (continued)

The Group has entered into the following interest rate contracts with the following terms:

Trade date	Type	Fixed rate	Minimum notional amount	Maximum notional amount	Start date	End date
22 August 2013	CAP	1.81%	5,161,000	5,161,000	31 October 2013	31 October 2017
22 August 2013	SWAP	1.81%	24,089,000	46,452,200	31 October 2013	31 October 2017

On 12 November 2015 the interest rate swap was broken as part of the refinancing activity described in [note 18](#).

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

### Fair value hierarchy

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

Level 1: inputs are quoted prices in active markets

Level 2: a valuation that uses observable inputs for the asset or liability other than quoted prices in active markets

Level 3: a valuation using unobservable inputs i.e. a valuation technique

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

### Fair values

Set out below is a comparison of carrying amounts and fair values of the Group's financial instruments. The fair values of financial derivatives and borrowings has been calculated by discounting the future cash flows at prevailing market interest rates and is categorised as a Level 2 valuation. The fair values of the other financial instruments closely approximates their carrying values.

	2015		2014		2013	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<b>Held at amortised cost</b>						
Trade and other receivables	1,111	1,111	625	625	102	102
Cash and cash equivalents	2,860	2,860	5,576	5,576	4,091	4,091
Trade and other payables	(11,674)	(11,674)	(11,060)	(11,060)	(6,734)	(6,734)
Borrowings	(10,000)	(10,000)	(75,566)	(76,053)	(110,750)	(110,750)
<b>Held at fair value</b>						
Derivative financial instruments	-	-	(1,037)	(1,037)	(177)	(177)

## 21. Capital and financial risk management

### Capital risk management

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

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

	2015 £'000	2014 £'000	2013 £'000
Total borrowings	10,000	75,566	110,750
Less: cash and cash equivalents	(2,860)	(5,576)	(4,091)
Net debt	7,140	69,990	106,659
Total equity	136,292	48,983	558
Total capital	143,432	118,973	107,217
Gearing ratio	5%	59%	99%

## 21. Capital and financial risk management (continued)

### Financial risk management

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

- Market risk
- Liquidity risk
- Credit risk

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

#### Market risk

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

The sensitivity analysis in the following sections relate to the position as at 31 December 2015, 2014 and 2013. The analysis has been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives are all constant.

#### Interest rate risk

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

The Group manages its interest rate risk by entering into interest rate derivatives when it is considered appropriate to do so by management. At 31 December 2015 all of the Group's borrowings were at floating rates of interest. At 31 December 2014 after taking into account the effect of interest rate swaps, 100% of Group's borrowings were at fixed rates of interest.

The Group is not expecting any reduction in interest rates over the next 12 months. The effect on profit after tax of a notional 0.5% movement in LIBOR is as follows:

	2015 £'000	2014 £'000	2013 £'000
Change in interest rates of 0.5%	50	10	32

#### Liquidity risk

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

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

	2015				Total £'000
	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	More than 5 years £'000	
Trade and other payables	11,674	–	–	–	11,674
Borrowings	307	307	10,895	–	11,509
	11,981	307	10,895	–	23,183

	2014				Total £'000
	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	More than 5 years £'000	
Trade and other payables	11,060	–	–	–	11,060
Borrowings	6,970	8,020	57,477	39,440	111,907
Derivative financial instruments	650	537	278	–	1,465
	18,680	8,557	57,755	39,440	124,432

# Notes to the Consolidated Financial Statements continued

For year ended 31 December 2015

## 21. Capital and financial risk management (continued)

### Liquidity risk (continued)

	2013				Total £'000
	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	More than 5 years £'000	
Trade and other payables	6,734	–	–	–	6,734
Borrowings	3,749	5,380	61,811	145,477	216,417
Derivative financial instruments	481	650	814	–	1,945
	10,964	6,030	62,625	145,477	225,096

### Credit risk

The Group's principal financial assets are bank balances and cash, trade and other receivables and investments. The Group's credit risk is low as it has limited trade receivables. 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.

## 22. Issued share capital and reserves

	2015 £'000	2014 £'000	2013 £'000
<b>Allotted, called up and fully paid</b>			
Ordinary shares of £0.0001 each	12	–	–
A Ordinary shares of £0.01 each	–	4	4
C1 Ordinary shares of £0.04 each	–	4	4
C2 Ordinary shares of £0.01 each	–	1	–
Preference shares of £1 each	–	–	48,394
	12	9	48,402
Preference shares reclassified	–	–	(48,394)
	12	9	8
<b>Own shares held</b>			
Deferred Ordinary shares of £1 each	48	–	–

The number of Ordinary shares in issue is as follows:

	2015	2014	2013
Ordinary shares of £0.0001 each	128,105,275	–	–
Deferred Ordinary shares of £1 each	48,050	–	–
Preference shares of £1 each	–	–	48,393,939
Preference shares of £0.00001 each	–	48,393,939	–
A Ordinary shares of £0.01 each	–	385,575	385,575
B Ordinary shares of £0.01 each	–	20,486	20,486
C1 Ordinary shares of £0.04 each	–	87,642	87,642
C2 Ordinary shares of £0.01 each	–	87,963	57,963
C3 Ordinary shares of £0.01 each	–	6,895	6,895
C4 Ordinary shares of £0.01 each	–	50	50

## 22. Issued share capital and reserves (continued)

The movements in shares occurred on following dates set out below:

	2015 Number	2014 Number	2013 Number
<b>13 June 2013</b>			
Reclassification of Preference shares of £1 each	–	–	48,393,939
Issue of A Ordinary shares of £0.01 each	–	–	385,575
Issue of B Ordinary shares of £0.01 each	–	–	20,486
Issue of C1 Ordinary shares of £0.04 each	–	–	87,642
Issue of C2 Ordinary shares of £0.01 each	–	–	57,963
Issue of C3 Ordinary shares of £0.01 each	–	–	6,895
Issue of C4 Ordinary shares of £1 each	–	–	50
<b>12 August 2014</b>			
Issue of C2 Ordinary shares of £0.01 each	–	30,000	–
<b>3 March 2015</b>			
Issue of C2 Ordinary shares of £0.01 each	5,350	–	–
<b>22 April 2015</b>			
Issue of C2 Ordinary shares of £0.01 each	2,150	–	–
<b>12 November 2015</b>			
<b>Issued</b>			
C2 Ordinary shares of £0.01 each	10,000	–	–
Ordinary shares of £0.0001 each	46,126,596	–	–
Deferred Ordinary shares of £1 each	48,000	–	–
<b>Share split</b>			
C1 Ordinary shares of £0.04 each	(87,642)	–	–
C1 Ordinary shares of £0.01 each	87,642	–	–
C1 Deferred Ordinary shares of £0.03 each	87,642	–	–
<b>Bonus issue</b>			
Preference shares of £0.00001 each	3,073,711,461	–	–
<b>Re-designation</b>			
A Ordinary shares of £0.01 each	(385,575)	–	–
A Ordinary shares of £0.0001 each	38,557,500	–	–
B Ordinary shares of £0.01 each	(20,486)	–	–
B Ordinary shares of £0.0001 each	2,048,600	–	–
C1 Ordinary shares of £0.01 each	(87,642)	–	–
C1 Ordinary shares of £0.0001 each	4,448,500	–	–
C1 Deferred Ordinary shares of £0.0001 each	4,315,700	–	–
C2 Ordinary shares of £0.01 each	(105,463)	–	–
C2 Ordinary shares of £0.0001 each	5,353,051	–	–
C2 Deferred Ordinary shares of £0.0001 each	5,193,249	–	–
C3 Ordinary shares of £0.01 each	(6,895)	–	–
C3 Ordinary shares of £0.0001 each	349,974	–	–
C3 Deferred Ordinary shares of £0.0001 each	339,526	–	–
C4 Ordinary shares of £1 each	(50)	–	–
Deferred Ordinary shares of £1 each	50	–	–
Preferred shares of £0.000001 each	(3,122,105,400)	–	–
Preferred shares of £0.0001 each	31,221,054	–	–
<b>Cancellation</b>			
C1 Deferred Ordinary shares of £0.0001 each	(4,315,700)	–	–
C2 Deferred Ordinary shares of £0.0001 each	(5,193,249)	–	–
C3 Deferred Ordinary shares of £0.0001 each	(339,526)	–	–
C1 Deferred Ordinary shares of £0.03 each	(87,642)	–	–
<b>Balance carried forward</b>	<b>79,170,775</b>	<b>30,000</b>	<b>48,952,550</b>

# Notes to the Consolidated Financial Statements continued

For year ended 31 December 2015

## 22. Issued share capital and reserves (continued)

	2015 Number	2014 Number	2013 Number
<b>Balance brought forward</b>	<b>79,170,775</b>	30,000	48,952,550
<b>Re-designation</b>			
A Ordinary shares of £0.0001 each	(38,557,500)		
B Ordinary shares of £0.0001 each	(2,048,600)		
C1 Ordinary shares of £0.0001 each	(4,448,500)		
C2 Ordinary shares of £0.0001 each	(5,353,051)		
C3 Ordinary shares of £0.0001 each	(349,974)		
Preferred shares of £0.0001 each	(31,221,054)		
Ordinary shares of £0.0001 each	81,978,679		
	<b>79,170,775</b>	30,000	48,952,550

On 12 November 2015 the Company's Ordinary shares were admitted to the London Stock Exchange's main market for listed securities. The Company made an Initial Public Offering of 46,113,007 Ordinary shares of £0.0001 each at a price of 195 pence per share.

### Prior to 23 July 2014

The A Ordinary shares, B Ordinary shares and C Ordinary shares ranked pari passu among themselves, but constituted separate classes of shares. All shares carried equal voting rights with the exception of holders of C3 Ordinary shares who had five votes in respect of each share provided that the A Ordinary class of shares never had less than 82.38% of the total voting rights.

Preference shares or Roll-out Preference shares ranked ahead of the Ordinary shares for all purposes. The Preference shares and Roll-out Preference shares accrued a fixed cumulative preferential dividend at an annual rate of 10% and 12% respectively of the Issue Price per share, compounded annually on each anniversary. This accrued dividend would become due and payable immediately prior to Sale or Listing but otherwise would not become payable without the consent of holders of 75% of the Preference and Roll-out Preference shares.

On the return of capital on liquidation or otherwise, the surplus assets of the Company would be applied in the following order:

- Each Preference share and Roll-out Preference share holder would receive 100% of the Issue Price thereof together with the aggregate amount of any accruals and/or unpaid amounts of dividend.
- £1 in aggregate to all holders of Deferred shares.

The balance would be distributed prorata amongst each holder of A Ordinary shares, B Ordinary shares and C1, C2 and C3 Ordinary shares, subject to allocating 39.38% of the amounts allocated to holders of C1, C2 and C3 Ordinary shares to holders of A and B Ordinary shares.

As a result of the repayment terms attaching to the Preference shares and Roll-out Preference shares these instruments were treated as debt instruments.

### Post 23 July 2014

The Articles of Association of the Company were amended on 23 July 2014 in respect of the repayment of the fixed preferential dividend on the Preference and Roll-out Preference shares as follows:

'All accruals of Preference share and Roll-out Preference share dividend shall become payable at the sole discretion of the Board.'

As a result of the change in repayment terms attaching to the Preference shares and Roll-out Preference shares these instruments were reclassified from debt to equity.

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

#### Own shares held and capital redemption reserve

These reserves arose when the Company repurchased 48,050 Deferred Ordinary shares of £1 each on 12 November 2015. The shares constitute separate classes of shares but carry the same rights as Ordinary shares.

#### Share premium

Amount subscribed for share capital in excess of nominal value.

#### Retained earnings / deficit

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

### 23. Share based payments

During the year ended 31 December 2015 the Group operated The Gym Group Senior Management Share Option Plan. The Group operated no share based payment plans in the year ended 31 December 2014.

On 6 November 2015 share options were granted over 10,000 C2 Ordinary shares under The Gym Group Senior Management Share Option Plan. The exercise price was £1 per C2 Ordinary share. The share options were exercisable immediately prior to the Company being admitted to the Official List of the London Stock Exchange and were exercised on 12 November 2015.

These shares were subsequently converted into 507,579 Ordinary shares and 492,421 Deferred C2 Ordinary shares on 12 November 2015 as described in [note 22](#). The Deferred C2 Ordinary shares were repurchased and cancelled.

As the share options were granted and exercised at a time near to the admission of the Company's shares on the London Stock Exchange's main market for listed securities, the fair value at grant date is considered to be represented by the closing price on the day of admission less the exercise price.

The exercise price has been calculated as £10,000 received on exercise divided by 507,579 Ordinary shares granted.

	2015
Number of Ordinary share options granted and exercised	<b>507,579</b>
Fair value at grant date	<b>200.5p</b>
Exercise price	<b>1.97p</b>

A share based payment charge of £1,018,000 has been recognised in the income statement.

### 24. Commitments and contingencies

#### Operating lease commitments

The Group has entered into leases on commercial real estate. These leases have an average outstanding life of 14.6 years (2014: 15.6 years) with no renewal option included in the contracts. There are no restrictions placed on the Group by entering into these leases.

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

	2015 £'000	2014 £'000	2013 £'000
Within one year	<b>10,053</b>	7,075	5,210
Between one and two years	<b>11,334</b>	8,690	6,109
Between two and five years	<b>35,904</b>	30,852	19,633
Greater than five years	<b>128,025</b>	115,767	89,126
	<b>185,316</b>	162,384	120,078

#### Finance lease commitments

Future minimum lease payments under finance leases and hire purchase contracts together with the present value of the net minimum lease payments are, as follows:

	2015 £'000	2014 £'000	2013 £'000
Within one year	–	4,644	3,296
Between one and two years	–	3,841	3,054
Between two and five years	–	3,567	3,723
Greater than five years	–	–	–
	–	12,052	10,073
Future finance charges	–	(1,884)	(2,035)
<b>Present value</b>	<b>–</b>	<b>10,168</b>	<b>8,038</b>

The present value of finance lease liabilities is as follows:

	2015 £'000	2014 £'000	2013 £'000
Within one year	–	3,613	2,363
Between one and two years	–	3,267	2,704
Between two and five years	–	3,288	2,971
Greater than five years	–	–	–
	–	10,168	8,038

#### Capital commitments

	2015 £'000	2014 £'000	2013 £'000
Contracted for but not provided	<b>2,342</b>	3,394	3,952

# Notes to the Consolidated Financial Statements **continued**

For year ended 31 December 2015

## 25. 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. Until 12 November 2015 the Company's controlling shareholders were Phoenix Equity Partners 2010 L.P. and Phoenix Equity Partners 2010 GP L.P. ('the Phoenix Funds'), which are managed by Phoenix Equity Partners 2010 Guernsey Limited. Phoenix Equity Nominees Limited holds the shares on behalf of the shareholders. Phoenix Equity Partners Limited is an adviser to Phoenix Equity Partners 2010 Guernsey Limited. After 12 November 2015 the Company has no controlling shareholder.

Until 12 November 2015 Bridges Community Development Ventures Fund II, which is managed by Bridges Ventures LLP, was the beneficial minority shareholder in The Gym Group Midco Limited. Bridges Community Ventures Nominees Limited holds the shares on behalf of the shareholders.

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

C Treharne is a relation of a Director, J Treharne, and provides services to the Group.

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%

### Transactions with related parties

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

	2015 £'000	2014 £'000	2013 £'000
Phoenix Funds	–	44,008	44,539
Bridges Ventures LLP	–	21,822	22,109
Key management	–	3,349	3,509
Closewall Limited	49	467	353
C Treharne	–	1	1
	<b>49</b>	69,647	70,511
Opening balance	<b>69,647</b>	70,511	20,261
New loan notes	–	–	18,000
Loan note interest	<b>1,809</b>	1,803	1,555
Preference shares	–	–	48,394
Dividends	–	(2,665)	2,665
Purchases	<b>7,635</b>	5,409	4,117
Repayments	<b>(79,042)</b>	(5,411)	(24,481)
	<b>49</b>	69,647	70,511
Representing:			
Borrowings (note 18)	–	20,785	69,916
Share premium	–	48,394	–
Trade and other payables	<b>49</b>	468	595
	<b>49</b>	69,647	70,511

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

	2015 £'000	2014 £'000	2013 £'000
Phoenix Equity Partners (Guernsey) Limited	–	1,308	3,088
Phoenix Equity Partners Limited	–	–	611
Bridges Ventures LLP	–	627	1,965
Key management	–	–	159
Closewall Limited	<b>7,627</b>	5,270	2,511
C Treharne	<b>8</b>	8	3
<b>Total</b>	<b>7,635</b>	7,213	8,337

## 25. Related party transactions (continued)

### 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. Loans from related parties carry interest at 10%. Payments to Closewall Limited and C Treharne are in respect of the provision of services and goods respectively.

### Compensation of key management personnel

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

	2015 £'000	2014 £'000	2013 £'000
Remuneration	1,160	665	612
Company contributions to defined contribution pension scheme	31	16	19
Share based payment charge	305	–	–
	<b>1,496</b>	681	631

At the year end £116,000 (2014: £nil) was owed to the Directors in respect of year end bonus.

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

## 26. Business combinations

On 13 June 2013 the Group purchased the entire issued share capital of The Gym Limited for a consideration of £52,363,000.

	Book value £'000	Fair value adjustments £'000	Fair value £'000
Property, plant and equipment	45,952	–	45,952
Intangible assets	–	8,289	8,289
Inventories	32	–	32
Trade and other receivables	2,056	–	2,056
Cash and cash equivalents	3,986	–	3,986
Trade and other payables	(15,770)	–	(15,770)
Bank loans	(34,199)	–	(34,199)
Deferred tax	(1,273)	(1,898)	(3,171)
Net assets acquired	784	6,391	7,175
Goodwill			45,188
<b>Total consideration</b>			<b>52,363</b>

Consideration comprises:

	£'000
Cash consideration paid	28,160
Shareholder loans	24,000
Deferred consideration	203
<b>Total consideration</b>	<b>52,363</b>

Goodwill represents the premium associated with advantageous site locations, potential growth opportunities offered by the low cost business model, profitability and assembled workforce.

# Notes to the Consolidated Financial Statements **continued**

For year ended 31 December 2015

## 27. Transition to IFRS

This is the first time that the Group has presented its financial information under IFRS. The previously presented financial information, for the year ended 31 December 2014, was presented under UK Generally Accepted Accounting Principle ('UK GAAP'). The date of transition to IFRS was 1 January 2014.

IFRS 1 offers a number of exemptions from full retrospective application of applicable standards on transition to IFRS. It has been concluded that no exemptions are applicable to the Group.

Set out below are the UK GAAP to IFRS equity and profit reconciliations for the years ended 31 December 2013 and 31 December 2014.

### Reconciliation of equity at 31 December 2013

	Note	UK GAAP £'000	Other adjustments £'000	IFRS transition £'000	IFRS £'000
<b>Non-current assets</b>					
Property, plant and equipment	(a(i),(ii),(c(i),(ii)),(h))	44,584	326	6,508	51,418
Intangible assets	(b(i),(ii),(c(i),(ii)))	53,130	662	(1,054)	52,738
Deferred tax asset	(b),(g)	–	–	–	–
<b>Total non-current assets</b>		<b>97,714</b>	<b>988</b>	<b>5,454</b>	<b>104,156</b>
<b>Current assets</b>					
Inventories		138	–	–	138
Trade and other receivables	(a),(d)	4,007	–	(947)	3,060
Cash and short-term deposits		4,091	–	–	4,091
<b>Total current assets</b>		<b>8,236</b>	<b>–</b>	<b>(947)</b>	<b>7,289</b>
<b>Total assets</b>		<b>105,950</b>	<b>988</b>	<b>4,507</b>	<b>111,445</b>
<b>Current liabilities</b>					
Borrowings	(a)	441	–	1,922	2,363
Trade and other payables	(d),(e)	7,404	1,692	5,029	14,125
Current taxes payable	(g)	–	–	–	–
<b>Total current liabilities</b>		<b>7,845</b>	<b>1,692</b>	<b>6,951</b>	<b>16,488</b>
<b>Non-current liabilities</b>					
Borrowings	(a)	101,806	–	4,389	106,195
Deferred tax liabilities	(b(ii),(g))	1,030	662	16	1,708
Provisions	(h)	–	–	131	131
Financial instruments	(f)	–	–	177	177
<b>Total non-current liabilities</b>		<b>102,836</b>	<b>662</b>	<b>4,713</b>	<b>108,211</b>
<b>Total liabilities</b>		<b>110,681</b>	<b>2,354</b>	<b>11,664</b>	<b>124,699</b>
<b>Net assets</b>		<b>(4,731)</b>	<b>(1,366)</b>	<b>(7,157)</b>	<b>(13,254)</b>
<b>Capital and reserves</b>					
Issued capital		8	–	–	8
Share premium		550	–	–	550
Retained earnings	(a),(b),(c),(d),(e),(f),(g))	(5,289)	(1,366)	(7,157)	(13,812)
<b>Total equity</b>		<b>(4,731)</b>	<b>(1,366)</b>	<b>(7,157)</b>	<b>(13,254)</b>

## 27. Transition to IFRS (continued)

### Reconciliation of equity at 31 December 2014

	Note	UK GAAP £'000	Other adjustments £'000	IFRS transition £'000	IFRS £'000
<b>Non-current assets</b>					
Property, plant and equipment	(a(i),(ii),(c(i),(ii)),(h))	63,042	201	4,267	67,510
Intangible assets	(b(i),(ii),(c(i),(ii)))	49,452	662	756	50,870
Deferred tax asset	(b),(g)	–	–	–	–
<b>Total non-current assets</b>		<b>112,494</b>	<b>863</b>	<b>5,023</b>	<b>118,380</b>
<b>Current assets</b>					
Inventories		75	–	–	75
Trade and other receivables	(a),(d)	5,417	–	(1,135)	4,282
Cash and short-term deposits		5,576	–	–	5,576
<b>Total current assets</b>		<b>11,068</b>	<b>–</b>	<b>(1,135)</b>	<b>9,933</b>
<b>Total assets</b>		<b>123,562</b>	<b>863</b>	<b>3,888</b>	<b>128,313</b>
<b>Current liabilities</b>					
Borrowings	(a)	1,553	–	2,060	3,613
Trade and other payables	(d),(e)	11,577	1,967	7,253	20,797
Current taxes payable	(g)	246	–	–	246
<b>Total current liabilities</b>		<b>13,376</b>	<b>1,967</b>	<b>9,313</b>	<b>24,656</b>
<b>Non-current liabilities</b>					
Borrowings	(a)	67,930	–	2,323	70,253
Deferred tax liabilities	(b(ii),(g))	1,821	724	(1,986)	559
Provisions	(h)	–	–	223	223
Financial instruments	(f)	–	–	1,037	1,037
<b>Total non-current liabilities</b>		<b>69,751</b>	<b>724</b>	<b>1,597</b>	<b>72,072</b>
<b>Total liabilities</b>		<b>83,127</b>	<b>2,691</b>	<b>10,910</b>	<b>96,728</b>
<b>Net assets</b>		<b>40,435</b>	<b>(1,828)</b>	<b>(7,022)</b>	<b>31,585</b>
<b>Capital and reserves</b>					
Issued capital		9	–	–	9
Share premium		48,974	–	–	48,974
Retained earnings	(a),(b),(c),(d),(e),(f),(g))	(8,548)	(1,828)	(7,022)	(17,398)
<b>Total equity</b>		<b>40,435</b>	<b>(1,828)</b>	<b>(7,022)</b>	<b>31,585</b>

#### Notes to the reconciliations of equity

##### (a) (i) IAS 17 Leases

The Group reclassified leases previously treated as operating leases to finance leases as they satisfied the recognition criteria outlined under IAS 17. This resulted in the following impact:

	2014 £'000	2013 £'000
Property, plant and equipment – recognition	4,535	6,759
Trade and other receivables – reversal of initial down-payment treated as prepayment	(617)	(947)
Borrowings (current) – recognition of finance lease liability	(2,060)	(1,922)
Borrowings (non-current) – recognition of finance lease liability	(2,323)	(4,389)
<b>Net reduction in net assets resulting from IAS 17</b>	<b>(465)</b>	<b>(499)</b>

(ii) Other adjustments – Property, plant and equipment  
Adjustment in respect to assets under construction not invoiced

Recognition of assets under construction not invoiced	201	326
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# Notes to the Consolidated Financial Statements continued

For year ended 31 December 2015

## 27. Transition to IFRS (continued)

Notes to the reconciliations of equity (continued)

### (b) (i) IFRS 3 Business Combinations – Intangible assets

IFRS 3 Business Combinations requires the Group to make an assessment of the fair value of any identifiable intangible assets that exist at the date of acquisition and to recognise these separately from goodwill. The recognition of these intangible assets gives rise to a deferred tax liability at the date of acquisition which will unwind as the intangible assets are amortised.

	2014 £'000	2013 £'000
Transaction fees expensed on acquisition	(4,272)	(4,272)
Recognition of identifiable intangible assets	(8,254)	(8,254)
Deferred tax recognised on acquisition	1,898	1,898
Net reduction in carrying value of goodwill	(10,628)	(10,628)
Increase in other intangible assets	8,254	8,254
Net impact on intangible assets	(2,374)	(2,374)

### (ii) UK GAAP restatement

Adjustment in respect of deferred tax in the pre-acquisition period which had been omitted from the acquisition balance sheet in calculating goodwill.

Recognition of identifiable intangibles on acquisition	662	662
Other adjustments	62	62
	724	724

### (c) IAS 38 Intangible Assets

#### (i) Amortisation of Intangible assets

Under IAS 38 Intangible Assets, goodwill is treated as an intangible asset with an indefinite useful life and is not amortised. Therefore amortisation previously recognised under UK GAAP is written back. In addition, the intangible assets recognised in (a) have indefinite useful lives and give rise to amortisation.

	2014 £'000	2013 £'000
Write back of cumulative amortisation	5,702	2,024
Amortisation of intangible assets recognised	(3,044)	(1,081)
Net increase resulting from amortisation under IAS 38	2,658	943

#### (ii) Software and software development

Under IAS 38 costs that meet the recognition criteria such as software and costs associated with website design are reclassified from property, plant and equipment to intangible assets.

Increase in other intangible assets	472	377
Net impact on intangible assets	3,130	1,320

	2014 £'000	2013 £'000
Property, plant and equipment – website reclassification	(472)	(377)

### (d) SIC 15 Lease Incentives and IAS 17 Leases

Under UK GAAP, lease incentives are recognised over the period to the first rent review. Under SIC 15 lease incentives are recognised over the lease term. Where leases contain fixed or determinable rent increases, these form part of the minimum lease payments which are recognised on a straight-line basis over the lease term under IAS 17.

	2014 £'000	2013 £'000
Net impact on trade and other payables	7,252	5,030

## 27. Transition to IFRS (continued)

### Notes to the reconciliations of equity (continued)

In addition the Group received an enhanced lease incentive on the termination and commencement of a lease with the same landlord after a dispute with another tenant which was recognised as income in full during 2014 by the creation of a prepayment on the balance sheet which was then amortised. IFRS requires that this is treated in the same manner as all other lease incentives and as such the prepayment has been derecognised. The impact on trade and other receivables is as follows:

	2014 £'000	2013 £'000
Net impact on trade and other receivables	(517)	–

### (e) Revenue recognition – other adjustment

Under UK GAAP and IFRS revenue is recognised once all performance conditions have been satisfied, or by reference to the stage of completion. The Group previously recognised 100% of membership on receipt of payment irrespective of the stage of completion at the end of the reporting period, and balances have been restated. Deferred income therefore arises as follows:

	2014 £'000	2013 £'000
Net impact on trade and other payables	1,766	1,366

### (f) Financial instruments

Under IFRS the Group are required to recognise financial derivatives at fair value. The Group did not qualify for hedge accounting under IAS 39 Financial instruments and as such all movements in fair value are recognised in the income statement.

	2014 £'000	2013 £'000
Financial derivatives	1,037	177

### (g) Income taxes

Other than the deferred tax arising on the recognition of separately identifiable intangibles there are income and deferred tax effects arising on recognition of the IFRS adjustments. The impact of taxes payable and deferred tax liabilities are as follows:

	2014 £'000	2013 £'000
Deferred tax – recognition of IFRS adjustments	(3,884)	(1,882)
Deferred tax – recognition of intangible assets	1,898	1,898
Net impact on deferred tax	(1,986)	16

### (h) Provisions

The Group has an obligation to return commercial property that has been leased in a specified condition at the end of the contract term.

Under IFRS the Group has to recognise the cost as a discounted liability. The amount is also included as part of the cost of the asset being dismantled and depreciated accordingly. The net impact is as follows:

	2014 £'000	2013 £'000
Property, plant and equipment	205	126
Provisions	(223)	(131)

### Reconciliation of income statement for the year ended 31 December 2014

	Note	UK GAAP £'000	Other adjustments £'000	IFRS transition £'000	IFRS £'000
Revenue	(d)	45,880	(400)	–	45,480
Cost of sales		(1,040)	–	–	(1,040)
<b>Gross profit</b>		44,840	(400)	–	44,440
Administration expenses	(a),(b),(c),(g)	(41,863)	–	(242)	(42,105)
<b>Operating profit</b>		2,977	(400)	(242)	2,335
Finance costs	(a),(e),(g)	(4,979)	(5,197)	(1,621)	(11,797)
Finance income		20	–	–	20
<b>Loss before tax</b>		(1,982)	(5,597)	(1,863)	(9,442)
Tax charge	(f)	(1,282)	(62)	2,003	659
<b>Loss for the year attributable to the equity shareholders</b>		(3,264)	(5,659)	140	(8,783)

# Notes to the Consolidated Financial Statements continued

For year ended 31 December 2015

## 27. Transition to IFRS (continued)

Notes to the income statement reconciliation

### (a) IAS 17 Leases

The Group reclassified leases previously treated as operating leases to finance leases as they satisfied the recognition criteria outlined under IAS 17.

	2014 £'000
Operating lease rentals – reversal	(3,017)
Depreciation	2,224
Net impact on administration expenses	(793)
Finance costs – finance lease interest	758

### (b) IFRS 3 Business Combinations – Intangible assets

Under IAS 38 Intangible Assets, goodwill is treated as an intangible asset with an indefinite useful life and is not amortised. Therefore amortisation previously recognised under UK GAAP is written back. In addition the intangible assets recognised in (a) of the reconciliation of equity have indefinite useful lives and give rise to amortisation.

	2014 £'000
Write back of amortisation of goodwill	(3,678)
Amortisation of intangible assets recognised on acquisition	1,963
Net impact on administration expenses	(1,715)

### (c) SIC 15 Lease Incentives and IAS 17 Leases

Under UK GAAP, lease incentives are recognised over the period to the first rent review. Under SIC 15 lease incentives are recognised over the lease term. Where leases contain fixed or determinable rent increases, these form part of the minimum lease payments and are recognised on a straight-line basis over the lease term under IAS 17.

	2014 £'000
Net impact on administration expenses	2,740

### (d) Revenue recognition – other adjustment

Under UK GAAP and IFRS revenue is recognised once all performance conditions have been satisfied, or by reference to the stage of completion. The Group previously recognised 100% of membership on receipt of payment irrespective of the stage of completion at the end of the reporting period, and balances have been restated.

	2014 £'000
Net impact of revenue	(400)

### (e) Financial instruments

#### (i) Derivative financial instruments

Under IFRS the Group are required to recognise financial derivatives at fair value. The Group did not qualify for hedge accounting under IAS 39 Financial Instruments and as such all movements in fair value are recognised in the income statement.

	2014 £'000
Fair value movements in financial derivative	860

#### (ii) Other adjustment

As a result a change in the Articles of Association the shareholders waived the right to the Preference share interest payable relating to the current and previous accounting period. This should have been treated as a contribution from the shareholders.

Waiver of Preference share interest	(5,197)
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## 27. Transition to IFRS (continued)

Notes to the income statement reconciliation (continued)

### (f) Income Taxes

#### (i) IFRS adjustments

Other than the deferred tax arising on the recognition of separately identifiable intangibles there are income and deferred tax effects arising on recognition of the IFRS adjustments.

	2014 £'000
Deferred tax	1,336
Income taxes	667
<b>Net impact on tax charge</b>	<b>2,003</b>

#### (ii) Other adjustments

Deferred tax charge	62
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### (g) Provisions

The Group has an obligation to return commercial property that has been leased in a specified condition at the end of the contract term. Under IFRS the Group has to recognise the cost as a discounted liability. The amount is also included as part of the cost of the asset being dismantled and depreciated accordingly. The net impact on profit is as follows:

	2014 £'000
Finance cost – unwinding of discount	3
Administration expenses – depreciation	10

### Cash flow statement

The move from UK GAAP to IFRS does not change any of the cash flows of the Group. The IFRS cash flow format is similar to UK GAAP but presents various cash flows in different categories and in a different order from the UK GAAP cash flow statement. All of the IFRS accounting adjustments net out within cash generated from operations except for the intangible assets reclassification and the inclusion of liquid investments with a maturity of less than three months on acquisition, together with related exchange adjustments, within cash and cash equivalents under IFRS.

# Company Statement of Financial Position

As at 31 December 2015

	Note	31 December 2015 £'000	31 December 2014 Restated £'000	31 December 2013 £'000
<b>Non-current assets</b>				
Investments in subsidiaries	5	132,330	49,838	49,838
Deferred tax asset		–	5	5
<b>Total non-current assets</b>		<b>132,330</b>	<b>49,843</b>	<b>49,843</b>
<b>Current assets</b>				
Trade and other receivables	6	13,454	7,966	1,742
Cash and cash equivalents		15	–	–
<b>Total current assets</b>		<b>13,469</b>	<b>7,966</b>	<b>1,742</b>
<b>Total assets</b>		<b>145,799</b>	<b>57,809</b>	<b>51,585</b>
<b>Current liabilities</b>				
Trade and other payables	7	617	119	49
<b>Non-current liabilities</b>				
Trade and other payables	7	–	146	2,715
Borrowings	8	8,966	908	49,302
<b>Total non-current liabilities</b>		<b>8,966</b>	<b>1,054</b>	<b>52,017</b>
<b>Total liabilities</b>		<b>9,583</b>	<b>1,173</b>	<b>52,066</b>
<b>Net assets / (liabilities)</b>		<b>136,216</b>	<b>56,636</b>	<b>(481)</b>
<b>Capital and reserves</b>				
Issued capital	9	12	9	8
Own shares held	9	48	–	–
Capital redemption reserve		4	–	–
Share premium		136,280	48,974	550
Retained (deficit) / earnings		(128)	7,653	(1,039)
<b>Total equity shareholders' funds / (deficit)</b>		<b>136,216</b>	<b>56,636</b>	<b>(481)</b>

These Financial Statements were approved by the Board of Directors on 14 March 2016.

Signed on behalf of the Board of Directors

**John Treharne**  
Chief Executive Officer

**Richard Darwin**  
Chief Financial Officer

Company registration number 08528493

The notes on pages 98 to 102 form part of these Financial Statements.

# Company Statement of Changes in Equity

For year ended 31 December 2015

	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2014	8	–	–	550	(1,039)	(481)
Profit for the year	–	–	–	–	3,495	3,495
Other comprehensive income	–	–	–	–	–	–
Waiver of Preference share interest	–	–	–	–	5,197	5,197
Preference share reclassification	–	–	–	48,395	–	48,395
Issue of Ordinary shares	1	–	–	29	–	30
At 31 December 2014 restated	9	–	–	48,974	7,653	56,636
Profit for the year and total comprehensive income	–	–	–	–	(13)	(13)
Waiver of Preference share dividend receivable	–	–	–	–	(8,738)	(8,738)
Capital contribution to subsidiaries	–	–	–	–	1,018	1,018
Conversion of Preference share capital into Ordinary share capital	2	–	–	–	–	2
Repurchase and cancellation of share capital	(4)	–	4	–	–	–
Issue and repurchase of Ordinary share capital	–	48	–	–	(48)	–
Costs associated with the issue of share capital	–	–	–	(2,620)	–	(2,620)
Issue of Ordinary share capital	5	–	–	89,926	–	89,931
<b>At 31 December 2015</b>	<b>12</b>	<b>48</b>	<b>4</b>	<b>136,280</b>	<b>(128)</b>	<b>136,216</b>

The notes on [pages 98 to 102](#) form part of these Financial Statements.

# Notes to the Company Financial Statements

For year ended 31 December 2015

## 1. General information

The Gym Group Holdings Limited ('the Company') is incorporated and domiciled in the United Kingdom with company number 08528493. The registered address of the Company is Woodbridge House, Woodbridge Meadows, Guildford, Surrey, United Kingdom, GU1 1BA.

## 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 period.

### 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.

This is the Company's first set of Financial Statements prepared in accordance with FRS 101. The previously presented financial information, for the year ended 31 December 2014, was presented under the previous UK GAAP.

The Company's deemed transition date to FRS 101 is 1 January 2014, the beginning of the first period presented, and the requirements of IFRS 1 have been applied as of that date. IFRS 1 offers a number of exemptions from full retrospective application of applicable standards on transition to IFRS. It has been concluded that no exemptions are applicable to the Company.

No material adjustments have arisen as a result of the transition to FRS 101. As such the disclosures required by IFRS 1 concerning the transition to FRS 101 are not applicable.

However, in preparing these Financial Statements the Directors have recognised the following restatements by way of prior year adjustment:

- interest of £5,197,000 accrued up to 23 July 2014 on the Preference shares prior to the change in their terms (see [note 9](#)) and waived by the shareholders at that time was originally credited against interest payable and similar costs in the year ended 31 December 2014. The Directors have reassessed that given the circumstances relating to this waiver that this was a transaction with the shareholders and should be credited directly to reserves. While net assets of the Company are unaffected, the profit before and after tax of the Company for the year ended 31 December 2014 has been reduced by £5,197,000; and
- a deferred tax charge of £657,000 recognised in the 2014 Financial Statements has subsequently been identified by the Directors as incorrectly recognised. The reversal of this charge has reduced the 2014 tax charge to £nil, increased profits after tax for the year ended 31 December 2014 by £657,000, with a corresponding decrease in the deferred tax liability at 31 December 2014 and an increase in net assets of that amount.

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:

- the requirements of IFRS 7 Financial Instruments;
- the requirements of paragraph 97 of IFRS 13 Fair Value Measurement;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of paragraphs 10(d), 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
- the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
- 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](#).

## 2. Summary of significant accounting policies (continued)

### Going concern

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

### Investments

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

### Financial instruments

#### Financial assets

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

#### Financial liabilities

The Company initially recognises its financial liabilities at fair value and subsequently they are measured at amortised cost using the effective interest method.

### Current taxation

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

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

### 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.

# Notes to the Company Financial Statements continued

For year ended 31 December 2015

### 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.

#### Critical accounting estimates and assumptions

There are no critical estimates or assumptions within these Financial Statements.

### 4. Profit of the Parent Company

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 Parent Company's loss for the year amounted to £13,000 (2014: profit of £3,496,000 restated).

### 5. Investments in subsidiaries

	£'000
At 1 January 2013, 31 December 2013 and 31 December 2014	49,838
Capitalisation of intercompany loans	81,474
Capital contribution to subsidiaries	1,018
<b>At 31 December 2015</b>	<b>132,330</b>

On 22 December 2015 The Gym Group Midco1 Limited issued share capital to the Company in consideration for the extinguishing of intercompany debt.

During the year share options in the Company's shares were granted to employees of The Gym Group Operations Limited and The Gym Limited. Corresponding capital contributions have been recognised within investments in subsidiaries.

The Company's subsidiary undertakings are shown in [note 25](#) to the Consolidated Financial Statements.

### 6. Trade and other receivables

	2015 £'000	2014 £'000	2013 £'000
Income and other taxes	574	2	–
Prepayments and accrued income	–	7	7
Amounts owed by Group undertakings	12,880	7,957	1,735
	<b>13,454</b>	7,966	1,742

Interest of £8,738,000 was accrued in relation to fixed Preference share dividends as an intercompany receivable from The Gym Group Midco1 Limited up to 22 December 2015. On 22 December 2015 the Articles of Association of The Gym Group Midco1 Limited were amended such that all accruals of Preference share dividends became payable at the discretion of the Directors of the Company. The de-recognition of this amount has been recognised directly within reserves.

### 7. Trade and other payables

	2015 £'000	2014 £'000	2013 £'000
Trade payables	114	10	44
Social security and other taxes	6	–	–
Accruals and deferred income	497	8	2,720
Amounts owed to Group undertakings	–	101	–
	<b>617</b>	119	2,764
Due in less than one year	617	119	49
Due in more than one year	–	–	2,715
	<b>617</b>	119	2,764

## 8. Borrowings

	2015 £'000	2014 £'000	2013 £'000
Bank facility A	10,000	–	–
Shareholder loans and accrued interest	–	908	908
Preference share capital	–	–	48,394
Loan arrangement fees	(1,034)	–	–
	<b>8,966</b>	<b>908</b>	<b>49,302</b>

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

### Bank facility A

On 12 November 2015 the Company entered into a five year loan facility with HSBC and Barclays. The facility comprises a £10.0 million term loan ('facility A') for the purposes of refinancing the Group's finance leases, a £25.0 million term loan ('facility B') to fund acquisitions and capital expenditure, and a £5.0 million revolving credit facility. Interest is charged at LIBOR plus a 2.5% margin.

Total borrowing facilities available to the Company under the facility are £40.0 million.

At 31 December 2015, facility A was fully drawn and facility B and the revolving credit facility were undrawn, giving £30.0 million of undrawn and available facilities.

## 9. Issued capital and reserves

	2015 £'000	2014 £'000	2013 £'000
<b>Allotted, called up and fully paid</b>			
Ordinary shares of £0.0001 each	12	–	–
A Ordinary shares of £0.01 each	–	4	4
C1 Ordinary shares of £0.04 each	–	4	4
C2 Ordinary shares of £0.01 each	–	1	–
Preference shares of £1 each	–	–	48,394
	<b>12</b>	<b>9</b>	<b>48,402</b>
Preference shares reclassified	–	–	(48,394)
	<b>12</b>	<b>9</b>	<b>8</b>
<b>Own shares held</b>			
Deferred Ordinary shares of £1 each	48	–	–

The number of Ordinary shares in issue is as follows:

	2015	2014	2013
Ordinary shares of £0.0001 each	128,105,275	–	–
Deferred shares of £1 each	48,050	–	–
Preference shares of £1 each	–	–	48,393,939
Preference shares of £0.000001 each	–	48,393,939	–
A Ordinary shares of £0.01 each	–	385,575	385,575
B Ordinary shares of £0.01 each	–	20,486	20,486
C1 Ordinary shares of £0.04 each	–	87,642	87,642
C2 Ordinary shares of £0.01 each	–	87,963	87,963
C3 Ordinary shares of £0.01 each	–	6,895	6,895
C4 Ordinary shares of £0.01 each	–	50	50

Refer to [note 22](#) of the Consolidated Financial Statements for details of movements in share capital.

On 12 November 2015 the Company's Ordinary shares were admitted to the London Stock Exchange's main market for listed securities. The Company made an Initial Public Offering of 46,113,007 Ordinary shares of £0.0001 each at a price of 195 pence per share.

# Notes to the Company Financial Statements **continued**

For year ended 31 December 2015

## 9. Issued capital and reserves (continued)

### Prior to 23 July 2014

The A Ordinary shares, B Ordinary shares and C Ordinary shares ranked pari passu among themselves, but constituted separate classes of shares. All shares carried equal voting rights with the exception of holders of C3 Ordinary shares who had five votes in respect of each share provided that the A Ordinary class of shares never had less than 82.38% of the total voting rights.

Preference shares or Roll-out Preference shares ranked ahead of the Ordinary shares for all purposes. The Preference shares and Roll-out Preference shares accrued a fixed cumulative preferential dividend at an annual rate of 10% and 12% respectively of the Issue Price per share, compounded annually on each anniversary. This accrued dividend would become due and payable immediately prior to Sale or Listing but otherwise would not become payable without the consent of holders of 75% of the Preference and Roll-out Preference shares.

On the return of capital on liquidation or otherwise, the surplus assets of the Company would be applied in the following order:

- each Preference share and Roll-out Preference share holder would receive 100% of the Issue Price thereof together with the aggregate amount of any accruals and/or unpaid amounts of dividend; and
- £1 in aggregated to all holders of Deferred shares.

The balance would be distributed pro rata amongst each holder of A Ordinary shares, B Ordinary shares and C1, C2 and C3 Ordinary shares, subject to allocating 39.38% of the amounts allocated to holders of C1, C2 and C3 Ordinary shares to holders of A and B Ordinary shares.

As a result of the repayment terms attaching to the Preference shares and Roll-out Preference shares these instruments were treated as debt instruments.

### Post 23 July 2014

The Articles of Association of the Company were amended on 23 July 2014 in respect of the repayment of the fixed preferential dividend on the Preference and Roll-out Preference shares as follows:

'All accruals of Preference share and Roll-out Preference share dividend shall become payable at the sole discretion of the board.'

As a result of the change in repayment terms attaching to the Preference shares and Roll-out Preference shares these instruments were reclassified from debt to equity.

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

#### Own shares held and capital redemption reserve

These reserves arose when the Company repurchased 48,050 Deferred shares of £1 each on 12 November 2015.

#### Share premium

Amount subscribed for share capital in excess of nominal value.

#### Retained earnings

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

# Four Year Record

For year ended 31 December 2015

The following table sets out a summary of selected audited key financial information and key performance indicators for the business.

	2015 £'000	2014 £'000	2013 <sup>1</sup> £'000	2012 <sup>1</sup> £'000
Revenue	<b>59,979</b>	45,480	35,734	22,264
Group Adjusted EBITDA	<b>17,016</b>	14,688	11,752	6,000
Group Adjusted EBITDA before Pre-Opening Costs	<b>19,681</b>	16,668	12,886	7,615
Group Operating Cash Flow	<b>18,616</b>	16,514	14,751	9,624
Operating Cash Flow Conversion	<b>109.4%</b>	112.4%	125.5%	160.4%
Expansionary Capital Expenditure	<b>28,230</b>	20,335	14,058	21,645
Net Debt	<b>7,140</b>	49,205	36,743	18,979
Net Debt to Adjusted EBITDA	<b>0.42x</b>	3.35x	3.11x	3.16x
Group Adjusted earnings	<b>(1,107)</b>	(4,452)	(3,551)	(958)
Adjusted earnings per share £	<b>(0.02)</b>	(0.09)	(0.13)	(0.04)
Total number of gyms (number)	<b>74</b>	55	40	32
Number of members ('000)	<b>376</b>	293	225	166
Revenue per member per month (£)	<b>14.08</b>	13.98	14.06	13.78
Mature gyms in operation (number)	<b>40</b>	32	16	10
Mature Gym Site EBITDA	<b>18,828</b>	16,244	9,505	6,041

<sup>1</sup> The Gym Group plc acquired control of The Gym Limited on 13 June 2013. Before this date the Group did not constitute a single legal group. Prior to the acquisition, combined financial information has been prepared on a basis that aggregates the results, cash flows, assets and liabilities of each the companies constituting the Group.

# Corporate Information

**Company Secretary**

Richard Darwin

**Company number**

08528493

**Registered office**

Woodbridge House  
Woodbridge Meadows  
Guildford  
GU1 1BA

**Website**

[www.tggplc.com](http://www.tggplc.com)

**Corporate advisers**

Bankers

HSBC Bank plc

Solicitors

Allen & Overy LLP

Auditor

Ernst & Young LLP

Broker

Numis Securities Limited

Registrar

Capita Registrars Limited



