

# raising the bar



ANNUAL  
REPORT  
AND ACCOUNTS  
2016

The Gym Group plc

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

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



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Overview

# 2016 Highlights

In the year following our IPO we have continued to deliver on our clear strategy for growth, opening 15 new high quality gyms and maturing our existing estate to provide consistent revenue and profit growth.

## Operational highlights



**15**

Gym openings in 2016, with 17 exchanged for 2017



**448,000**

Members at the end of 2016



**£476,000**

Average Mature Site EBITDA (2015: £472,000)

## Financial highlights

Revenue £m

**+ 22.6%** <sup>15/16</sup>

2016	73.5
2015	60.0
2014	45.5
2013	35.7

Group Adjusted EBITDA £m

**+ 33.4%** <sup>15/16</sup>

2016	22.7
2015	17.0
2014	14.7
2013	11.8

Group Operating Cash Flow £m

**+ 34.0%** <sup>15/16</sup>

2016	24.9
2015	18.6
2014	16.5
2013	14.8

Total Number of Members '000

**+ 19.1%** <sup>15/16</sup>

2016	448
2015	376
2014	293
2013	225

Total Number of Gyms

**+ 20.3%** <sup>15/16</sup>

2016	89
2015	74
2014	55
2013	40

Statutory Profit before Tax £m

**+ £19.3 million** <sup>15/16</sup>

2016	6.9
(12.4)	2015
(9.4)	2014
(9.0)	2013

Refer to page 18 for definitions of key performance indicators

Overview

## At a Glance

# raising the bar for investors



### Our strategic drivers...



Innovation



Customer satisfaction



Business and financial model



Rollout

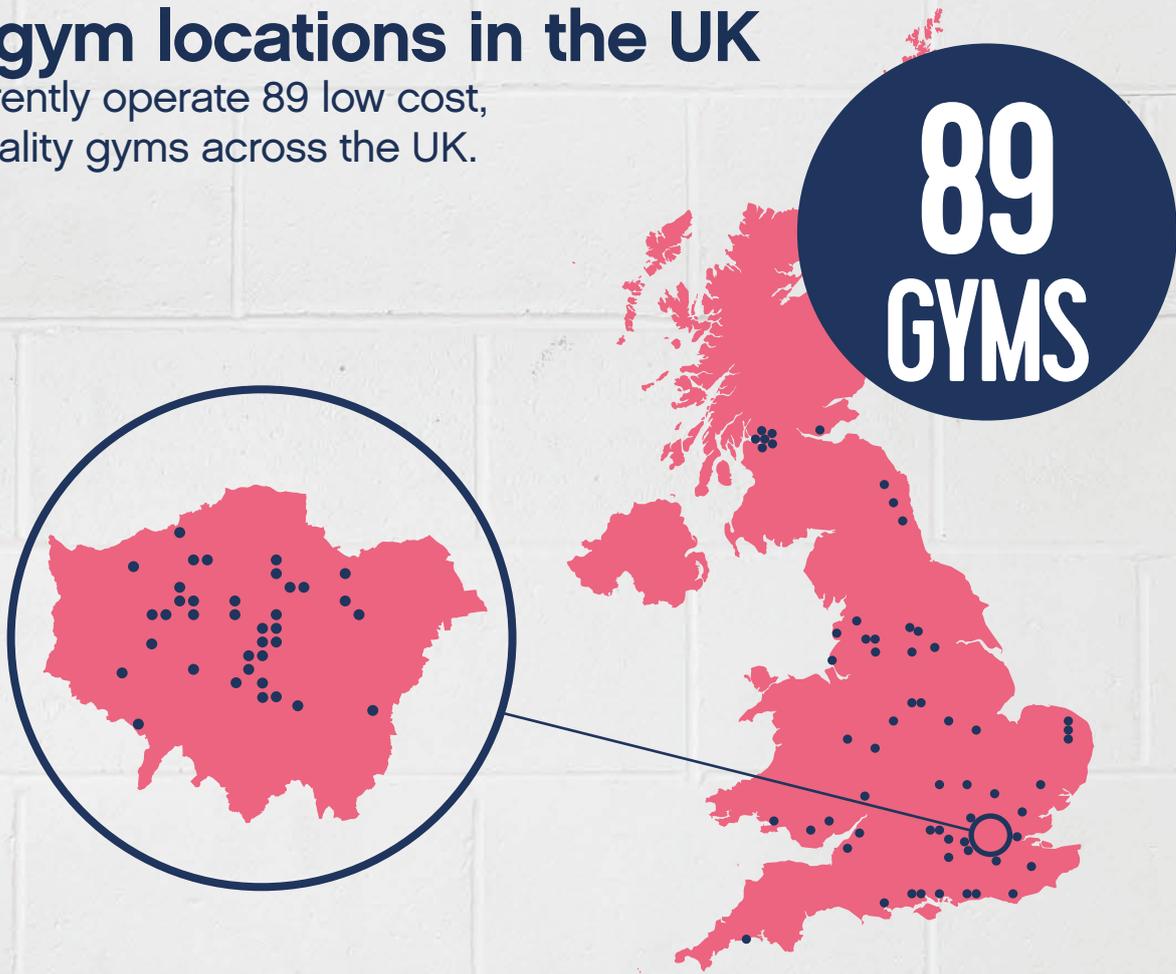


Our people

For more information on how our strategic drivers influence our strategy, KPIs and principal risks see pages 14, 18 and 24.

# Our gym locations in the UK

We currently operate 89 low cost, high quality gyms across the UK.



## ...underpin our disruptive and compelling investment proposition

### Significant market opportunity

The low cost gym segment is driving the growth of the UK health and fitness market, and current penetration rates show significant future opportunities.

■ See page 12

### Disruptive business model

Our technology-led business model has re-engineered the traditional gym staffing model, removed costly under-used facilities and enables focus on core operations.

■ See page 10

### Attractive financial model

We deliver consistently strong financial performance, with mature sites delivering an EBITDA margin of 47.5% and return on capital of 32.0%

■ See page 20

### Market pioneer

As the original provider of low cost gyms in the UK, our position as a leading market operator enables us to benefit from scale advantages.

■ See page 12

### Compelling customer proposition

Our flexible, low cost membership options, easy online joining process and consistently high quality gym experience attract both members from other gym operators and people who have never joined a gym before.

■ See page 10

### Experienced management team

Our business is led by founder and CEO, John Treharne, who has significant experience in the health and fitness industry and started the Company in 2007.

John is supported by a dedicated and experienced executive team across the property, operations, finance and commercial functions.

■ See page 30

### High quality, well invested gym estate

We have a disciplined and rigorous site selection process which ensure all of our sites offer the same high quality gym experience.

■ See page 16

Strategic Report

# Chairwoman's Statement

## 2016 has been a good year for The Gym.



**Penny Hughes**  
Chairwoman

Revenue increased by 22.6% to £73.5 million, Group Adjusted EBITDA increased by 33.4% to £22.7 million and Adjusted Earnings per share increased from a loss of 1.8p to a profit of 5.6p. We are pleased to recommend a final dividend per share of 0.75p, bringing the full year dividend to 1.0p per share. 15 new sites were opened taking the total number of gyms to 89. Following the Company's IPO in November 2015, the free float has increased from 50% to 64% and we continue to welcome new shareholders to this exciting growth business.

I have enjoyed seeing this business develop and grow over the year, consistently delivering increasing revenue and profit by growing the estate efficiently and meeting the needs of all our members, current and new. With a strong balance sheet we are well positioned to drive future growth and realise the substantial market opportunity. Our vision remains to provide affordable exercise facilities to every person who wants to improve their wellbeing; a very positive purpose for a company.

A strong feature of 2016 has been building out the team to realise our growth potential. I was delighted to welcome David Kelly and Emma Woods as Non-Executive Directors to our Board alongside Paul Gilbert, the Senior Independent Director. David brings a wealth of experience in digitally-enabled businesses and Emma is a very accomplished and experienced marketeer across several multi-site leisure businesses. David and Emma have

undertaken a thorough induction and are now providing challenge and support to the business in equal measure. The Board is now compliant with corporate governance requirements, and our reporting and operating rhythm is well established.

I was also delighted that John Treharne, as founder CEO, has strengthened the Executive Committee. Nick Henwood and Barney Harrison bring new energy, discipline and rigour to operations and marketing in partnership with the experienced leaders Jonathan Spaven and Jasper McIntosh in property and technology respectively. Our CFO, Richard Darwin, has also strengthened his finance team and they have risen to the challenge I set to deliver this report to you, our shareholders, alongside year end results, in record time. This leadership team has the ability and capacity to deliver on our growth ambitions.

A standout feature of The Gym Group is its culture, the way work gets done. Everyone is focused on delivering a great gym experience for our members – it doesn't come much healthier than that. I have now visited over 30 sites and seen first-hand the commitment of our gym managers. To grow, a business needs to nurture talent and the Gold award for Investors in People is external recognition for the high standards we achieve. My visits have included, by example, Hounslow, Liverpool, Vauxhall as early sites; Kingston and Ealing having been recently refreshed; Sheffield, Tottenham, Gloucester, Bracknell and Angel as they

## Our journey

The Gym Group was founded in 2007 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.



**Gold Investors in People award**

reach maturity; and Southfields, Southall, Tooting, Sunbury and Peckham Rye as new sites. Whilst every gym has its own character, every gym also has consistently excellent equipment, is well maintained, has the highest standards of safety and cleanliness and many smiling faces be it in gym classes or after a workout. Our Net Promoter Score has increased again this year, testament to the business delivering member delight.

I also visited Bristol Longwell Green. This is one of four sites purchased from Fitness First, with the next three to open as The Gym in 2017. With fit-out works limited to under three weeks to ensure we were open for members during the peak New Year period, it's very satisfying to see a site that looks like The Gym and is now welcoming nearly two times prior membership numbers shortly after reopening. We maintained strict capital discipline in these purchases but it demonstrates our willingness to be opportunistic in accelerating our rollout in target areas.

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 and health conscious society. We have developed a bolder, more confident design that helps our members to Lift, Tone, Burn and Move their way through their workout or to join our expanding class programme. More than a third of our joiners continue to be new to gym

membership. We have become a favourite amongst students and see the largest number of new joiners coming from traditional higher cost gyms. We look forward to reaching more communities as we open more gyms to provide them with the same encouragement to enhance their wellbeing.

This is a simple, profitable business model with much room for growth. We look forward to delivering on that.

Finally, let me extend thanks to three Directors who left the business having been connected to its prior private equity ownership: Philip Newborough, David Burns and Jim Graham. Philip committed Bridges Ventures as a founder investor alongside John Treharne; David committed Phoenix Equity Partners as secondary investor and lead investor through the IPO; and Jim Graham worked first at Phoenix and then directly at The Gym as Chief Operating Officer. Their contribution was fundamental to the early stage success of the Company and I give my personal thanks for their support to me as your incoming Chairwoman. It continues to be a high performing growth company; as shareholders, we all look forward to sharing in its success.

**Penny Hughes**  
Chairwoman  
14 March 2017



**2011**

**GYMS 16**  
**MEMBERS 96,000**

**2012**

**GYMS 32**  
**MEMBERS 166,000**

**2013**

**GYMS 40**  
**MEMBERS 225,000**

**2014**

**GYMS 55**  
**MEMBERS 293,000**

**2015**

**GYMS 74**  
**MEMBERS 376,000**

**2016**

**GYMS 89**  
**MEMBERS 448,000**

Strategic Report

# Chief Executive's Review

## A year of profitable growth and strategic progress.



**John Treharne**  
Chief Executive Officer

### Introduction

I am pleased to present my second Chief Executive's Review following our Initial Public Offering on the Full List of the London Stock Exchange in November 2015. The Gym Group has been able to deliver further strong growth and progress in a year when there have been significant changes in the economic and political landscape.

During the year we increased our estate to 89 sites, up from 74 in the prior year. The 15 new sites were in line with our guidance and in the last two years we have delivered 34 new sites overall. The financial and operational results continue to be strong: total year end members increased by 19.1% to 448,000 (2015: 376,000); revenue increased by 22.6% to £73.5 million (2015: £60.0 million). Group Adjusted EBITDA increased by 33.4% to £22.7 million (2015: £17.0 million). Adjusted profit before tax increased by £10.7 million to £8.7 million (2015: Adjusted loss before tax of £2.0 million) and Adjusted earnings per share increased to 5.6p (2015: Adjusted loss per share of 1.8p). Our statutory profit before tax increased significantly to £6.9 million (2015: loss of £12.4 million).

As well as delivering strong results, we have laid down the foundations for the sustained growth of the business. This involved strengthening the new site pipeline for 2017 and increasing the levels of functional expertise at both Board and Executive Committee level. These steps will help us to cement our market leadership in the rapidly growing low cost gym sector, as well enabling us to use our increased scale to investigate ways to grow further. The scale of the opportunity and our ability to deliver is as strong now as it ever has been.

Low cost gyms are a fast growing and developing market, and we continue to drive the expansion of the sector by attracting members that are new to the gym market, whilst also attracting members from more traditional gym operators. More than a third of our joiners have never been a member of a gym before. The market

opportunity is constantly evolving. Low cost gym operators have an important role in providing affordable gym provision, particularly as some local authorities such as Manchester are seeking to find significant savings from their leisure budgets.

### Strategic progress

#### Delivering performance from gyms

The way our new sites mature over time remains predictable. At the year end we had 55 sites that had been open for more than two years. Progress has been made in driving profitability from the mature estate, evidenced by an increase in the mature EBITDA per site of 0.8% to £476,000 (2015: £472,000). This profitability per site has been achieved both from sites opened in the early years of the Group's history, as well as from the newer cohorts that have recently reached maturity: sites opened between 2008 and 2012 have an average EBITDA per site of £483,000, and sites opened between 2013 and 2014 have an average EBITDA of £465,000.

As we continue to build at a lower cost than the historic sites, our return on capital on the mature estate has risen to 32% (2015: 31%). The return on capital for mature sites opened between 2008 and 2012 and for sites opened in 2013 and 2014 is consistent at 32%.

We still have a relatively immature estate with 34 sites having been open for less than two years. Our results benefit from profits earned from these sites even whilst they are maturing. Our new sites opened in 2015 and 2016 earned £3.8 million of site EBITDA during the year (2015: £4.5 million from new sites). The site opening programme was concentrated in the last quarter of 2016 and this had some impact on new site margin compared to 2015. We can expect to benefit from the growth of these sites as they mature during 2017 and beyond.

#### Improving operating efficiencies

We experienced an increase in the mature EBITDA margin in 2016 to 47.5% (2015: 46.3%). This has been achieved by our ability to

**£17****Average membership fee**

A high quality, low cost offering appealing to a wide variety of members.

deliver a low cost, technology led business model. We operate with disciplined cost control, which begins with selecting the right sites and negotiating acceptable levels of rent and other fixed costs (rates and service charges). This is assisted by a stronger covenant with landlords (through being a listed company with minimal debt.) The fixed cost percentage was maintained for the mature category at 26% of revenue in 2016 (2015: 26%). Unlike other leisure businesses, we have a known and predictable cost base. We negotiate fixed rental uplifts at years five and ten on the majority of our 15 year leases. The recent rateable value changes have enhanced our visibility on future payment levels. We have contracted on electricity and gas for the majority of our sites until 2019. Equally, our business model means that we are not exposed to significant cost pressures from the National Living Wage or from exchange rates.

This disciplined approach to delivering our cost base enables us to give our members the benefit of low cost gym membership at an average membership fee of £17 (2015: £16). Our offering continues to be consistently and genuinely low cost, with membership fees ranging from £10.99 to £28.99. Our strategy is to be the lowest cost quality operator in any given market and the success of this approach is shown by our rising membership numbers and the strength of our brand.

**Achieving our rollout strategy**

The low cost model continues to attract different types of operator. Increasingly, The Gym is sought by landlords for the best sites, assisted by the stronger financial covenant following the IPO. Our disciplined approach to site rollout is key in delivering the high returns and sustained performance that we have seen from our mature sites.

We opened 15 sites in 2016. Our programme had a strong London bias with eight of the sites being within the M25. Some of the 2016 openings have been as strong in terms of the number of members at opening as the sites we opened in the earliest

years of the business. There remains a substantial growth opportunity to expand our footprint across the UK. The type of space that we can use is highly flexible and varied – a real strength of our business model. In 2016, gyms opened in the lower floors of residential developments (Tooting, Southfields), an old car park (Blackpool) and vacant retail space (Oldham). We also refurbished one of the Fitness First sites that we acquired – this was reopened after a three week turnaround (Bristol Longwell Green). Small scale acquisitions, such as the four sites we have acquired from Fitness First, are a useful tool in delivering our rollout strategy. Other site opportunities are emerging as retailers look to reduce their amount of available space. In the first half of 2017, we will be opening a new gym at the Sainsbury's site in Murrayfield using some vacant first floor space.

Our new sites continue to trade well, in line with our expectations. Our pipeline is expanding rapidly and we entered the year with our strongest pipeline ever, with 17 sites exchanged. Consequently we are well positioned to achieve towards the top end of our guidance range of between 15 and 20 openings in 2017. Over the medium term we continue to believe that 15 to 20 openings per year will secure the appropriate level of scale and quality to grow our estate.

The strong returns on capital demonstrated from the mature estate are not yet fully benefiting from the reduction in costs that we have achieved in fitting out the new sites. Savings have been achieved on multiple stages of the fit-out process, including build costs, gym equipment and fixtures and fittings. During 2016 our average fit cost was £1.33 million compared to a historical average on mature sites of £1.49 million. The variety of sites that we open does result in this cost varying according to the type of building we select and also depends on the scale of landlord works required. In certain instances, in retail warehouse sheds predominantly in the North, we have achieved fit-out costs as low as £1.11 million.

# Chief Executive's Review continued

## Raising the bar for millennials

Consumers are becoming increasingly aware of the benefits of an active lifestyle, with widely recognised public sector campaigns such as Sport England's 'This Girl Can' and Public Health England's 'Change for Life' taking place during 2016.

In particular, social media platforms such as Instagram, Facebook and Twitter have been instrumental in driving new fitness trends, and in helping to inspire an internet-savvy generation to become more health conscious.

The Gym's 24/7, contract free memberships appeal to millennials spurred on by the online fitness revolution, with the average age of our members being 32. Our low pricing is particularly attractive to students: in our Nottingham and Brighton London Road gyms more than 35% of the members are students.

We will continue to reach more of the millennial population as we expand our digital marketing strategy, and are proud that we are reaching brand new members, with more than a third of our joiners never having been a member of a gym before.

## Developing the customer proposition

The Gym benefited from new branding developed in 2015 and we have upgraded the sites with this new branding when their planned refurbishments became due. Eight sites, including our first ever site in Hounslow, have been refurbished across the estate, including a members' zone, new cardio equipment and rebranding. Refurbishments will continue to be important in sustaining the returns from our business model, with several sites due to be refurbished in 2017 that were opened in 2012.

Further developments have been made to our class offering as we continue to extend our range and number of classes. Origin, a bespoke high intensity workout for members, is being trialled across The Gym this year. We continue to believe that in a no contract environment high levels of customer satisfaction are fundamental to customer retention and rejoiner levels. Our Net Promoter Score, which measures customer feedback, increased to 62.2% (2015: 60.2%) during the year. Feefo score (our online measure of customer satisfaction) was 91.6%. We intend to introduce member satisfaction as a metric within the incentive programme at site level during the coming year, further reinforcing its importance to the running of a successful gym.

## Focusing on our people

During the year the business has recruited new talent to ensure that we have the appropriate expertise at Board and Executive Committee level to support continued growth in the medium term. David Kelly and Emma Woods joined the board as Non-Executives, enhancing our expertise in key areas. David brings a wealth of relevant IT experience from companies such as Amazon UK, eBay and Rackspace. Emma is currently Group Marketing and Digital Director of Merlin Entertainments plc and has previously worked at Pizza Express. IT and commercial marketing are both areas where successful low cost companies will differentiate themselves.

**62.2%****Net Promoter Score**

Customer satisfaction is a key strategic driver for our business

The insight that they are already bringing is very welcome. Nick Henwood joined as our first ever Operations Director with previous experience in David Lloyd Leisure, Autoglass and Mothercare. In a business fast approaching 100 sites he is bringing important levels of structure and review to operations. Barney Harrison is our new Commercial and Marketing Director and has joined us from Sky, with experience at SkyBet and Sky Ireland. This is an important role as we seek out ways to improve customer acquisition and retention and to drive ancillary revenue.

The support of our people continues to be key to our success. A free share distribution to staff was made in April 2016 to reward and encourage ownership. The share matching scheme allows staff to buy shares each month in a tax efficient way with the investment being matched by the Company. To date, 79 (31.5%) of our colleagues have joined the scheme. Our people are highly engaged, passionate and committed to the significant business that we are creating. I have seen this first hand in witnessing their dedication in ensuring the new sites are launched successfully. Recognition of our people's hard work and high standards continues with the Group recently being awarded the Investors in People Gold award, the only gym business to have this accolade.

**Our use of technology**

Technology and systems are at the heart of our business and facilitate the low cost environment that we operate in. We intend to upgrade our capability in this area with the development of a new member management system in the coming year. In addition, we are working closely with our call centre provider to further improve performance in this critical area for member satisfaction. We have also refreshed and modernised our website to enhance customer conversion levels.

A new email sales platform was adopted in 2016 to improve the way we communicate with new and lapsed members. More of our marketing is now digital as the amount we dedicate to pay per click and search engine optimisation is expanded. We constantly seek ways of improving the efficiency of our marketing communications through text, email and local activity – all keys tools in attracting new members in a local area. Increasingly, we are focused on retaining those members that join us through induction and other retention tools. However, we recognise that member attrition is a natural by-product of a no contract, flexible business model and that each member may have several membership events with us during their lifetime. We are also utilising technology in trials to grow ancillary revenue streams.

**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 495,000, a record level, with a 10.5% increase since December 2016. This level of member growth will help to underpin our performance for the rest of the year. In 2017 we anticipate opening towards the top end of the guidance range of 15 to 20 sites. As in 2016, 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.

After a year of rapid growth we will continue to focus on delivering on our strategic priorities and once again making significant financial progress. We are embarked on a path that I am convinced will deliver further value for our members and our shareholders.

**John Treharne**

Chief Executive Officer  
14 March 2017

Strategic Report

## Business Model

# Our vision

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.

### An attractive member proposition

	The Gym	Traditional Health Club
24/7 gym opening hours <sup>1</sup>	✓	✗
No fixed term contract	✓	✗
Typical £17 monthly cost <sup>2</sup>	✓	✗
No premium to pay for extras you won't use	✓	✗
Online members' area	✓	✓
High spec gym equipment	✓	✓
Professional, helpful staff	✓	✓
Eco-friendly equipment	✓	✓
Receptionist / office	✗	✓
Wet facilities (e.g. pool, sauna)	✗	✓
Tennis / squash courts	✗	✓
Health and wellbeing spa	✗	✓
Café / bar offering	✗	✓

<sup>1</sup> All gyms open 24/7 excluding three gyms as at 31 December 2016 due to licensing restrictions

<sup>2</sup> £17 average membership per month across all 89 gyms as at 31 December 2016

### Driven by technology

- A simple online joining process that can be completed in minutes.
- Membership and joining fees can be paid by credit card, debit card and direct debit.
- Members can manage their accounts, view class timetables and book classes using computer, tablet or mobile.
- Automated access control and 24 hour CCTV enhances safety and enables staff to dedicate time to serving members.
- Electronic monitoring of gym equipment usage means fit-outs are tailored to member requirements.

### Efficient operational structure

- The use of technology results in an efficient staffing model, with no need for dedicated in-gym sales and marketing teams.
- Staffing model means managers are freed from many traditional health club tasks and focus on running successful gyms and serving the needs of our members.
- Benefits from economies of scale as we continue to roll out new gyms.
- A disciplined and rigorous approach to site selection, with a flexible fit-out approach meaning we are able to use a wide variety of building types and use space intensively.
- Outsourced support functions to reduce costs and enable focus on core operations.

# raising the bar for members



## Delivering value

### Members

- 24/7, flexible, low cost gym memberships that suit all lifestyles and occupations.
- High specification gyms with an average of 170 equipment stations.
- Gyms located in accessible areas, with lots of space and light.
- An affordable opportunity to improve members' wellbeing.

### Shareholders

- Our low cost operating model drives strong operating margins and high returns on capital.
- Embedded growth within our business strategy is supported by a well-developed pipeline.
- Strong cash generation from mature sites.

### Staff

- General managers at gyms are empowered to independently run their own sites, with bonus targets linked to gym performance and clear promotion paths available.
- Staff are offered competitive remuneration and the opportunity to share in our success through share incentive plans.

## Competitive advantages

### The nature of our business model means that we are creating competitive advantages within the low cost gym market

#### Data analytics

- We have an advantage over most other operators since we have built a business on capturing high levels of quality data over a long time period.
- This data is used to improve our member proposition, inform marketing strategies and assist the site selection process.

### Scale advantages

- We leverage our scale to purchase more efficiently and amortise one-off or fixed costs across a larger estate.
- The strong operating margins and returns on capital necessary to operate in the low cost gym market are optimised.

#### Ability to source sites

- We have a dedicated, highly experienced property team that is well-networked with landlords and agents to enable us to source the best sites and deals.
- Our consistent financial performance, strong covenant and strong brand means we offer an attractive proposition for prospective landlords.

### Bespoke technology

- Technology is a key part of a successful low cost offering. Establishing bespoke technology requires significant time and capital investment.
- We have created innovative, highly specialised, bespoke systems which minimise the requirement for large back office support functions.

#### Access to capital

- A proven track record enables access to a wider pool of capital to support sustained growth. Raising capital is more difficult for new entrants or smaller operators.
- We have £30.0 million of undrawn bank facilities to finance our rollout plans.

# Market Review

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

### A significant market opportunity

#### A fragmented market

The UK health and fitness club market experienced modest growth between 2007 and 2011, with its market value increasing from £3.6 billion to £3.8 billion over this time. Since then, the growth in the market has accelerated rapidly, with a market value of £4.4 billion in 2016. The majority of this growth has been driven by the low cost segment.

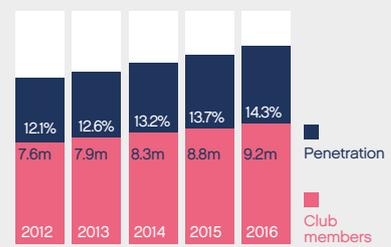
In 2011 the market comprised two main segments: public clubs funded by local authorities, and private clubs funded and operated by commercial enterprises. The rapid increase in low cost clubs since 2011 has fragmented the market by creating a third segment, representing 12% of private club numbers in 2016.<sup>1</sup>

The private club market is further fragmented by type of operator. Of the 3,700 private clubs in operation at 31 March 2016, 51% were independent operations and the top 10 operators represented 22%. Multi-club operators benefit from scale advantages in the market, with independent operators proving more vulnerable and accounting for 78% of site closures in the private sector during the year.<sup>1</sup>

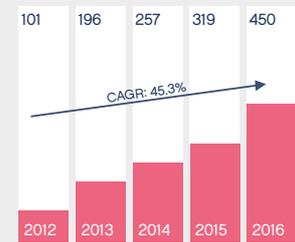
#### A growing segment

The UK private gym market is expanding rapidly, with a 4% increase in the number of clubs and 8% increase in the number of members in the year to March 2016. This growth has been driven by the low cost segment, with the number of low cost clubs increasing by 41% and members increasing by 39%.<sup>1</sup>

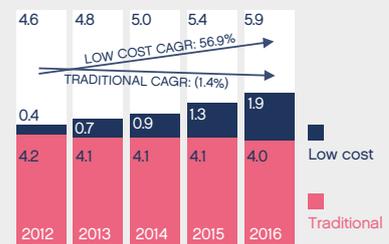
UK health and fitness club members<sup>3</sup>  
Penetration rate



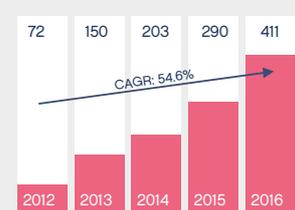
Number of UK low cost gyms<sup>3</sup>



Low cost driving increase in members<sup>3</sup>  
Number of UK private gym members (millions)



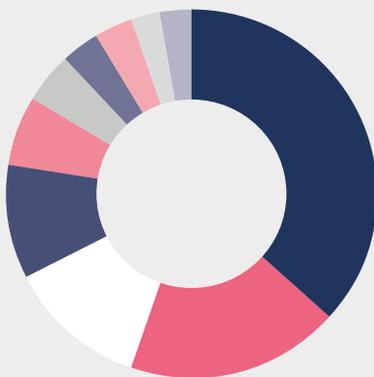
Revenue of UK low cost gyms<sup>3</sup>  
£m



**£4.4 billion**  
UK gym market value

**+ 39%**  
Number of low cost gym members

Competition<sup>4</sup>



Number of clubs as at January 2017

● PureGym	175
● The Gym	89
● Fit4less	58
● Xercise4Less	47
● Sports Direct Fitness	30
● Snap Fitness	21
● easyGym	16
● Simply Gym	15
● Fitness4Less	13
● 24/7 Fitness	12

The expansion of the low cost model is taking place by attracting new members to the health and fitness sector and by taking market share from mid-market operators. The penetration rate of the total health and fitness sector increased from 13.7% to 14.3% in the year to March 2016, with the penetration rate of the low cost sector having increased by 0.9% to 2.9%; the attraction of new members to low cost gyms has driven the increase in the entire market.<sup>1</sup> Traditional private operators have lost market share as some of their members have been attracted to low cost providers.

**Offering what members want**

The health and fitness market continues to appeal to a large proportion of the UK population, with 46% of the population exercising on a regular basis.<sup>2</sup> However, only 21% of people cite fitness clubs as their preferred place to exercise and 42% believe that lack of time is the key factor preventing them from exercising more frequently.<sup>2</sup>

The Gym Group's business model addresses these concerns by providing low cost, contract free access to gyms with 24/7 opening hours.

**Our position in the market**

During the year the two largest low cost operators have reinforced their strong position within the market, representing nearly half of the number of low cost clubs as at March 2016. The position of the main operators has meant that there has only been one new market entrant during the year.<sup>1</sup>

We have retained our position as the second largest low cost operator by number of clubs as at 31 January 2017. Despite our quick pace of expansion, all of our sites offer a consistent high quality gym experience, and genuinely low cost pricing for members.

**Market potential**

The UK gym market is relatively immature compared to other markets in Europe. Norway, Sweden and the Netherlands all have mature markets with penetration rates of 19.4%, 16.7% and 16.4% respectively.<sup>2</sup>

These penetration rates indicate that there is potential for a strong increase in overall member numbers compared to the UK's current penetration rate of 14.3%.

Other European markets are more immature than the UK, and could offer potential growth opportunities.

There are learning opportunities to be gained from other European operators, who have demonstrated that low cost operators can achieve significant scale. The German operator McFIT has an estimated 1.37 million members across five countries. Dutch operator Basic-Fit reported approximately 1 million members at the end of 2015, again in five countries.<sup>2</sup>

Based on this information we believe that there is still significant market potential in the UK, and that a number of overseas markets could also offer opportunities.

1 Leisure Database Company 2016 State of the UK Fitness Industry Report  
 2 Deloitte and EuropeActive European Health & Fitness Market Report 2016  
 3 Leisure Database Company data  
 4 Leisure Database Company 2016 State of the UK Fitness Industry Report, updated by The Gym Group plc

Strategic Report

# 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 our 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

2016	26.2
2015	18.8
2014	16.2
2013	9.5

### Progress

In 2016 our mature sites contributed £26.2 million towards our EBITDA, compared to £18.8 million in 2015.

This growth was achieved by the sites opened in 2014 reaching maturity, and the mature sites becoming more profitable on average.

We expect the contribution from mature sites to increase in the future as sites opened in 2015 and 2016 reach maturity.

## Improve operating efficiencies



We will seek to reduce gym fit-out costs and improve operating efficiencies, benefiting 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 %

2016	30.9
2015	28.4
2014	32.3
2013	32.9

### Progress

The implementation of operating cost savings has driven an increase in site EBITDA Margin from 38.9% to 40.8%.

This has resulted in a 250bps improvement in Group Adjusted EBITDA Margin.

### Strategic drivers

- Innovation
- Customer satisfaction
- Business and financial model
- Rollout
- Our people

## 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

2016	89
2015	74
2014	55
2013	40

### Expansionary Capital Expenditure £m

2016	20.9
2015	28.2
2014	20.3
2013	14.1

#### Progress

We opened 15 new gyms during 2016, all of which offer a consistently high quality, genuinely low cost experience for members.

Our openings pipeline is demonstrating significant progress, with 17 new sites exchanged for 2017.

## Continue to improve the member proposition



By focusing on improving the Group's member proposition and 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

2016	448
2015	376
2014	293
2013	225

#### Progress

During the year we successfully trialled our new high intensity interval classes, Origin, and will be rolling this out across more gyms during 2017.

We refurbished and rebranded eight sites during the year in line with our refurbishment plans, adding more group exercise space and updating equipment and areas according to analysis of usage patterns. We enhanced the gym equipment and premises offering at 23 further sites.

Our Net Promoter Score reflected our member satisfaction levels, increasing from 60.2% in 2015 to 62.2% in 2016.

## 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 Gold award

#### Progress

We are extremely pleased to be the first fitness operator to achieve the Gold Investors in People award.

During the year we shared the success of our IPO with our staff and awarded each of them £1,000 of free shares.

Strategic Report

## Opening Cycle of a Gym

# the gym opening cycle and how it works

“We opened our Blackpool gym in November 2016. This site is an excellent example of how our diligent site selection process, flexible fit-out model and engaged team come together to provide a superb gym experience for members.”

**John Treharne, CEO**



## Opening Cycle of a Gym

# raising the standard

## 1 location selection



We conduct detailed demographic analyses on all our potential new locations and select areas with dense population catchments that are close to major transport hubs.

Blackpool town centre is well connected by both rail and road, with a large population of potentially gym-going adults within a short distance.

## 2 site selection



We select sites that are highly visible, with strong passing footfall, that are either accessible by public transport or have parking available.

Talbot Gateway, Blackpool is a newly regenerated area with a mixture of retail and leisure premises in the immediate vicinity. The building provides an excellent opportunity for signage which is visible from the main road and is located extremely close to rail, tram and bus links.

“I enjoy working hard because I feel valued here. I can put my own stamp on the Blackpool gym – we’re changing the way people perceive gyms.”

Cara, Blackpool Manager



## 4 fit-out



Our flexible fit-out model means we are able to utilise a wide variety of building types, from retail parks to office building conversions. Our Blackpool site was originally a 1930s-built car park, which now provides spacious and light gym facilities. The site has been fitted out to our standard specification, which means that members benefit from our consistent high quality product and enables The Gym to benefit from cost efficiencies.



## 3 striking the right deal



Our highly experienced property team combined with our desirable lease covenant enables us to negotiate well.

We have enjoyed a good working relationship with the landlord, Blackpool Council. This has enabled us to lease onsite parking to offer free parking to our members and to access the property promptly to achieve an efficient fit-out time.

## 5 gym equipment



Our flexible and intensive use of space means that we are able to provide a much greater number of exercise stations than the average UK gym. Our Blackpool site has initially been kitted out with over 160 high quality exercise stations, plus a free weights and class area, compared to a UK average of 62 stations!

We subsequently carry out electronic usage monitoring to ensure that the equipment in each gym is tailored to its members' requirements, and that we are making informed investment decisions.



## 6 selecting the team



We have a highly selective recruitment process to ensure all of our managers are experienced, enthusiastic and engaged in delivering the highest levels of customer service. Cara, our Blackpool General Manager, was initially attracted to The Gym because of our Investors In People award.



## 7 growing the membership



We consider pricing on a gym-by-gym basis in order to maximise our member numbers on opening and manage membership levels once a gym is open. The Gym Blackpool offers great value compared to other gyms in the Blackpool area, currently charging only £12.99 per month for 24/7 currently access.



2,948  
MEMBERS  
at opening

“The Gym is perfect for me – it’s close to where I work, the equipment is excellent and there’s never any waiting. I come every day; I love the high of working out.”

**Tony, Blackpool member.**

## 8 open



The Gym Blackpool opened on 7 November 2016 and has already built a great reputation.

### Strategic drivers

- Innovation
- Customer satisfaction
- Business and financial model
- Rollout
- Our people

## Strategic Report

## Key Performance Indicators

We use a number of financial and non-financial key performance indicators ('KPIs') to measure our performance over time. We select KPIs that demonstrate the financial and operational performance underpinning our strategic drivers.

## Financial

Revenue £m

**+ 22.6%** <sup>15/16</sup>



Year	Revenue (£m)
2016	73.5
2015	60.0
2014	45.5
2013	35.7

**Definition**

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

**2016 performance**

Revenue increased by 22.6% as a result of a 20.8% increase in average member numbers and a 1.5% increase in Average Revenue per Member per Month.

Group Adjusted EBITDA before Pre-Opening Costs £m

**+ 26.5%** <sup>15/16</sup>



Year	EBITDA (£m)
2016	24.9
2015	19.7
2014	16.7
2013	12.9

**Definition**

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

**2016 performance**

Group Adjusted EBITDA before Pre-Opening Costs has increased by 26.5% reflecting the increase in the gym estate.

Group Operating Cash Flow £m

**+ 34.0%** <sup>15/16</sup>



Year	Cash Flow (£m)
2016	24.9
2015	18.6
2014	16.5
2013	14.8

**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.

**2016 performance**

Group Operating Cash Flow increased by 34.0% due to an increase in Group Adjusted EBITDA offset by increases in maintenance capital expenditures due to the size of the estate.

Group Adjusted EBITDA £m

**+ 33.4%** <sup>15/16</sup>



Year	EBITDA (£m)
2016	22.7
2015	17.0
2014	14.7
2013	11.8

**Definition**

Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs, exceptional items and other income.

**2016 performance**

Group Adjusted EBITDA increased by 33.4%, largely due to the increase in the number of gyms in operation resulting from the Group's ongoing rollout strategy.

Expansionary Capital Expenditure £m

**- 25.9%** <sup>15/16</sup>



Year	Capex (£m)
2016	20.9
2015	28.2
2014	20.3
2013	14.1

**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.

**2016 performance**

Expansionary Capital Expenditure has decreased by 25.9% due to a lower number of gyms opened in 2016 and an increase in the capex creditor.

Expansionary Capital Expenditure includes £3.3 million in relation to enhancements, acquisitions and IT projects (2015: £1.1 million).

Group Operating Cash Flow Conversion %

**+ 50bps** <sup>15/16</sup>



Year	Conversion (%)
2016	109.9
2015	109.4
2014	112.4
2013	125.5

**Definition**

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

**2016 performance**

Group Operating Cash Flow Conversion continues to be over 100% due to the efficient use of working capital.

## Financial

Net Debt £m

**- 27.5%** <sup>15/16</sup>



2016	5.2
2015	7.1
2014	49.2
2013	36.7

### Definition

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

### 2016 performance

Net Debt has reduced significantly due to the positive cash flow position for the year and the self-financing of gym openings during 2016.

Net Debt to Group Adjusted EBITDA

**- 45.2%** <sup>15/16</sup>



2016	0.23x
2015	0.42x
2014	3.35x
2013	3.11x

### Definition

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

### 2016 performance

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

## Non-Financial

Total Number of Gyms

**+ 20.3%** <sup>15/16</sup>



2016	89
2015	74
2014	55
2013	40

### 2016 performance

The Group opened 15 gyms in 2016 as part of the rollout strategy.

Number of Mature Gyms in Operation

**+ 37.5%** <sup>15/16</sup>



2016	55
2015	40
2014	32
2013	16

### Definition

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

### 2016 performance

The Group's progressive rollout strategy means that gyms opened in 2014 are considered to be mature in 2016.

Total Number of Members '000

**+ 19.1%** <sup>15/16</sup>



2016	448
2015	376
2014	293
2013	225

### Definition

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

### 2016 performance

The 19.1% increase in member numbers was primarily due to sites reaching maturity and the opening of 15 gyms during 2016.

Mature Gym Site EBITDA

**+ 38.9%** <sup>15/16</sup>



2016	26.2
2015	18.8
2014	16.2
2013	9.5

### Definition

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

### 2016 performance

Mature Gym Site EBITDA has increased by 38.9% due to gyms opened in 2014 reaching maturity in the current year and an increase in the average profitability per site.

Average Revenue per Member per Month £

**+ 1.5%** <sup>15/16</sup>



2016	14.29
2015	14.08
2014	13.98
2013	14.06

### 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.

### 2016 performance

Average Revenue per Member per Month increased by 1.5% due to the ongoing maturation of pricing in mature sites.

### Strategic drivers

- Innovation
- Customer satisfaction
- Business and financial model
- Rollout
- Our people

## Strategic Report

## Financial Review

We are pleased to have delivered another strong set of financial results in the first full year following our IPO, with revenue growth of 22.6% and Group Adjusted EBITDA growth of 33.4%.



**Richard Darwin**  
Chief Financial Officer

This growth has contributed to our first positive Adjusted Earnings result of £7.2 million, compared to a £1.1 million loss in 2015.

Group Operating Cash Flow increased by 34.0% as a result of the increase in Group Adjusted EBITDA, offset by a 6.7% increase in maintenance capital expenditure due to the higher number of gyms in operation.

	2016 £'000	2015 £'000
Total Number of Gyms	89	74
Total Number of Members ('000)	448	376
Revenue	73,539	59,979
Group Adjusted EBITDA <sup>1</sup>	22,691	17,016
Group Adjusted EBITDA before Pre-Opening Costs <sup>2</sup>	24,888	19,681
Adjusted Earnings <sup>3</sup>	7,153	(1,107)
Statutory Profit before Tax	6,940	(12,382)
Group Operating Cash Flow <sup>4</sup>	24,944	18,616

- 1 Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs, 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 profit 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.

## Result for the year

	2016 £'000	2015 £'000
Revenue	73,539	59,979
Cost of sales	(830)	(1,073)
<b>Gross profit</b>	<b>72,709</b>	<b>58,906</b>
Administration expenses	(64,153)	(55,105)
Long term employee incentive costs	(519)	-
Exceptional items	(321)	(7,607)
Other income	-	1,105
<b>Operating profit / (loss)</b>	<b>7,716</b>	<b>(2,701)</b>
Finance income	19	265
Finance costs	(795)	(9,946)
<b>Profit / (loss) before tax</b>	<b>6,940</b>	<b>(12,382)</b>
Tax (charge) / credit	(1,237)	909
<b>Profit / (loss) for the year</b>	<b>5,703</b>	<b>(11,473)</b>
Tax charge / (credit)	1,237	(909)
Amortisation of intangible assets	1,442	2,308
Other income	-	(1,105)
Exceptional administration expenses	321	7,607
Exceptional finance costs	-	1,623
<b>Adjusted profit / (loss) before tax</b>	<b>8,703</b>	<b>(1,949)</b>
Tax (charge) / credit	(1,237)	909
Tax effect of above items	(313)	(67)
<b>Adjusted Earnings</b>	<b>7,153</b>	<b>(1,107)</b>

**+ 22.6%**  
Revenue growth

**+ 33.4%**  
Group Adjusted EBITDA growth

### Revenue

The 22.6% increase in revenue for 2016 has been driven by both increases in Membership Numbers and Average Revenue per Member per Month.

Our commitment to member satisfaction, one of our key strategic drivers, is reflected in our membership numbers. Member numbers at the year end grew significantly, from 376,000 at 31 December 2015 to 448,000 at 31 December 2016.

Our average member numbers grew by 20.8% to 429,000 (2015: 355,000), largely due to the opening of 15 sites during the year. Average Revenue per Member per Month increased by 1.5% from £14.08 to £14.29 in 2016 as our pricing continues to mature.

As a result, revenue for the year ended 31 December 2016 increased to £73.5 million (2015: £60.0 million).

### Administration expenses

Administration expenses increased by 16.4%, primarily due to the number of gyms increasing from 74 at 31 December 2015 to 89 at 31 December 2016.

The largest cost within administration expenses is property lease rentals. These increased from £11.2 million in 2015 to £13.5 million in 2016 due to the increase in the number of gyms. Staff costs also form a significant part of administration expenses and increased from £8.4 million to £9.9 million, excluding a charge of £0.5 million from long term employee incentives. The increase was driven by both gym openings and head office support costs.

Head office costs increased from £6.3 million in 2015 to £7.3 million in 2016. This was largely due to the full year effect of headcount increases from 2015,

administrative costs associated with being a fully listed company and costs associated with the new head office location.

Depreciation charges increased from £10.9 million in 2015 to £12.7 million in 2016, largely as a result of the increased number of sites. Depreciation as a percentage of revenue decreased from 18.2% to 17.3%, reflecting the growing maturity of our estate.

Amortisation charges decreased from £2.3 million to £1.4 million due to certain intangible assets recognised on the acquisition of The Gym Limited becoming fully amortised during the year.

### Group Adjusted EBITDA

Group Adjusted EBITDA increased by 33.4% to £22.7 million (2015: £17.0 million), due to the ongoing rollout of new sites and existing sites reaching mature profit levels.

Group Adjusted EBITDA is adversely affected by pre-opening costs incurred in the process of opening new sites. Group Adjusted EBITDA before Pre-Opening Costs increased by 26.5% to £24.9 million. Pre-opening costs decreased from £2.7 million to £2.2 million, reflecting 15 site openings in 2016 compared to 19 in 2015.

Growth in EBITDA from our mature sites has contributed significantly towards the growth in Group Adjusted EBITDA. Mature Site EBITDA<sup>5</sup> contributed by the 55 mature sites increased by 38.9% to £26.2 million (2015: £18.8 million from 40 sites).

EBITDA from new sites decreased from £4.5 million in 2015, representing 34 sites, to £3.8 million in 2016, also with 34 sites. This is largely as a result of the timing of gym openings in 2016 compared to 2015. The new gyms opened in 2016 are performing well.

	2016 £'000	2015 £'000
<b>Group Adjusted EBITDA</b>		
<b>Operating profit / (loss)</b>	<b>7,716</b>	(2,701)
Depreciation of property, plant and equipment	12,693	10,907
Amortisation of intangible assets	1,442	2,308
Exceptional items	321	7,607
Other income	–	(1,105)
Long term employee incentive costs	519	–
<b>Group Adjusted EBITDA</b>	<b>22,691</b>	17,016

<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.

## Strategic Report

## Financial Review continued

**Exceptional items**

Exceptional costs have decreased significantly year on year as 2015 included £7.6 million of costs associated with the Group's IPO and the exploration of strategic options in the lead-up to this.

In 2016 exceptional costs relate to £0.1 million of reorganisation activities during the Group's post-IPO period, and £0.2 million of costs associated with the relocation of the Group's head office.

**Long term employee incentives**

During the year the Group introduced a Performance Share Plan ('PSP') and Share Incentive Plan ('SIP'). PSP shares were granted to certain members of senior management. In April 2016 each of our employees was awarded £1,000 of free shares under the SIP, which vest in three years subject to continued employment.

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

The Group recognised a charge of £0.5 million in relation to these share based payment arrangements.

**Finance costs**

Finance costs decreased from £9.9 million in 2015 to £0.8 million in 2016 as a result of the Group's post-IPO financing structure. The Group currently has drawn £10.0 million of its five year bullet repayment facility.

**Taxation**

The Group has incurred a tax charge of £1.2 million for the year ended 31 December 2016, which represents an effective tax rate on statutory profit before tax of 17.8%. This includes the benefit of £0.3 million of prior year adjustments in relation to interest charges on shareholder loan notes held prior to the IPO.

The underlying effective tax rate, after adjusting for amortisation and exceptional items, is 17.8%.

Cash flow	2016 £'000	2015 £'000
Group Adjusted EBITDA	22,691	17,016
Movement in working capital	5,186	4,348
Maintenance capital expenditure <sup>1</sup>	(2,933)	(2,748)
<b>Group Operating Cash Flow</b>	<b>24,944</b>	<b>18,616</b>
Expansionary capital expenditure <sup>2</sup>	(20,922)	(28,230)
Other income	–	1,105
Exceptional items	(944)	(7,001)
Taxation	(243)	(73)
Finance costs	(552)	(4,108)
Dividends paid	(321)	–
IPO proceeds	–	89,931
Repayment of debt	–	(89,842)
Other net cash flows from financing activity	–	16,886
<b>Net cash flow</b>	<b>1,962</b>	<b>(2,716)</b>

<sup>1</sup> Maintenance capital expenditure comprises the replacement of gym equipment and premises refurbishment.

<sup>2</sup> Expansionary capital expenditure relates to the Group's investment in the fit-out of new gyms and product enhancements, acquisitions and IT projects. It is stated gross of amounts funded by finance leasing (2016: £nil; 2015: £3.1 million) and net of contributions towards landlord building costs.

**Earnings**

Statutory profit before tax increased to £6.9 million (2015: loss of £12.4 million), largely as a result of the increase in Group Adjusted EBITDA and decrease in exceptional costs and finance costs.

The Group delivered a profit for the year of £5.7 million, compared to a loss of £11.5 million in 2015, as a result of the factors discussed above.

Basic earnings per share ('EPS') was 4.5p (2015: loss of 19.0p). Adjusted EPS was 5.6p (2015: loss of 1.8p). Adjusted EPS is calculated by excluding amortisation, exceptional items, other income and the resultant tax effect from basic earnings.

**Dividend**

The Group declared an interim dividend of 0.25p per share. The Board is recommending a final dividend of 0.75p per share, resulting in a full year dividend of 1.0p per share.

In the future, the Board intends to adopt a progressive dividend policy. When making proposals for the payment of dividends, the Board considers the resources available to the Group, including liquidity and the Company's distributable profits.

**Cash flow**

The Group's increasing Group Adjusted EBITDA and efficient use of working capital continues to deliver strong cash flows. Group Operating Cash Flow increased by 34.0% to £24.9 million (2015: £18.6 million). This is largely as a result of the 33.4% increase in Group Adjusted EBITDA, offset by a £0.2 million increase in maintenance capital expenditure due to the increased number of gyms in operation.

Our negative working capital profile continues to give Group Operating Cash Flow Conversion of more than 100%, at 109.9% for the year (2015: 109.4%).

The reduction in expansionary capital expenditure of £20.9 million (2015: £28.2 million) arises as a result of the fit-out of new gyms.

The net cash inflow, as well as the self-financing of the rollout programme during the year, resulted in a reduction in Net Debt : Group Adjusted EBITDA to 0.23x (2015: 0.42x).

**1.0p**  
Recommended  
full year dividend

**5.6p**  
Adjusted EPS  
(2015: loss of 1.8p)

Balance sheet	2016 £'000	2015 £'000
Non-current assets	148,157	134,551
Current assets	10,795	8,636
Current liabilities	(34,257)	(25,546)
Non-current liabilities	(10,405)	(9,198)
<b>Net assets</b>	<b>114,290</b>	<b>108,443</b>

#### Balance sheet

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

Non-current assets have increased by £13.6 million to £148.2 million (2015: £134.6 million). This is as a result of capital expenditure in property, plant and equipment and computer software totalling £27.6 million, offset by depreciation and amortisation of £14.1 million.

Current assets have increased due to higher cash balances, as discussed above. Current liabilities have increased by £8.7 million as a result of lease incentives associated with new gyms opening in the year, and increases in trade and other payables as the size of our operations increases.

The Group has drawn £10.0 million of its five year bullet repayment facility. £30.0 million of the facility was undrawn at 31 December 2016 and will be utilised to fund new sites, working capital and capital expenditure.

#### Guidance

We reiterate the guidance that we have made previously:

- we expect to open towards the top end of the guidance level of 15 to 20 openings for 2017 in 2017;
- the charge for long term employee incentives is anticipated as £0.9 million in 2017, rising to £1.5 million in 2018; and
- pre-opening costs are expected to remain stable at £140,000 per site in 2017.

In addition, in 2017:

- we expect the new site fit-out costs to continue to be between £1.3 million and £1.4 million per site, with a further £2.0 million to £2.5 million of capital spend on IT, prior year acquisitions and other expansionary projects;
- maintenance capital expenditure is expected to equate to 7% of revenue;
- depreciation is expected to be 16% of revenue;
- to support the growth of the business we expect head office costs to be 9.0% to 9.5% of revenues (2016: 10%); and
- the effective tax rate, after adjusting for amortisation and exceptional items, is expected to be 23%.

#### Richard Darwin

Chief Financial Officer  
14 March 2017

Strategic Report

# Principal Risks and Uncertainties

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

**Risk management**

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

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

During the year the Board also worked to define its appetite towards risk and metrics against which risk appetite can be monitored.

**Principal risks**

The risk factors addressed opposite 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.

**Strategic drivers**

-  Innovation
-  Customer satisfaction
-  Business and financial model
-  Rollout
-  Our people

**Responsibility for risk**

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

**Executive Committee**

- promotes and supports the embedding of risk management throughout the business
- ensures there is active management of identified and emerging risks
- formally reviews the risk register on a regular basis
- reports to the Audit and Risk Committee on the internal control environment



**The Audit and Risk Committee**

- monitors and reviews the Group's system of internal control and risk management
- reviews the Group's risk appetite
- review the Group's risk management framework
- makes recommendations to the Board for improvements or developments



**The Board**

- provides strategic direction on the appropriate balance between risk and return
- sets the 'tone' and culture for managing risk and embedding sound risk management
- ensures the most significant risks facing the organisation are properly managed
- evaluates the risk implications of planned investments
- plans for how the business would manage a crisis

Principal risk	Strategic driver	Impact	Mitigation
<b>Competition</b>			
The Group may face increased competition and pressure from competitor pricing decisions.	 	The ability of the Group to hold or increase prices and therefore achieve performance targets could be affected.	<ul style="list-style-type: none"> <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>
<b>Organic rollout</b>			
Site scarcity may affect the delivery of our rollout plan.		Delays to our rollout plan may have an adverse impact on growth targets and operational returns.	<ul style="list-style-type: none"> <li>• Our highly experienced property team are focused on site selection and sourcing the best deals.</li> </ul>
<b>Member experience</b>			
Failure to provide members with a high quality product and service would damage the Group's reputation.	 	Reductions in actual or perceived customer service could result in a decrease in membership numbers and revenue generation.	<ul style="list-style-type: none"> <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> <li>• Explore further innovations to improve the member experience.</li> </ul>
<b>Staff retention</b>			
Loss of key staff through retention policy and failure to manage succession.		A lack of experienced and motivated staff will have a detrimental impact on all areas of the business, from operations to central functions.	<p>The Group uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include:</p> <ul style="list-style-type: none"> <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>
<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.	 	Disruption to critical IT systems could have a negative impact on our reputation and our ability to collect revenue.	<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>
<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.		Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	<ul style="list-style-type: none"> <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 experienced external payment providers. The Group does not store or retain any customer financial data in its own online systems.</li> </ul>

Strategic Report

# Principal Risks and Uncertainties continued

Principal risk	Strategic driver	Impact	Mitigation
<b>Outsourcing model</b>			
<p>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.</p>		<p>As the Group grows there is risk that delivery from service providers is either unreliable or of unsatisfactory quality.</p>	<ul style="list-style-type: none"> <li>• Ensure quality suppliers are chosen through well-run tender processes.</li> <li>• Understand and seek to mitigate supplier key-man risks.</li> <li>• Service level agreements for all key suppliers.</li> <li>• Members of management monitor service levels and hold suppliers to account.</li> <li>• Ongoing assessment of whether any services should be moved to an insourced resource.</li> </ul>
<b>Operational gearing</b>			
<p>High operational gearing from the fixed cost base.</p>		<p>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.</p>	<ul style="list-style-type: none"> <li>• Monthly monitoring and reforecasting of business performance at site level.</li> <li>• Active yield management on a gym-by-gym basis.</li> <li>• Regular financial management by senior management team and Board.</li> </ul>
<b>Regulatory</b>			
<p>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.</p>		<p>Potential reputational damage and penalties</p>	<ul style="list-style-type: none"> <li>• The Board has oversight over the management of regulatory risk and compliance, and delegates specific responsibilities to senior management.</li> <li>• Expert opinion sought where relevant.</li> <li>• Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act.</li> <li>• Third party health and safety risks assessments and audits carried out. Staff conduct periodic health and safety assessments.</li> <li>• Employment and continuous training and development of appropriately qualified staff.</li> </ul>

**Going concern**

In assessing the going concern position of the Group, the Directors have considered the Group's cash flows, liquidity and business activities. At 31 December 2016 the Group had cash balances of £4.8 million and undrawn financing facilities of £30.0 million which are available to fund new sites, working capital and capital expenditure.

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

**Viability statement**

In accordance with provision C.2.2 of the UK Corporate Governance Code 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 2019.

The Directors have determined that the three year period to 31 December 2019 is an appropriate period over which to assess its viability statement as this aligns with the period covered by the Group's Board-approved strategic plan and covers the maturity period of sites opened in 2016 and those planned to be opened in 2017. The strategic planning process occurs annually on a rolling basis. The strategic plan includes the 89 sites open at the end of 2016, as well as the expansion of the Group through its rollout strategy.

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

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

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

Strategic Report

# Corporate Social Responsibility Statement

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

## Our members

Helping to improve the wellbeing of our members is a key focus of The Gym, and is particularly important given the widespread 'obesity epidemic.' Over a quarter of adults in England are obese, with a further 41% of men and 31% of women being overweight.<sup>1</sup> As well as increasing the risk of health problems such as heart disease, high blood pressure and diabetes, obese people also face discrimination and stigmatisation, with over a quarter of people considering individuals who are very overweight to be lazy.<sup>2</sup>

We are helping to remove barriers to better health in areas where this is needed the most. With 28.7% of adults in England considered to be inactive<sup>3</sup>, we have placed 22 gyms in the top 20% of inactive regions of the UK.

Our affordable and flexible memberships are encouraging people to take up exercise and become more active. 33.9% of members joining The Gym in 2016 had never used a gym before, and the number of visits to The Gym increased by 22.3% during the year.

We appeal to a wide variety of members. At 31 December 2016, 36.4% of our members were female and 63.6% were male. The average age of our members was 32, but we attract both older and younger gym-goers with 10.7% of our members being under 18 or over 50.

Our investment in a compelling membership proposition is reflected in our member satisfaction scores. Our Net Promoter Score was 62.2% for 2016, compared to 60.2% in 2015.

## Our people

As one of our strategic drivers (see page 2), our people are key to the success of our business. We cannot deliver excellent services to our members without engaged and motivated staff. We seek to engage our staff by offering the freedom to manage, development opportunities and the opportunity to share in the success of the business.

Our general managers are encouraged to be autonomous, and we provide them with the tools to run their own gyms. Staff buy in to clear targets and KPIs and are instrumental in the success of their own gym's performance.

We invest in the careers of our people, with an average training spend per head of £417 in 2016. We have provided a leadership programme for all general managers and assistant general managers. We offer clear progression routes, with training roles available to assist with career development.

During 2016 we provided all of our staff with the opportunity to share in the financial success of the business. In April 2016 all staff were awarded £1,000 of free shares in the Company. We also established a matching share scheme, where staff are awarded one free share for every one share that they purchase. Takeup for the scheme has been strong, with 79 staff investing a total of £65,000 during 2016.

These opportunities for our staff are reflected in our staff retention rate of 82.3%. We are very proud that our commitment to our staff has been recognised by Investors in People, with the Gold Standard awarded this year. We are the first fitness operator to achieve this award.

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 2016	Female	Male
Board	2 (33.3%)	4 (66.7%)
Senior managers	5 (20.8%)	19 (79.2%)
All staff	63 (25.1%)	188 (74.9%)

<sup>1</sup> NHS Health Survey for England 2015 – Adult overweight and obesity

<sup>2</sup> Public Health England – Attitudes to obesity

<sup>3</sup> Public Health England – Physical activity levels among adults in England 2015

Strategic Report

# Corporate Social Responsibility Statement

## continued

### Our successes during the year

## 27 gyms

offering employment opportunities in the most deprived areas of the UK

## 22 gyms

in the most inactive regions of the UK

## 62.2%

Net Promoter Score

### Health and safety

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

All of our gym staff receive comprehensive health and safety training before taking on their roles. Our health and safety consultants carry out a full review and induction for all new sites that we open. Defibrillators are installed in all of our gyms.

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

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

### Integration with the community

We help bring new life to communities by bringing opportunities for employment and using vacant spaces.

Of our 89 gyms, 27 are in the 20% most deprived areas in England. As well as offering employment opportunities for the gym management team, we are bringing affordable fitness to people that will value it the most.

Our flexible fit-out model means that we are able to use spaces which other service providers often avoid, and often participate in regeneration schemes. In 2016 we built gyms in a redeveloped multi-storey car park in Blackpool, vacant retail space (Oldham) and the lower floors of residential developments (Tooting and Southfields).

### Environmental responsibility

We seek to minimise our environmental impact throughout our business, from the initial fit-out of a gym to the way we equip and operate it.

We demand excellent energy efficiency from our heating, lighting and air conditioning systems. All gyms we now build have air conditioning and water systems which are compliant with the Electrical Contractors Association, and have efficient LED lighting throughout.

Our washrooms are equipped to minimise water consumption, with sensor-operated toilets and showers, and energy efficient hand dryers.

From online joining to cardless memberships, we minimise our consumption of resources. Where we do produce waste, we have active programmes to recycle it, and our free weights floors are made from recycled materials.

### Greenhouse gas information

Greenhouse gas ('GHG') emissions for the year ended 31 December 2016 have been measured as required under the Large and Medium-Sized Companies and Groups (Account and Reports) Regulations 2008 as amended in 2013. The main activities which release GHG include usage of purchased gas and electricity to power our gyms. We have used the GHG Protocol Corporate Accounting and Reporting Standards (revised edition) and data gathered to fulfil the requirements under the CRC Energy Efficiency scheme to calculate the disclosures.

tCO <sub>2</sub> e	2016	2015
Emissions from operations (scope 1)	–	–
Emissions from energy usage (scope 2)	<b>11,803</b>	10,251
<b>Total</b>	<b>11,803</b>	10,251
Intensity ratio (tCO <sub>2</sub> e per gym)	<b>132.6</b>	138.5

This Strategic Report is signed on behalf of the Board.

**John Treharne**  
Chief Executive Officer  
14 March 2017

# raising the bar for our people

## Engaging our people

Jack, a keen rugby player, has worked in the fitness industry since graduating with a degree in Business Management in 2008. He worked with a traditional gym operator for four years, but left when he realised he didn't find the culture satisfying to work in.

Jack started working as the General Manager in our Manchester Portland Street gym in 2012 and loved the experience of working for a vibrant and growing business. Three years later he was promoted to the position of Roaming General Manager across a region of sites.

In his new role Jack is able to work alongside and support an entire regional team. He has had the opportunity to develop his skills in many different ways, from learning more about finance, carrying out a coaching qualification, and shadowing Regional Managers around the business.



“No-one can put a value on working for a business that’s always looking forwards. At The Gym I can grow my career at the same time as growing the business.”

**Jack Wilson, Roaming General Manager**

Governance

# Board of Directors



**Penny Hughes**  
Independent Non-Executive Chairwoman

**Committees**  
N A R

**Skills and experience**  
Penny has served on the board of directors of firms across the consumer, media, technology and finance sectors.

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

**Other appointments**

Royal Bank of Scotland – Chairwoman of the Sustainable Banking Committee  
SuperGroup plc – Non-Executive Director



**John Treharne**  
Chief Executive Officer

**Committees**  
N A R

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

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

**Other appointments**

Ukactive – Board Member



**Richard Darwin**  
Chief Financial Officer

**Committees**  
N A R

**Skills and experience**  
Richard possesses extensive experience working for leisure and FMCG companies in the UK and internationally, after qualifying as a chartered accountant with Coopers & Lybrand.

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

**Other appointments**

None



**Paul Gilbert**  
Senior Independent Non-Executive Director

**Committees**  
N A R

**Skills and experience**  
Paul is an economics graduate from the University of Cambridge and a chartered accountant.

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

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

**Other appointments**

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



**David Kelly**  
Independent Non-Executive Director

**Committees**  
N A R

**Skills and experience**  
David is an experienced digital operating executive.

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

**Other appointments**

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



**Emma Woods**  
Independent Non-Executive Director

**Committees**  
N A R

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

Emma is currently the Group Marketing and Digital Director for Merlin Entertainments plc, and has held Marketing Director roles at Pizza Express and Unilever.

**Other appointments**

Merlin Entertainments plc – Group Marketing and Digital Director

Governance

# Executive Committee



**Barney Harrison**  
Commercial and Marketing Director

**Skills and experience**  
Barney is an experienced marketing and ecommerce professional.

He has held a number of senior marketing positions at Sky, including the Head of Multi-Channel Acquisition, Head of Direct Marketing and eCommerce (ROI) and Head of Media and Acquisition (Sky Betting and Gaming).

Barney's depth of experience across a diverse mix of Sky's businesses has given him experience in some of the UK's most competitive industries.



**Nick Henwood**  
Operations Director

**Skills and experience**  
An experienced retail and leisure operator, Nick has a strong track record in delivering improvements in customer satisfaction, driving profitable growth and developing strategic initiatives.

Nick has previously held Operations Director roles at Autoglass, Mothercare and David Lloyd Leisure.



**Jasper McIntosh**  
IT Director

**Skills and experience**  
In his 15 year technology career Jasper has co-founded two digital technology consultancies and served as a director for three digital agencies.

His key achievements include implementing GlaxoSmithKline's first B2C ecommerce operation, managing a platform carve out for Channel 4 and delivering a substantial pan-European awareness campaign for the Global Fund and French Presidential Palace.



**Jonathan Spaven**  
Property Director

**Skills and experience**  
A Chartered Surveyor, Jonathan has over 35 years' experience in the real estate business.

Formerly the Director of Property at Matalan, he oversaw the expansion from c.70 to over 200 sites. Having also worked as an acquisition agent and a developer, Jonathan has a wide and varied insight into all aspects of the acquisition process.

- N** Nomination Committee
- A** Audit and Risk Committee
- R** Remuneration Committee

Governance

# Corporate Governance Report



**Dear Shareholders,**

I am pleased to introduce the 2016 Corporate Governance Report on behalf of the Board.

The Board continues to be committed to ensuring that the Group operates with high standards of corporate governance. 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.

During 2016, our first full year as a listed company, our key focuses have been Board composition and ensuring that we became compliant with those areas of the 2014 UK Corporate Governance Code that we had not had a chance to achieve between our IPO on 12 November 2015 and 31 December 2015.

As explained in more detail in the Nomination Committee Report on pages 35 to 36, we appointed two Independent Non-Executive Directors, David Kelly and Emma Woods, during the year and our two Non-Independent Non-Executives, Philip Newborough and David Burns, stepped down from the Board. This has ensured that we are now compliant with Provision B.1.2, which recommends that a company outside the FTSE 350 should have at least two independent non-executive directors in addition to the chairwoman. Our new Directors have both been appointed to the Audit and Risk, Nomination and Remuneration Committees and David Kelly has become Chairman of the Remuneration Committee, which has ensured that we are also now compliant with Provisions B.2.1, C.3.1 and D.2.1 which 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.

Last year we made the decision not to carry out a Board evaluation, due to the short period of time between IPO and the financial year end. A detailed Board evaluation has now been completed and full details of the outcome of this exercise can be found on page 34.

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

**Penny Hughes**  
Chairwoman  
14 March 2017

## 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 2014 ('the Governance Code'). It also explains how our Board Committees function and the effectiveness of the Group's risk management and internal control systems.

### Compliance with the Governance Code

Following the appointment of David Kelly on 5 July 2016, the Board complied with all the provisions set out in the Governance Code.

### The Board and Sub-Committees

As at the date of this report, the Board comprises six members, namely the Chairwoman, three Independent Non-Executive Directors and two Executive Directors. A full list of the Directors and their biographies can be found on pages 30 to 31.

Board and Committee composition has been a key focus during the year. 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 35 to 51.

All Board and Committee meetings are minuted and these minutes are 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;
- material capital expenditure;
- Financial Statements and Group dividend policy, including recommendation of the interim and final dividends;
- major changes to the capital structure including tax and treasury management;
- major changes to accounting policies or practices;
- the system of internal control and risk management policy;
- the Group's risk appetite statements; and
- the Group's corporate governance and compliance arrangements.

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

The Executive Committee 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 Executive Committee, which supports him in 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 Chief Financial Officer have failed to resolve; or for which such channels of communication are inappropriate. He will also act as intermediary for the other Directors and the Chairwoman as necessary.

#### Relationship Agreement

On 6 November 2015 the Company entered into a Relationship Agreement with various funds managed by Phoenix Equity Partners 2010 LP ('the Phoenix Advised Funds'). The principal purpose of the Relationship Agreement 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. The first such appointee as non-independent Non-Executive nominee Director was David Burns, who resigned from the Company with effect from 31 August 2016.

Following the Company's IPO, Bridges Ventures LLP was entitled to appoint a Non-Executive Director to the Board for up to 12 months. Philip Newborough was appointed under this arrangement and resigned from the Board on 31 August 2016. The arrangement has now ceased following a 12 month period since the IPO.

#### Board meetings

There were eight scheduled Board meetings held in 2016 and there are eight Board meetings scheduled for 2017. Five additional ad-hoc Board meetings were held during the year to discuss specific business matters, approve Financial Statements and

dividend payments. The scheduled Board and Committee meetings have standing agenda items, which ensures that all aspects of the business are given due consideration as appropriate. The Board regularly reviews strategic matters as part of the standing agenda items. In addition, the Board held a specific strategy meeting in October 2016 with the Executive Committee to review, consider and discuss the ongoing strategic development of the Group and the key strategic focuses for 2017 and beyond.

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

	Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee
Penny Hughes	8/8	5/5	4/4	5/5
John Treharne	8/8	2/2	–	–
Jim Graham <sup>1</sup>	7/7	–	–	–
Richard Darwin	8/8	–	–	–
Paul Gilbert	7/8	3/5	4/4	4/5
Philip Newborough <sup>2</sup>	4/5	–	–	2/2
David Burns <sup>2</sup>	5/5	2/2	3/3	–
David Kelly <sup>3</sup>	4/4	3/3	2/2	3/3
Emma Woods <sup>4</sup>	1/1	0/0	1/1	1/1

1 Resigned 22 November 2016.

2 Resigned 31 August 2016.

3 Appointed 5 July 2016.

4 Appointed 14 November 2016.

#### Appointment and induction of new Directors

During the year, an external consultancy firm, Spencer Stuart & Associates Limited, was used in the search and appointment of both David Kelly and Emma Woods. Spencer Stuart & Associates Limited has no other connection with the Group.

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

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

#### Election and re-election of Directors

The Board considers all Directors to be effective, committed to their roles and have sufficient time to perform their duties. In accordance with the Articles of Association, David Kelly and Emma Woods will submit themselves for election at the Company Annual General Meeting ('AGM') to be held on 6 June 2017 as this will be their first AGM following appointment by the Board.

Also, in accordance with the Articles of Association, all other members of the Board, being Penny Hughes, Paul Gilbert, John Treharne and Richard Darwin, will be offering themselves for re-election at the Company's AGM.

## Governance

# Corporate Governance Report continued

All of the Directors have service agreements or letters of appointment and the details of their terms are set out in the Report of the Remuneration Committee. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours. No other contract with the Company or any subsidiary undertaking of the Company in which any Director was materially interested existed at the end of the financial year. During the year the Relationship Agreement with Phoenix Advised Funds discussed on page 33, was in place.

### Board evaluation and effectiveness

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

As part of the 2016 evaluation, detailed questionnaires specifically designed to assess the strengths and independence of the Board and the Chairwoman, and the performance of each of its Committees, were circulated and completed by all Directors. The results were combined in a paper which was discussed in detail by the Nomination Committee and a list of action points were compiled which will be regularly monitored by the Nomination Committee to ensure all outcomes are tracked and monitored.

The results of the evaluation exercise demonstrated that the Board, its Committees and the Chairwoman were operating effectively which, given that the composition of the Board is still relatively new, was pleasing. A number of specific actions were agreed, including an increased focus on succession planning, more site visits as a Board (rather than individually, which happens on a regular basis) and a review to ensure Board papers provide an appropriate level of detail. The performance of each Director was assessed and discussed and, accordingly, the Board believe that each Director should be elected or re-elected (as appropriate) at the AGM, as they have the requisite skills and experience, and demonstrate the necessary commitment, to contribute effectively to the deliberations of the Board. Additionally, the Chairwoman has confirmed that the performance of each other Director continues to be effective and demonstrates commitment to the role.

### Directors' conflicts of interest

Closewall Limited ('Closewall') is a building firm owned by the brother and sister-in-law of John Treharne. Closewall is one of several contractors that tender for contracts for the design and construction of the Group's gyms with which the Group has long term relationships. The Group paid £3.8 million (2015: £7.6 million) to Closewall in connection with the fit-out of new gyms during the year ended 31 December 2016. John Treharne has never been involved in decision making in relation to the fit-out contractors that the Group engages and the Group operates a robust purchasing process overseen by a number of senior employees. In the opinion of the Directors such decision making is subject to appropriate governance procedures.

### Information and support

An agenda and 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 advisors. 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 is formally assessed on an annual basis as part of the Board evaluation exercise to ensure it is fit and proper for purpose and that it enables sound decision making.

### Relationship with shareholders

The Board is committed to maintaining good communications with existing and potential shareholders based on the mutual understanding of objectives. The Group has regular dialogue with institutional shareholders in order to develop an understanding of their views which is communicated back to, and discussed with, the Board.

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

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

## Governance

# Report of the Nomination Committee

**Chairwoman**

Penny Hughes

**Committee members**Paul Gilbert, David Kelly,  
John Treharne, Emma Woods**Number of meetings held in 2016**

5

**Objectives**

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

**Key achievements in 2016**

- Led the recruitment process for the appointment of David Kelly, making the Company fully compliant with the UK Corporate Governance Code;
- identified the requirement for a Non-Executive Director with greater knowledge of digital marketing at a senior level and extensive multi-site leisure experience, leading to the appointment of Emma Woods; and
- recommended John Treharne be appointed to the Nomination Committee, which created closer collaboration with the Executive Committee when overseeing the transition of operations and marketing to Nick Henwood and Barney Harrison respectively.

**Roles and responsibilities**

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

This involves:

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

**Diversity**

Our policy is that no individual should be discriminated against on the grounds of race, colour, ethnicity, religious belief, political affiliation, gender, age or disability. Whilst we have not currently established diversity targets, this policy is reflected in our approach to recruitment at all levels, including Board level. As at 31 December 2016 the Board comprised 33.3% (two) female and 66.7% (four) 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. In 2016, the Committee met five times.

We reported in the 2015 Annual Report that the Company did 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. We are pleased to report that, following the appointment of David Kelly to the Board and the Committee as an Independent Non-Executive Director, we became, and continue to be, fully compliant with this requirement.

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**

During the year we reviewed the structure of the Board and identified the need for additional Non-Executive Directors with skills that would provide a balance of knowledge and independence. After reviewing the appointment process it was determined that the appointment of John Treharne to the Committee would allow the opinion of the Executive Committee to be more effectively expressed. It was agreed, following a review of the recruitment process for Emma Woods, that this had enhanced the overall appointment process. We were assisted in this process by our external recruitment consultants, Spencer Stuart & Associates Limited. Spencer Stuart & Associates Limited provided no other services to the Group.

Governance

## Report of the Nomination Committee continued

We received the resignations of David Burns, Philip Newborough and Jim Graham during the year, and the Committee carefully considered the implications of each in turn. The Committee liaised with the Executive Committee over the transition of responsibilities to Nick Henwood and Barney Harrison to ensure that this was a smooth process that had limited impact on the day-to-day operation of the Group.

The change in the membership at both the Board and Executive Committee level has meant that, although succession plans are in place, the Committee expects to undertake a thorough review of these and the programmes behind them to ensure that there is continual supply of talent that will drive the future success of the Group.

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

As part of the evaluation process, the performance and effectiveness of the Nomination Committee was considered. Noting that there had been a number of Director changes during the year, feedback received from Directors reflected that the appointment processes followed have been efficient and effective. Given the number of Director changes in the year it was agreed that additional focus now needed to be made with regards to succession planning at all levels and this will be a key focus for 2017.

### Penny Hughes

Chairwoman of the Nomination Committee  
14 March 2017

## Governance

# Report of the Audit and Risk Committee

**Chairman**

Paul Gilbert

**Committee members**Penny Hughes, David Kelly,  
Emma Woods**Number of meetings held in 2016**

5

**Objectives**

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

**Key achievements in 2016**

- Discussed and developed the Company's risk appetite framework;
- considered the plans and outcome of the Group's half year results announcement and full year Annual Report;
- discussed key risks associated with the move of the Group's head office; and
- reviewed the Corporate Risk Assessment and methodology.

**Roles and responsibilities**

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

**Governance processes**

The Audit and Risk Committee meets at least four times a year and as requested by the external auditor. During 2016 the Committee held a private session with the external auditor without members of management being present.

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

**Significant issues**

Prior to each meeting of the Committee at which they are to be considered, management produces a paper providing details of any significant accounting tax, compliance and legal issues. Management are also invited to attend these meetings where further guidance is required. The significant issues considered by the Committee in respect of the 2016 Annual Report are as follows:

Significant issue	How the item was addressed
<a href="#">Deferral of membership fee income</a>	The Audit Committee places reliance on management controls over revenue recognition. The deferral of membership fee income is derived by a procedural calculation which has been automated to the greatest extent possible to lower the risk of human error. The outcome is reviewed by senior finance team members each month. Controls over the deferral of membership income have functioned robustly throughout the year.

**Potential impairment of goodwill and intangible assets**

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 2016. Please refer to note 13 to the Financial Statements for further information.

## Governance

# Report of the Audit and Risk Committee continued

### 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 2016 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.

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

### Risk management

Our risk management process and the risks which are considered to be the principal risks of the Group are detailed on pages 24 to 26.

During the year the Committee has reviewed the Group's risk assessment and methodology. The Committee also discussed and developed the Group's risk appetite framework. This included a bottom-up exercise to identify the key risks associated with the Group's strategic drivers, define a selection of key risk indicators and set tolerance levels against these.

### 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 2016 and up to at least 14 March 2017. 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'.

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. This decision was revisited and reconfirmed by the Committee during the year. 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 and March 2017 meetings.

### Non-audit services

In addition to their audit services, in 2016 the auditors provided a review of the half year results announcement and facilitated several risk management workshops. The fees for these services totalled £21,500, compared to a statutory audit fee of £99,000.

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 Committee approved 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. In line with new EU regulations, the Committee will now be responsible for reviewing and approving all non-audit services from 1 January 2017.

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

As part of the evaluation process, the performance and effectiveness of the Audit and Risk Committee was considered and it was agreed that the Committee continued to work effectively. The Board noted the extensive work on risk appetite carried out during the year and the Committee will ensure that regular reviews of this are carried out to ensure it remains embedded within the business.

### 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 55, 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 2017

## Governance

# Report of the Remuneration Committee

**Chairman**

David Kelly

**Committee members**Penny Hughes, Paul Gilbert,  
Emma Woods**Number of meetings held in 2016**

5

**Dear Shareholder**

I am pleased to welcome you to the second Report of the Remuneration Committee which The Gym Group has prepared since its IPO in November 2015 and to introduce myself as the new Chairman of the Remuneration Committee, having taken over from Paul Gilbert in July 2016.

This Report contains details of the remuneration received by our Directors during 2016. We also include a summary of the remuneration policy that was approved by shareholders at the 2016 AGM, with over 97% voting in favour. No changes are proposed to this policy, full details of which can be found in last year's Report at [www.tggplc.com](http://www.tggplc.com).

**Summary of our Directors' remuneration policy**

As explained last year, 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 conscious of the fact that our policy must be sufficiently flexible so as to take account of the Company's continuing evolution following its admission to the London Stock Exchange, as our senior executive pay arrangements transition over time from ones that were reflective of a non-listed private equity-backed entity to a more standard plc structure. For example, and as explained in last year's Report, a conservative approach was taken to salary in 2016 (our first full year following Admission) on the basis that, as The Gym Group 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.

In addition, annual bonus and long term incentive opportunity were also set at conservative levels in 2016 for our Executive Directors (i.e. a maximum bonus opportunity of 47.5% of salary and awards under the Performance Share Plan ('PSP') of between 75% and 87.5% of salary), with it stated that these levels would increase in 2017 to 75% under the annual bonus and 150% to 175% under the PSP, with additional headroom in terms of maximum reward opportunity reserved in both plans to offer higher incentive opportunity in future years if considered appropriate.

**Key Committee activities**

The Committee undertook a number of activities during the course of, and shortly following the end of, 2016, which was a year of strong financial performance at The Gym Group with 22.6% revenue growth and 33.4% growth in Group Adjusted EBITDA.

Governance

# Report of the Remuneration Committee continued

It was in this context that the Committee made the following decisions:

## 2016 remuneration considerations

2016 annual bonus	As set out on pages 47 and 48, in 2016 the Executive Directors earned a bonus equal to 12.9% of salary, 27.2% of the maximum award for that year of 47.5% of salary, reflecting an increase in Group Adjusted EBITDA to £22.7 million and around on-target performance for NPS and employee engagement.
2016 PSP	The first awards were made under the PSP to the Executive Directors over shares worth 87.5% of base salary in the case of John Treharne and 75% for Richard Darwin and Jim Graham. Awards vest three years after grant subject to continued employment and the achievement of stretching EPS and relative Total Shareholder Return (TSR) targets.

## 2017 remuneration considerations

2017 base salaries	Base salaries were reviewed with consideration for changes in responsibilities and scope of roles, and pay practices in comparable companies. The Executive Directors will receive a 2% increase in base salaries in 2017, in line with the salary increases for salaried staff. Base salaries for the Executive Directors for 2017 will be: John Treharne £244,800; Richard Darwin £183,600.
2017 annual bonus	As described in last year's Report, the Executive Directors' bonus opportunity will increase to 75% of salary, still within the plan maximum of 100% of salary. Page 51 summarises the structure of the 2017 bonus which reflects the approach adopted in 2016.
2017 PSP	The second round of awards will be made to the Executive Directors in 2017. As noted last year, awards over shares worth 175% of base salary will be made to John Treharne and 150% of salary to Richard Darwin, within the normal plan maximum of 200%. As was the case with the 2016 awards, vesting will be subject to the satisfaction of stretching EPS and relative TSR targets.

## Other matters

Termination arrangements for Jim Graham	Jim Graham left the Group on 22 November 2016. The main terms of his termination arrangements are summarised on page 49. These arrangements reflect our shareholder approved policy, Jim Graham's service contract and the terms of the annual bonus and PSP.
Launch of The Gym Group plc Share Incentive Plan ('SIP')	The Committee oversaw the launch of the SIP in which all staff were given the opportunity to acquire free shares worth £1,000 as well as the ability to purchase up to £1,800 worth of further shares from their gross salary, which are matched by the Company on a 1:1 basis. 79 staff members now participate in the SIP on an ongoing basis.
Terms of reference	The Committee reviewed its terms of reference to ensure they remained fit for purpose.

### 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 2016, as well as other required disclosures. As noted above, we are not proposing any changes to our policy for 2017. Therefore, we will be only holding one vote on remuneration matters at the 2017 AGM, namely a vote on the Implementation Report.

The Committee welcomes, and carefully considers, any feedback we receive from our shareholders in relation to our executive remuneration policy and practices. As such, we were very pleased to receive such strong levels of support from investors at the 2016 AGM for our new policy and Implementation Report, receiving 97.5% and 99.9% votes in favour respectively.

We are also closely monitoring the various reports that have been recently published in connection with executive remuneration and the related consultation exercises to ensure that The Gym Group operates its policy with due account taken of evolving best practice. For example, the Committee is mindful of ongoing debate regarding the publication of ratios comparing CEO to employee pay. The Committee does not at present consider it appropriate to publish such data in this report as it is concerned that no common methodology has yet been established amongst UK companies and their investors for these comparisons; the Company's expectation is that it will publish ratios showing comparisons in future years if and when UK regulations or guidance develop a common methodology.

I hope you are supportive of our approach to executive pay at The Gym Group and that you will vote in favour of the resolution to be tabled at the 2017 AGM.

**David Kelly**  
Chairman of the Remuneration Committee  
14 March 2017

## Introduction

This report contains the material required to be set out as the Directors' Remuneration Report for the purposes of Part 4 of The Large and Medium-Sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which amended The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the DRR Regulations'). Shareholder approval was obtained at the 2016 AGM for our Directors' remuneration policy, which was 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. No changes are being made to this policy, which will continue to apply for the forthcoming year. For ease of reference, we have set out in Part A below the key features of our policy. The full, formal policy is as disclosed in last year's Report.

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

## Part A: Directors' remuneration policy

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

Element and purpose	Policy and operation	Maximum	Performance measures
<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), additional mobile telephone contracts (in the case of the CEO) and, from 2017, a car allowance and life assurance.</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

## Governance

# Report of the Remuneration Committee

## 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.</p>	<p>The maximum level of annual bonus plan outcomes is 100% of base salary for the duration of this policy. However, in 2017 the Executive Directors' bonus cap will be 75% of salary.</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.</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. Awards made in 2017 will be as follows: John Treharne – 175% of salary, Richard Darwin – 150% of salary.</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>

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 operates an all-staff Share Incentive Plan (under which an award of 'free shares' can be made, as well as 'partnership shares' and 'matching shares'). The Company also has the facility to operate a Sharesave scheme.</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

## Governance

# Report of the Remuneration Committee continued

Other elements of our policy include:

### Service contracts

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

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

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

David Burns was 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 was terminable on one months' notice given by either party, subject to the terms of the Relationship Agreement. Philip Newborough was appointed to the Board for up to 12 months after Admission. His appointment was terminable on one months' notice given by either party. Philip Newborough and David Burns resigned from the Board with immediate effect on 31 August 2016.

### Recruitment remuneration policy

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

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

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

For external and internal appointments, the Committee may agree that the Company will meet certain relocation expenses as it considers appropriate. For external candidates, it may be necessary to make additional awards in connection with the recruitment to buy-out awards forfeited by the individual on leaving a previous employer.

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

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

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

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

### Termination policy summary

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

### Annual bonus plan

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

### Performance Share Plan

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

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

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

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

### 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 an 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.

### Consideration of shareholder views

The Committee considers shareholder views received during the year and at each Annual General Meeting, as well as guidance from shareholder representative bodies more broadly, when determining the remuneration policy and its implementation. The Committee will consult with major shareholders in advance of any material change to the structure and / or operation of the policy and will seek formal shareholder approval for any such change if required. As stated in the Committee Chair's introductory letter, both remuneration-related resolutions were passed with very substantial majorities at the 2016 AGM.

### Other policy matters

Last year's Report also set out formal details of our approach to:

- travel and hospitality;
- the differences between the policy on remuneration for Directors from the policy on remuneration for other staff;
- external appointments;
- consideration of employment conditions elsewhere in the Group; and
- the operation of malus and clawback in relation to the PSP and annual bonus.

Governance

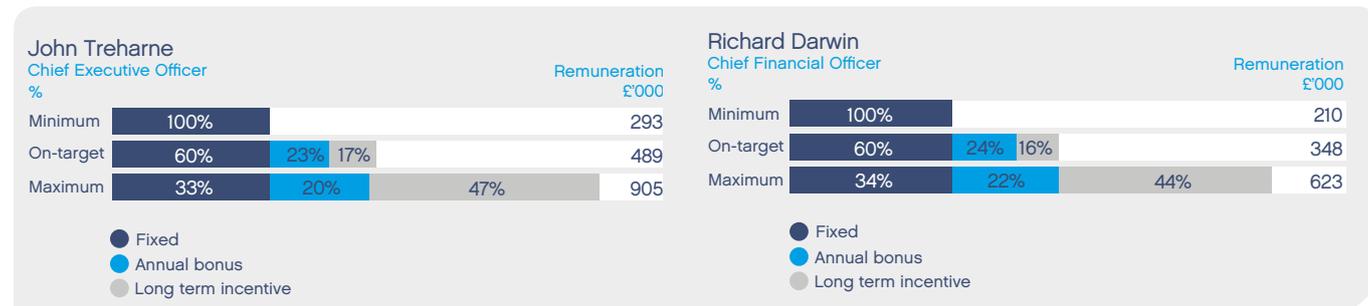
# Report of the Remuneration Committee

## continued

### Illustrations of application of remuneration policy

The following charts show how the remuneration policy for Executive Directors will be applied in 2017 using the following assumptions and is based on the revised annual bonus opportunity and PSP awards provided to the Executive Directors described elsewhere in this Report:

<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 2017.</li> <li>Benefits measured as benefits paid in the year ended 31 December 2016 plus the company car allowance to be paid in 2017.</li> <li>Pension measured as the defined contribution or cash allowance in lieu of Company contributions of 10% to 15% of salary.</li> </ul>															
	<table border="1"> <thead> <tr> <th></th> <th>Base salary</th> <th>Benefits</th> <th>Pension</th> <th>Total fixed</th> </tr> </thead> <tbody> <tr> <td>John Treharne</td> <td>£244,800</td> <td>£11,668</td> <td>£36,720</td> <td>£293,188</td> </tr> <tr> <td>Richard Darwin</td> <td>£183,600</td> <td>£7,850</td> <td>£18,360</td> <td>£209,810</td> </tr> </tbody> </table>		Base salary	Benefits	Pension	Total fixed	John Treharne	£244,800	£11,668	£36,720	£293,188	Richard Darwin	£183,600	£7,850	£18,360	£209,810
		Base salary	Benefits	Pension	Total fixed											
John Treharne	£244,800	£11,668	£36,720	£293,188												
Richard Darwin	£183,600	£7,850	£18,360	£209,810												
<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>Long Term Incentive ('LTI'): consists of the threshold level of vesting (20% vesting) of PSP awards (at 175% of salary for John Treharne and 150% of salary for Richard Darwin).</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 75% of base salary.</li> <li>LTI: consists of full vesting of PSP awards (at 175% of salary for John Treharne and 150% of salary for Richard Darwin) under the PSP.</li> </ul>															



### Part B: Implementation Report

#### The Committee (unaudited information)

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

The Chief Executive Officer and other Executive Directors as necessary are invited to attend meetings of the Committee, except when their own remuneration is being directly discussed. Penny Hughes takes no part in any discussions relating to her own remuneration. The Committee met five times during the year and the table on page 33 details attendance of members at these meetings.

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

FIT Remuneration Consultants LLP ('FIT'), signatories to the Remuneration Consultants Group's Code of Conduct, were appointed by the Committee and provide advice to the Committee on all matters relating to remuneration, including best practice. FIT provided no other services to the Group and, accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2016 were £62,000. FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

**Single total figure table (audited)**

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

For the year ended 31 December 2016:

	Salary / fees <sup>1</sup>	Taxable benefits <sup>2</sup>	Bonus <sup>3</sup>	Long term incentives	Pension <sup>4</sup>	Other	Total remuneration
John Treharne	£240,000	£6,668	£30,960	–	£36,000	–	£313,628
Jim Graham <sup>5</sup>	£165,154	£2,725	£23,220	–	£14,148	–	£205,247
Richard Darwin	£180,000	£2,850	£23,220	–	£18,000	–	£224,070
Paul Gilbert	£50,000	£2,402	–	–	–	–	£52,402
Penny Hughes	£130,000	–	–	–	–	–	£130,000
David Kelly <sup>6</sup>	£24,463	–	–	–	–	–	£24,463
Emma Woods <sup>7</sup>	£6,528	–	–	–	–	–	£6,528
David Burns <sup>8</sup>	£20,000	–	–	–	–	–	£20,000
Philip Newborough <sup>8</sup>	£20,000	–	–	–	–	–	£20,000

## 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, a car parking space (in the case of the CFO) and additional mobile telephone contracts (in the case of the CEO).
- 3 Further details of the bonus outturn for 2016 can be found on pages 47 to 48.
- 4 Pensions are provided via a defined contribution and / or cash supplement.
- 5 Jim Graham resigned as a Director on 22 November 2016.
- 6 David Kelly was appointed as a Director on 5 July 2016.
- 7 Emma Woods was appointed as a Director on 14 November 2016.
- 8 David Burns and Philip Newborough resigned as Directors on 31 August 2016.

For the year ended 31 December 2015:

	Salary / fees <sup>1</sup>	Taxable benefits <sup>2</sup>	Bonus	Long term incentives	Pension <sup>3</sup>	Other <sup>4</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>5</sup>	£19,861	–	–	–	–	–	£19,861
David Burns	£30,000	–	–	–	–	–	£30,000
Philip Newborough	£30,000	–	–	–	–	–	£30,000
Andrew Mathews <sup>6</sup>	£74,688	£857	–	–	£2,604	–	£78,149

## 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, a car parking space (in the case of the CFO) and additional mobile telephone contracts (in the case of the CEO).
- 3 Pensions are provided via a deferred contribution and / or cash supplement.
- 4 Relates to a non-recurring joining bonus on appointment as a Director prior to Admission.
- 5 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.
- 6 Resigned as a Director on 18 May 2015. Remuneration relates to Andrew Mathews' period as a Director.

2015 was a transitional year in respect of Directors' remuneration as executive pay arrangements moved from those reflective of a non-listed private equity-backed entity to a more standard plc structure.

The aggregate emoluments (being salary / fees, bonuses, benefits and pension allowances) of all Directors for 2016 was £996,338 (2015: £963,732). Total pension contributions were £68,148 (2015: £27,375).

**Further information on the 2016 annual bonus (audited)**

While the overall bonus plan maximum was 100% of salary, for 2016 the Executive Directors' bonus cap was 47.5% of salary. 70% of the bonus was based on financial targets, subject to: (i) a minimum number of new sites being opened and (ii) adjustment based on the number of new sites actually opened compared to target openings, with the remaining 30% based on personal / strategic targets.

## Governance

# Report of the Remuneration Committee

## continued

The financial targets were as follows:

	Threshold	Target	Maximum
EBITDA £m	22.7	23.4	24.5
% of this element of bonus payable	20%	60%	100%

The actual Group Adjusted EBITDA for the year of £22.7 million resulted in 20% of the financial targets element being payable.

The personal / strategic targets related to the number of site openings, Net Promoter Score and employee engagement. A summary of overall performance against these metrics is as follows:

- Site openings – the threshold number of site openings was 18, with the stretch set at 25. In total 15 sites were opened during the year, hence this element of bonus was not payable.
- NPS / employee engagement – stretch targets for NPS and employee engagement were 55% and 88%, with targets at 50% and 80% respectively. Actual performance was 62.2% for NPS and 74% for employee engagement, resulting in a portion of this element of bonus being payable.

Based on overall performance against these metrics, the Executive Directors each earned a bonus of 27.2% of the maximum available under this element, amounting to 12.9% of salary. Due to issues of commercial sensitivity, the Committee does not believe it to be in shareholders' interests for any further disclosures to be made in relation to the bonus targets.

It was also determined that Jim Graham should be awarded a bonus of 12.9% of his annual salary, reflecting his contribution to the full year results and work undertaken towards a smooth transition to the new Executive Committee members.

### Performance Share Plan awards (audited)

As reported in last year's report, awards were made to the Executive Directors 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, as follows:

Executive	Date of grant	Awards held at 1 Jan 2016	Awards granted during the year	Awards vested during the year	Awards lapsed during the year	Interests held at 31 Dec 2016	Face value of awards granted
John Treharne	16 March 2016	–	86,776	–	–	86,776	£210,000
Richard Darwin	16 March 2016	–	55,785	–	–	55,785	£135,000
Jim Graham	16 March 2016	–	55,785	–	55,785	–	£135,000

The above PSP awards were granted at the mid-market closing price of 242p on the last day of trading prior to grant, which represents the face value of awards granted. The exercise price is 0.01p. The minimum share price in 2016 was 159.75p and the maximum share price was 274.0p. The closing share price on 31 December 2016 was 170.0p.

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

#### Adjusted EPS (50% of award)

2018 Adjusted EPS <sup>1</sup>	% of award that vests
Below 9p	0%
9p	20%
13.6p	100%
Between 9p and 13.6p	Pro-rata straight-line between 20% and 100%

#### Relative TSR vs FTSE Small Cap (excluding investment trusts) over the three financial years to 31 December 2018 (50% of award)

Ranking	% of award that vests
Below median	0%
Median	20%
Upper quintile	100%
Median to upper quintile	Pro-rata straight-line between 20% and 100%

<sup>1</sup> Adjusted EPS is calculated as the Group's profit for the year before amortisation, exceptional items, other income and the related tax effect, divided by the basic weighted average number of shares.

As the charge arising from long term employee incentives was not finalised at the time of setting the original Adjusted EPS targets, the Committee has determined that the Adjusted EPS target should also be calculated after the full impact of this charge.

**Participation in the Share Incentive Plan (audited)**

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

	Total SIP shares at 1 Jan 2016	Partnership shares purchased	Matching shares awarded	Free shares awarded	Total SIP shares at 31 Dec 2016
John Treharne	–	811	811	381	2,002
Richard Darwin	–	811	811	381	2,002
Jim Graham	–	–	–	–	–

**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 2016:

	Ordinary shares	Shares awarded under SIP	Maximum awards receivable under PSP	Total interests
John Treharne	4,531,748	1,192	86,776	4,619,716
Richard Darwin <sup>1</sup>	972,632	1,192	55,785	1,029,609
Paul Gilbert	887,776	–	–	887,776
Penny Hughes	26,089	–	–	26,089
David Kelly	–	–	–	–
Emma Woods	–	–	–	–

<sup>1</sup> The total number of Ordinary shares in which Richard Darwin or persons connected with him are interested includes 35,758 Ordinary shares owned by Charlotte Darwin and 12,500 shares held through a SIPP.

There have been no changes in Directors' shareholdings since 31 December 2016.

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 2016 year end, the Executive Directors complied with this requirement.

**Payments for loss of office (audited)**

As noted above, Jim Graham left the Board on 22 November 2016. Up to that date he received salary, pension and benefits in the normal course, such payments then ceasing on that date.

Jim Graham was treated as a 'good leaver' under the annual bonus plan and therefore received his 2016 bonus for the full year, reflecting his contribution to the full year results and work undertaken towards a smooth transition to the new Executive Committee members. The award made to him under the PSP in March 2016 lapsed.

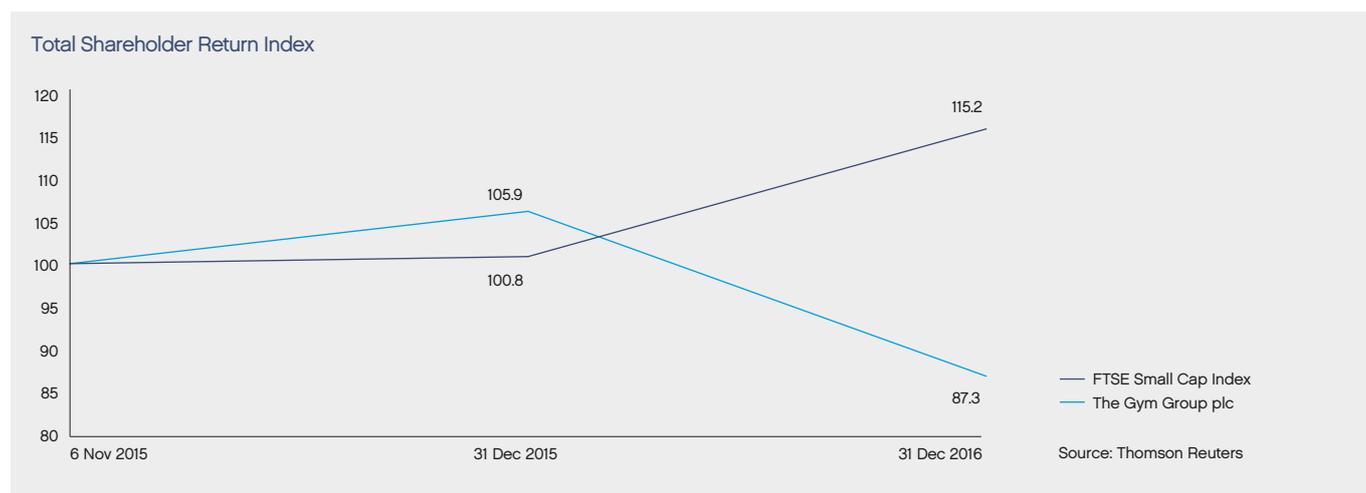
Other than the amounts disclosed above, Jim Graham did not receive any payments for loss of office as a Director of the Company, nor any other payments in relation to the cessation of his employment.

Governance

# Report of the Remuneration Committee continued

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

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



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

	Single figure of total remuneration	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2015	£287,793	£60,000 <sup>1</sup>	n/a
2016	£313,628	27.2%	n/a

<sup>1</sup> The actual bonus paid has been inserted for 2015 as this related to the year of Admission when an uncapped discretionary bonus plan was in operation. No long term incentive awards have vested in 2015 or 2016.

### 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	16.8	3.0
Short term incentives	(48.4)	3.0
All taxable benefits	(24.3)	3.4

This reflects the changes made to John Treharne's remuneration as a consequence of the Company's IPO.

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

The table below details the change in total staff pay between 2015 and 2016 as detailed in note 8 to the Financial Statements, compared with distributions to shareholders by way of dividend, share buy backs or any other significant distributions or payments. These figures have been calculated in line with those in the audited Financial Statements:

	% change	2016 (£'000)	2015 (£'000)
Total gross staff pay	19.7%	9,004	7,520
Dividends / share buy backs	100%	25.8	–

### Summary of shareholder voting at the 2016 AGM

The following table shows the results of the advisory and binding votes at the 2016 Annual General Meeting:

	Approval of the 2015 Directors' Remuneration Report		Approval of the Remuneration Policy	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	107,552,804	99.85%	105,025,422	97.5%
Against	164,600	0.15%	2,691,982	2.5%
Votes withheld	–	0%	0%	0%

### Implementation of policy for 2017 (unaudited information)

#### Base salary

The Executive Directors' base salaries for 2017 will be as follows:

- John Treharne: £244,800
- Richard Darwin: £183,600

#### Pension

Contributions rates for John Treharne for 2017 will be 15% of salary and 10% for Richard Darwin. Contributions may be made as cash supplements in full or in part.

#### Benefits

Details of the benefits received by Executive Directors are set out in note 2 to the single figure table on page 47. In 2017 the Executive Directors will receive additional benefits of a £5,000 company car allowance and life assurance.

#### Annual bonus

While the overall bonus plan maximum will be 100% of salary, for 2017 the Executive Directors' bonus cap will be 75% of salary. 70% of the bonus will be based on financial targets (namely EBITDA, albeit subject to a minimum site openings threshold and capable of adjustment based on number of sites opened), with the remaining 30% based on personal / strategic targets relating to KPIs such as site openings, Net Promoter Score and staff engagement. These targets are directly linked to key financial and operational objectives which, if achieved, will drive the generation of sustainable returns to shareholders. 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 2017 bonus in next year's Report. Bonuses are payable in full in cash.

#### Long term incentives

Awards will be made in 2017 under the PSP to John Treharne over shares worth 175% of salary, with Richard Darwin receiving an award over 150% of salary worth of shares. These awards will vest three years after grant based upon performance against the following stretching and equally weighted EPS and relative TSR targets which encourage the generation of sustainable long term returns to shareholders, which have been set in light of internal and external forecasts, and which the Committee believes are no less challenging in relative terms than the targets set for the 2016 awards:

#### Adjusted EPS (50% of award)

2019 Adjusted EPS	% of 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 the Group's profit for the year before amortisation, exceptional items, other income and the related tax effect, divided by the basic weighted average number of shares, unless the Committee determines otherwise.

#### Relative TSR vs FTSE Small Cap (excluding investment trusts) over the three financial years to 31 December 2019 (50% of award)

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

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

As part of the evaluation process, the performance and effectiveness of the Remuneration Committee was considered. The Board felt that the Committee worked well and that the new Chairman had settled into the role well. The Directors agreed that remuneration would continue to be a key focus for the business and that it was important to ensure that the Committee remained focused on ensuring the remuneration policy remained fit for the business needs, whilst taking heed of guidance published by a number of institutional shareholders and proxy voting agencies, and liaising directly with shareholders and employees to ensure all views were considered on a regular basis.

#### Non-Executive Directors' fees

Penny Hughes will receive an annual fee of £130,000 as Chairwoman. Paul Gilbert, David Kelly and Emma Woods will each receive a fee of £50,000.

On behalf of the Board

#### David Kelly

Chairman of the Remuneration Committee  
14 March 2017

Governance

# Directors' Report

As permitted by legislation, some of the matters normally included in the Directors' Report have instead been included in the Strategic Report (pages 4 to 29) as the Board considers them to be of strategic importance.

## Corporate structure

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

## The Board

The Directors who served during the year were:

Penny Hughes
John Treharne
Richard Darwin
Paul Gilbert
David Kelly (appointed 5 July 2016)
Emma Woods (appointed 14 November 2016)
Jim Graham (resigned 22 November 2016)
David Burns (resigned 31 August 2016)
Philip Newborough (resigned 31 August 2016)

The roles and biographies of the Directors as at the date of this Report are on pages 30 and 31.

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

## Directors' indemnity

The Company has granted a third-party indemnity to each of its Directors against any liability 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.

## Dividend

The Board recommends a final dividend of 0.75p per share in respect of the financial year ending 31 December 2016. Shareholders will be asked to approve the dividend at the AGM on 6 June 2017, for payment on 16 June 2017 to shareholders whose names are on the register on 26 May 2017.

## 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 4 to 29 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 32 to 34, 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 28 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 28 and forms part of this report by reference.

## Political donations

The Company made no political donations in 2016 (2015: £nil).

## Employee involvement and policy regarding disabled persons

The Gym 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 an employee becomes disabled in the course of their employment the Company will actively seek to retain them wherever possible by making adjustments to their work content and environment or by retraining them to undertake new roles. The Group 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 2016, and their connected persons, in the issued Ordinary shares are provided on page 49 within the Report of the Remuneration Committee.

### Major interests in shares

As at 31 December 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 Equity Partners 2010 Guernsey Limited	26,189,536	20.4%
Bridges Ventures LLP	12,957,133	10.1%
SFM UK Management LLP	8,998,097	7.01%
Legal & General Investment Management Limited	8,907,236	6.94%
Standard Life Investments Limited	8,485,283	6.6%
Threadneedle Asset Management Limited	7,499,632	5.85%
Quantum Partners LLP	7,400,000	5.8%
FIL Investments International	6,921,322	5.4%
Hargreave Hale Ltd	6,607,036	5.15%
Standard Life Investments Limited	6,057,644	4.7%
Legal & General Group Plc	5,150,182	4.01%
John Treharne	4,531,748	3.5%

Between 31 December 2016 and 14 March 2017 the Company received further notifications under DTR 5:

Institution	Number of shares	Percentage
Standard Life Investments Limited	8,485,283	6.6%

### 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 with voting rights, are set out in the Articles of Association.

The Ordinary shares rank *pari passu* in all respects with the other Ordinary shares in issue, 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 employees require approval to deal in the Company's shares; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

The Company is not aware of any arrangements between shareholders 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

At the 2016 AGM the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Act) of its Ordinary shares on such terms and in such manner as the Directors of the Company may determine subject to the following conditions:

- the maximum number of Ordinary shares authorised to be purchased is 12,810,527 representing 10% of the Company's existing share capital;
- the minimum price (exclusive of expenses) which may be paid for an Ordinary share is 0.01p (being the nominal value of the Ordinary shares);
- the maximum price (exclusive of expenses) which may be paid for each Ordinary share purchased under this authority is the higher of:
  - an amount equal to 105% of the average of the middle market price shown in the quotations for an Ordinary share as derived from the London Stock Exchange Daily Official List for the five business days immediately preceding the day on which the Ordinary share is contracted to be purchased; and
  - an amount equal to the higher of the price of the last independent trade of an Ordinary share and the highest current independent bid for an Ordinary share as derived from the London Stock Exchange Trading System; and
- the authority shall expire at the close of the next Annual General Meeting of the Company after the passing of this resolution or, if earlier, on 30 June 2017.

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

Governance

# Directors' Report continued

## Authority to allot shares

At the 2016 AGM, the Company was authorised to allot equity securities in connection with an offer or fresh issue to or, in favour of:

- (i) holders of Ordinary shares in proportion (as nearly as practicable) to their existing holdings;
- (ii) holders of equity securities if this is required by the rights of those securities or, if the Directors consider it necessary, as permitted by the rights of those securities, and so that the Directors may impose any limits, exclusions or restrictions or make other arrangements as they consider appropriate in relation to treasury shares, fractional entitlements, record dates, legal or practical problems under the laws in any territory or the requirements of any regulatory body or stock exchange or any other matter; the Company may allot equity securities for cash up to a maximum nominal amount of £4,270.17.

## 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 21 to the Consolidated Financial Statements.

## Information presented in other sections

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

Section	Listing Rule requirement	Location
4	Details of long term incentive schemes	Report of the Remuneration Committee (page 42)

## 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 Annual General Meeting.

## AGM

The Notice convening the 2017 AGM will be circulated to shareholders separately.

On behalf of the Board

## Richard Darwin

Chief Financial Officer and Company Secretary  
14 March 2017

## Governance

# 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 ('IFRS') as adopted by the EU. The Directors have elected to prepare the Parent Company Financial Statements in accordance with the Companies Act 2006 and UK Accounting Standard FRS 101 'Reduced Disclosure Framework'.

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

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

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

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

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

**Responsibilities statement**

We confirm that to the best of our knowledge:

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

On behalf of the Board

**Richard Darwin**

Chief Financial Officer and Company Secretary  
14 March 2017

Financial Statements

# 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 2016 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

## What we have audited

The Gym Group plc's Financial Statements comprise:

Group	Parent Company
Consolidated Statement of Financial Position as at 31 December 2016	Company Statement of Financial Position as at 31 December 2016
Consolidated Statement of Comprehensive Income for the year then ended	Company Statement of Changes in Equity for the year then ended
Consolidated Statement of Changes in Equity for the year then ended	Related notes 1 to 8 to the Financial Statements
Consolidated Cash Flow Statement for the year then ended	
Related notes 1 to 26 to the Financial Statements	

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company Financial Statements is applicable law and United Kingdom Accounting Standards (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>• Deferral of membership income.</li> <li>• Annual goodwill impairment testing cash flow and discount rate assumptions.</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 one component.</li> <li>• The components where we performed full or specific audit procedures accounted for 100% of profit before tax and exceptional items, 100% of revenue and 100% of total assets.</li> </ul>
Materiality	<ul style="list-style-type: none"> <li>• Overall Group materiality of £363,000 which represents 5% of profit before tax and exceptional items.</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.

Risk	Our response to the risk	What we concluded to the Audit and Risk Committee
<p><b>Deferral of membership income – total revenue for the year ended 31 December 2016: £73.5 million (31 December 2015: £59.9 million), of which £3.8 million was deferred at 31 December 2016 (31 December 2015: £2.8 million).</b></p> <p>Refer to the Report of the Audit and Risk Committee (page 37); accounting policies (page 67); and notes 4 and 17 to the Consolidated Financial Statements (pages 70 and 75).</p> <p>Members' monthly subscription payments are collected each month on or just after the same day of the month in which they joined. The Group collects non monthly subscriptions at the commencement of the relevant subscription period. Consequently, in preparing the annual accounts management need to calculate the amount of payments collected which relate to membership entitlement after the year end date and hence needs to be deferred.</p> <p>Although this process does not involve judgements and estimates, it is non-routine in its performance and given the number of members, varying subscription rates, the reliance on outsourced processes, manual general ledger postings etc., there is an increased risk of material error in making this calculation. 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 deferred membership fee income calculation process and related controls.</p> <p>We checked the completeness of the members included in the deferred membership fee income calculation by reference to the December 2016 membership income reports used to post revenue and cash.</p> <p>We agreed a sample of the data used in management's deferred revenue calculation (for example the membership ID, joining / direct debit date and subscription rate) to the members database and the December 2016 membership income reports used to post revenue and cash.</p> <p>We re-performed management's deferred membership fee income calculation.</p> <p>We tested the appropriateness of journal entries recorded in the general ledger in relation to deferred membership income.</p> <p>We considered the risk of management override in the revenue process including the deferred membership income calculation.</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 deferral of membership income in the year ended 31 December 2016.</p>

# 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 and Risk Committee
<p><b>Annual goodwill impairment testing cash flow and discount rate assumptions – 31 December 2016: £45.2 million (31 December 2015: £45.2 million)</b></p>	<p>We obtained management's impairment testing, considered the calculation methodology, sources for key assumptions and sensitivities applied.</p>	<p>Based on our procedures, we believe that the combined effect of the cash flow and discount rate assumptions used by management in The 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>Refer to the Report of the Audit and Risk Committee (page 37); accounting policies (page 67); and note 13 to the Consolidated Financial Statements (page 74).</p>	<p>We discussed with management the basis of the key assumptions used in the impairment model, being the discount rate, revenue growth and cost inflation over the next three years and the long term growth from 2020 onwards, as disclosed in note 13 to the Consolidated Financial Statements. We then challenged the reasonableness of these assumptions by reference to historical data, external benchmarks and the risk of management bias.</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 IAS1R.</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>We also assessed the historical accuracy of management's forecasting by comparing actual financial performance to management's previous forecasts / budgets.</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 IAS1R.</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 2016.</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 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>We ensured that the Financial Statement disclosures, particularly those in note 13 to the Consolidated Financial Statements, met the requirements of IAS 36 and IAS1R 'Presentation of financial statements' ('IAS 1R'), particularly those related to judgements, estimation uncertainty and sensitivities.</p>	
<p>The significant assumptions are disclosed in note 13 to the Consolidated Financial Statements.</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>	

In the prior year, our auditor's report included a risk of material misstatement in relation to accounting for the IPO and related refinancing transactions. This risk related solely to the year ended 31 December 2015 and is therefore not relevant in the current year.

### 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 three components covering entities which represent the principal business units within the Group. All reporting components within the Group are located in the United Kingdom.

Of the three components selected, we performed an audit of the complete financial information of two components ('full scope components') which were selected based on their size or risk characteristics. These full scope components comprise the Parent Company and the sole trading entity within the Group. For the remaining one component ('specific scope component'), which is an intermediate holding company performing certain Group management functions, we performed audit procedures on specific accounts of that component that we considered had the potential for the greatest impact on the significant accounts in the Financial Statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2015: 100%) of the Group's revenues, profit before tax and exceptional items, profit before tax, and total assets.

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

	2016			2015		
	Full scope	Specific scope	Remaining components	Full scope	Specific scope	Remaining components
Number of components	2	1	2	2	2	1
Revenue	100%	–	–	100%	–	–
Profit/(loss) before tax and exceptional items	133%	(33%)	–	67%	(167%)	–
Profit/loss before tax	135%	(35%)	–	25%	(125%)	–
Total assets	99.9%	0.1%	–	100%	–	–

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

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

### Changes from the prior year

Our 2016 audit scope is consistent with our 2015 audit scope with the exception that one specific scope component has this year been subject to other procedures as their account balances in 2016 are primarily comprised of amounts which eliminate on consolidation.

### 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 £363,000 (2015: £340,000), which is 5% of profit before tax and exceptional items. We believe that profit before tax and exceptional items provides a consistent measure of underlying performance as it excludes non-recurring exceptional items. This adjusted measure is used by the market and analysts as a key metric and therefore a focus for shareholders. The Group's profit before tax and exceptional items in the current year of £7,261,000 has been arrived at by adding back £321,000 of exceptional items (as disclosed in note 4 to the Consolidated Financial Statements) to the Group's profit before tax of £6,940,000.

In the prior year we determined materiality for the Group to be £340,000, which was 2% of EBITDA before exceptional items and other income. We considered it was inappropriate to calculate materiality using the Group loss before tax and exceptional items given that this loss arose primarily from the private equity funding structure of the Group prior to its IPO on the London Stock Exchange on 9 November 2015.

During the course of our audit, we reassessed initial materiality from an amount of £337,000 based on pre year end forecasts to the amount indicated above once actual results were available.

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

## Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2015: 50%) of our planning materiality, namely £272,250 (2015: £170,000). We have set performance materiality at this percentage due to experience with the Group since our appointment in 2015, demonstrating an effective control environment and low incidence of misstatements. Performance materiality was set at 50% in the prior year 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 £136,125 to £272,250 (2015: £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 £18,000 (2015: £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. The increased amount reflects the increase in planning materiality indicated above.

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

## 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 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 55, 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 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## 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
- based on the work undertaken in the course of the audit:
  - the information given in the Strategic Report and the Directors' Report for the financial year for which the Financial Statements are prepared is consistent with the Financial Statements; and
  - the Strategic Report and the Directors' Report have been prepared in accordance with applicable legal requirements.

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

<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 and Risk Committee that we consider should have been disclosed.</p>	We have no exceptions to report
<b>Companies Act 2006 reporting</b>	<p>In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have identified no material misstatements in the Strategic Report or Directors' Report.</p> <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 26; 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 twelve 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 2017

Note: 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.

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
Revenue	4	73,539	59,979
Cost of sales		(830)	(1,073)
<b>Gross profit</b>		<b>72,709</b>	<b>58,906</b>
Administration expenses		(64,993)	(62,712)
Other income		–	1,105
<b>Operating profit / (loss)</b>	5	<b>7,716</b>	<b>(2,701)</b>
Finance income	9	19	265
Finance costs	10	(795)	(9,946)
<b>Profit / (loss) before tax</b>		<b>6,940</b>	<b>(12,382)</b>
Tax (charge) / credit	11	(1,237)	909
<b>Profit / (loss) for the year attributable to equity shareholders</b>		<b>5,703</b>	<b>(11,473)</b>
Other comprehensive income for the year		–	–
<b>Total comprehensive income / (loss) attributable to equity shareholders</b>		<b>5,703</b>	<b>(11,473)</b>
	Note	pence	pence
<b>Earnings per share</b>	7		
Basic		4.5	(19.0)
Diluted		4.4	(19.0)
<b>Adjusted earnings per share</b>			
Basic		5.6	(1.8)
Diluted		5.6	(1.8)
	Note	£'000	£'000
<b>Reconciliation of operating profit to Group Adjusted EBITDA</b>			
Operating profit / (loss)		7,716	(2,701)
Depreciation of property, plant and equipment	12	12,693	10,907
Amortisation of intangible assets	13	1,442	2,308
Exceptional items	6	321	7,607
Other income	5	–	(1,105)
Long term employee incentive costs	23	519	–
<b>Group Adjusted EBITDA</b>		<b>22,691</b>	<b>17,016</b>

Group Adjusted EBITDA is a non-GAAP metric used by management and is not an IFRS disclosure

The notes on pages 66 to 82 form an integral part of the Financial Statements.

# Consolidated Statement of Financial Position

As at 31 December 2016

	Note	31 December 2016 £'000	31 December 2015 £'000
<b>Non-current assets</b>			
Property, plant and equipment	12	99,037	85,237
Intangible assets	13	48,717	49,137
Trade and other receivables	15	403	–
Deferred tax asset	11	–	177
<b>Total non-current assets</b>		<b>148,157</b>	<b>134,551</b>
<b>Current assets</b>			
Inventories	14	159	122
Trade and other receivables	15	5,814	5,654
Cash and cash equivalents	16	4,822	2,860
<b>Total current assets</b>		<b>10,795</b>	<b>8,636</b>
<b>Total assets</b>		<b>158,952</b>	<b>143,187</b>
<b>Current liabilities</b>			
Trade and other payables	17	34,123	25,546
Income taxes payable		134	–
<b>Total current liabilities</b>		<b>34,257</b>	<b>25,546</b>
<b>Non-current liabilities</b>			
Borrowings	18	9,178	8,966
Provisions	19	544	232
Deferred tax liabilities	11	683	–
<b>Total non-current liabilities</b>		<b>10,405</b>	<b>9,198</b>
<b>Total liabilities</b>		<b>44,662</b>	<b>34,744</b>
<b>Net assets</b>		<b>114,290</b>	<b>108,443</b>
<b>Capital and reserves</b>			
Issued capital	22	12	12
Own shares held	22	48	48
Capital redemption reserve	22	4	4
Share premium	22	136,280	136,280
Retained deficit	22	(22,054)	(27,901)
<b>Total equity shareholders' funds</b>		<b>114,290</b>	<b>108,443</b>

The notes on pages 66 to 82 form an integral part of the Financial Statements.

These Financial Statements were approved by the Board of Directors on 14 March 2017.

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 2016

	Note	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Retained deficit £'000	Total £'000
At 1 January 2015		9	–	–	48,974	(17,398)	31,585
Loss for the year and total comprehensive loss		–	–	–	–	(11,473)	(11,473)
Share based payments	23	–	–	–	–	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 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
At 31 December 2015		12	48	4	136,280	(27,901)	108,443
Profit for the year and total comprehensive income		–	–	–	–	5,703	5,703
Share based payments	23	–	–	–	–	465	465
Dividends paid	26	–	–	–	–	(321)	(321)
<b>At 31 December 2016</b>		<b>12</b>	<b>48</b>	<b>4</b>	<b>136,280</b>	<b>(22,054)</b>	<b>114,290</b>

The notes on pages 66 to 82 form an integral part of the Financial Statements.

# Consolidated Cash Flow Statement

For the year ended 31 December 2016

		31 December 2016 £'000	31 December 2015 £'000
	Note		
<b>Cash flows from operating activities</b>			
Operating profit / (loss)		7,716	(2,701)
Adjustments for:			
Other income		–	(1,105)
Exceptional items	6	321	7,607
Depreciation of property, plant and equipment	12	12,693	10,907
Amortisation of intangible assets	13	1,442	2,308
Long term employee incentive costs		519	–
Loss on disposal of property, plant and equipment		30	98
Increase in inventories		(37)	(47)
Increase in trade and other receivables		(451)	(1,372)
Increase in trade and other payables		5,622	5,669
Cash generated from operations		27,855	21,364
Tax paid		(243)	(73)
Interest paid		(571)	(4,124)
Net cash flow from operating activities before exceptional items and other income		27,041	17,167
Other income		–	1,105
Exceptional costs		(944)	(7,001)
<b>Net cash flow from operating activities</b>		<b>26,097</b>	<b>11,271</b>
<b>Cash flows from investing activities</b>			
Proceeds from disposals of property, plant and equipment		22	–
Purchase of property, plant and equipment		(22,833)	(27,330)
Purchase of intangible assets		(1,022)	(575)
Interest received		19	16
<b>Net cash flows used in investing activities</b>		<b>(23,814)</b>	<b>(27,889)</b>
<b>Cash flows from financing activities</b>			
Dividends paid		(321)	–
Proceeds of issue of Ordinary shares		–	89,931
Drawdown of bank loans		–	17,500
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)
<b>Net cash flows (used in) / from financing activities</b>		<b>(321)</b>	<b>13,902</b>
Net increase / (decrease) in cash and cash equivalents		1,962	(2,716)
Cash and cash equivalents at 1 January		2,860	5,576
<b>Cash and cash equivalents at 31 December</b>		<b>4,822</b>	<b>2,860</b>

The notes on pages 66 to 82 form an integral part of the Financial Statements.

# Notes to the Consolidated Financial Statements

For the year ended 31 December 2016

## 1. General information

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

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

The registered address of the Company is No. 1 Croydon, 12-16 Addiscombe Road, Croydon, United Kingdom, CR0 0XT.

## 2. Summary of significant accounting policies

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

### Statement of compliance

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

### Basis of preparation

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

### Standards issued not yet effective

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

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

With the exception of IFRS 16, the adoption of these Standards and Interpretations is not expected to have a material impact on the Financial Statements of the Group in the period of initial application when the relevant standards come into effect. IFRS 16 specifies the recognition, measurement, presentation and disclosure of leases. 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 assets has a low value. The adoption of this standard will result in a material decrease in operating lease rental costs; material increases in depreciation and finance costs; a decrease in profit before and after tax; and a decrease in net assets due to the derecognition of the lease incentives and rental increases payable and recognition of lease assets and liabilities. Refer to note 24 for current operating lease commitments.

### New standards adopted

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

### Going concern

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

### Consolidation

#### Subsidiaries

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

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

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

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

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.

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.

## 2. Summary of significant accounting policies continued

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

### Revenue

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

Revenue from upfront longer term membership fees are recognised and spread over the appropriate period. Monthly membership fees paid upfront are recognised throughout the month the fee relates to.

Non-refundable joining fees associated with monthly members are recognised immediately as revenue.

Other income is recognised at the point of sale as this reflects the transfer of risks and rewards of ownership.

### Cost of sales

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

### Exceptional items

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

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

### Property, plant and equipment

Property, plant and equipment are included at cost less accumulated depreciation and any recognised impairment loss. Depreciation is calculated to write down the cost of the assets on a straight-line over the estimated useful lives on the following bases:

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

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

### Intangible assets

#### Goodwill

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

#### Contract related

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

#### Technology related

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

#### Computer software

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

# Notes to the Consolidated Financial Statements continued

For the year ended 31 December 2016

## 2. Summary of significant accounting policies continued

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

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

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

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

### Impairment of non-financial assets

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

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

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

unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

## Financial instruments

### 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, other than derivatives, they are subsequently measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest method over the maturity of the loan.

### 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. Gains and losses in fair value are recognised in the income statement.

### Pensions

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

## 2. Summary of significant accounting policies *continued*

### Leases

#### Operating leases

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

#### Lease incentives

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

#### Share based payments

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

#### Inventories

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

#### Trade and other receivables

Trade and other receivables consist mainly of prepayments 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.

#### Dividends

Dividends payable by the Company are recognised on declaration.

## 3. Significant accounting judgements, estimates and assumptions

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

# Notes to the Consolidated Financial Statements

## continued

For the year ended 31 December 2016

### 3. Significant accounting judgements, estimates and assumptions *continued*

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 and estimates in applying the Group's accounting policies

##### Depreciation and amortisation

Judgement is used in assessing the 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. Details of the useful lives assigned to the Group's property, plant and equipment and intangible assets is included in note 2. The carrying values of such assets are included in notes 12 and 13.

##### Goodwill impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its CGUs. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information including 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 the likelihood of a liability arising is remote as in the majority of instances the Group enjoys security of tenure as tenant and therefore is unlikely to give up a site where it is trading profitably. However, if circumstances indicate otherwise the Group will recognise an appropriate provision. Details of provisions are set out in note 19.

### 4. Revenue

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

	2016 £'000	2015 £'000
Membership income	72,915	59,400
Other income	624	579
	<b>73,539</b>	<b>59,979</b>

### 5. Operating profit / loss

	2016 £'000	2015 £'000
Operating profit / loss is stated after charging / (crediting):		
Other income	–	(1,105)
Depreciation of property, plant and equipment	12,693	10,907
Amortisation of intangible assets (included in administration expenses)	1,442	2,308
Operating lease rentals	13,488	11,186
Loss on disposal of property, plant and equipment	30	98
Cost of inventory recognised as an expense	68	197
<b>Auditors' remuneration</b>		
Fees payable for the audit of the Company's annual accounts	49	40
<b>Fees payable for other services</b>		
Audit of the Company's subsidiaries pursuant to legislation	53	50
Audit related assurance services	2	–
Other non-audit services	16	–
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>120</b>	<b>1,144</b>

In the prior year, other income of £1,105,000 relates to a payment received on the surrender of a lease.

## 6. Exceptional items

	2016 £'000	2015 £'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 PureGym	–	49
Costs related to post IPO reorganisation	149	–
Office associated with head office relocation	172	–
	<b>321</b>	<b>7,607</b>

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

## 7. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity shareholders by the weighted average number of Ordinary shares outstanding during the year, excluding unvested shares held pursuant to The Gym Group plc Share Incentive Plan and The Gym Group plc Performance Share Plan (see note 23).

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. During the year ended 31 December 2016, the Group had potentially dilutive shares in the form of share options and unvested shares issued pursuant to The Gym Group plc Share Incentive Plan and The Gym Group plc Performance Share Plan (see note 23).

	2016	2015
Basic weighted average number of shares	<b>128,105,275</b>	60,485,605
Adjustment for share awards	<b>347,617</b>	–
Diluted weighted average number of shares	<b>128,452,892</b>	60,485,605
Basic earnings per share (p)	<b>4.5</b>	(19.0)
Diluted earnings per share (p)	<b>4.4</b>	(19.0)

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

	2016 £'000	2015 £'000
Profit / (loss) for the year	<b>5,703</b>	(11,473)
Amortisation of intangible assets	<b>1,442</b>	2,308
Other income	–	(1,105)
Exceptional administration expenses	<b>321</b>	7,607
Exceptional finance costs	–	1,623
Tax effect of above items	<b>(313)</b>	(67)
Adjusted earnings	<b>7,153</b>	(1,107)
Basic adjusted earnings per share (p)	<b>5.6</b>	(1.8)
Diluted adjusted earnings per share (p)	<b>5.6</b>	(1.8)

## 8. Employee information

	2016 £'000	2015 £'000
Wages and salaries	<b>8,775</b>	7,367
Social security costs	<b>940</b>	899
Employers' pension costs	<b>229</b>	153
Long term employee incentive costs (note 23)	<b>519</b>	–
	<b>10,463</b>	<b>8,419</b>

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

	2016 Number	2015 Number
Operational	<b>173</b>	143
Administration	<b>62</b>	50
	<b>235</b>	<b>193</b>

# Notes to the Consolidated Financial Statements

## continued

For the year ended 31 December 2016

### 9. Finance income

	2016 £'000	2015 £'000
Bank interest receivable	19	16
Fair value gains on derivative financial instruments	–	249
	19	265

### 10. Finance costs

	2016 £'000	2015 £'000
Bank loans and overdrafts	566	4,950
Shareholder loans	–	1,809
Finance leases and hire purchase contracts	–	1,112
Unwinding of discount	17	9
Amortisation of financing fees	212	443
Exceptional finance costs	–	1,623
	795	9,946

In the prior year, exceptional finance costs comprised 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.

### 11. Taxation

The major components of taxation are:

#### (a) Tax on profit

	2016 £'000	2015 £'000
<b>Current income tax</b>		
Current tax on profits for the year	426	–
Adjustments in respect of prior years	(49)	(173)
<b>Total current income tax</b>	377	(173)
<b>Deferred tax</b>		
Origination and reversal of temporary differences	1,118	(700)
Change in tax rates	18	(91)
Adjustments in respect of prior years	(276)	55
<b>Total deferred tax</b>	860	(736)
<b>Tax charge / (credit) in the Income Statement</b>	<b>1,237</b>	<b>(909)</b>

#### b) Reconciliation of tax charge / credit

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

	2016 £'000	2015 £'000
Profit / (loss) before tax	6,940	(12,382)
Tax calculation at standard rate of corporation tax of 20.00% (2015: 20.25%)	1,388	(2,507)
Expenses not deductible for tax purposes	156	786
Exceptional IPO costs not deductible	–	1,023
Change in tax rates	18	(93)
Adjustments in respect of prior years	(325)	(118)
	1,237	(909)

**11. Taxation** continued**(c) Deferred tax**

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

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Share schemes £'000	Total £'000
At 1 January 2015	(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
At 31 December 2015	(187)	1,006	(642)	–	177
Prior year adjustment	276	–	–	–	276
Recognised in income statement	(564)	(796)	217	25	(1,118)
Change in deferred tax rate	–	(50)	32	–	(18)
<b>At 31 December 2016</b>	<b>(475)</b>	<b>160</b>	<b>(393)</b>	<b>25</b>	<b>(683)</b>

**(d) Unrecognised tax losses**

The Group has tax losses of £nil (2015: £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 tax to 21% from 1 April 2014 and to 20% with effect from 1 April 2015. Further future rate reductions have been announced as part of the 2015 Budget and 2016 Finance Bill to 19% from 1 April 2017 and 17% from 1 April 2020. Therefore, a blended tax rate of 20.0% (2015: 20.25%) 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 2015	56,752	4,033	25,657	533	86,975
Additions	17,364	1,549	9,428	391	28,732
Disposals	(89)	(13)	(298)	–	(400)
At 31 December 2015	74,027	5,569	34,787	924	115,307
Additions	16,729	1,178	8,257	381	26,545
Disposals	(100)	–	(244)	–	(344)
<b>At 31 December 2016</b>	<b>90,656</b>	<b>6,747</b>	<b>42,800</b>	<b>1,305</b>	<b>141,508</b>
<b>Accumulated depreciation</b>					
At 1 January 2015	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>
Charge for the year	6,422	812	5,205	254	12,693
Disposals	(48)	–	(244)	–	(292)
<b>At 31 December 2016</b>	<b>18,683</b>	<b>3,133</b>	<b>19,909</b>	<b>746</b>	<b>42,471</b>
<b>Net book value</b>					
At 31 December 2015	61,718	3,248	19,839	432	85,237
<b>At 31 December 2016</b>	<b>71,973</b>	<b>3,614</b>	<b>22,891</b>	<b>559</b>	<b>99,037</b>

# Notes to the Consolidated Financial Statements

## continued

For the year ended 31 December 2016

### 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 2015	45,188	2,219	3,550	776	1,709	875	54,317
Additions	–	–	–	–	–	575	575
At 31 December 2015	45,188	2,219	3,550	776	1,709	1,450	54,892
Additions	–	–	–	–	–	1,022	1,022
<b>At 31 December 2016</b>	<b>45,188</b>	<b>2,219</b>	<b>3,550</b>	<b>776</b>	<b>1,709</b>	<b>2,472</b>	<b>55,914</b>
<b>Accumulated amortisation</b>							
At 1 January 2015	–	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
At 31 December 2015	–	1,136	3,043	666	198	712	5,755
Charge for the year	–	448	504	110	78	302	1,442
<b>At 31 December 2016</b>	<b>–</b>	<b>1,584</b>	<b>3,547</b>	<b>776</b>	<b>276</b>	<b>1,014</b>	<b>7,197</b>
<b>Net book value</b>							
At 31 December 2015	45,188	1,083	507	110	1,511	738	49,137
<b>At 31 December 2016</b>	<b>45,188</b>	<b>635</b>	<b>3</b>	<b>–</b>	<b>1,433</b>	<b>1,458</b>	<b>48,717</b>

#### Impairment test for goodwill

The goodwill balance relates to the Group's acquisition of The Gym Limited during 2013 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:

	2016 £'000	2015 £'000
The Gym Limited	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 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:

	2016	2015
Discount rate	9.4%	11.7%
Growth rate	3.0%	3.0%

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

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

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

#### Sensitivity to changes in assumptions

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

**14. Inventories**

	2016 £'000	2015 £'000
Goods for resale	159	122

**15. Trade and other receivables**

	2016 £'000	2015 £'000
Other receivables	926	394
Income and other taxes	–	717
Prepayments and accrued income	5,291	4,543
	6,217	5,654
Due in less than one year	5,814	5,654
Due in more than one year	403	–
	6,217	5,654

**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**

	2016 £'000	2015 £'000
Trade payables	4,568	2,689
Social security and other taxes	314	6
Lease incentives and rental increases	16,804	13,872
Accruals	8,662	6,134
Deferred income	3,775	2,845
	34,123	25,546

Trade payables are non-interest bearing and are payable on average within 33 days (2015: 22 days).

**18. Borrowings**

	2016 £'000	2015 £'000
<b>Non-current</b>		
Bank facility A	10,000	10,000
Loan arrangement fees	(822)	(1,034)
	9,178	8,966

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

**HSBC and Barclays bank facility**

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

At 31 December 2016, facility A was fully drawn and facility B and the revolving credit facility were undrawn.

**Covenants**

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

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

# Notes to the Consolidated Financial Statements

## continued

For the year ended 31 December 2016

### 18. Borrowings continued

#### Available facilities

The total borrowing facilities available to the Group are:

	2016 £'000	2015 £'000
Facility A	10,000	10,000
Facility B	25,000	25,000
Revolving credit facility	5,000	5,000
	<b>40,000</b>	<b>40,000</b>

Facilities undrawn and available are:

	2016 £'000	2015 £'000
Facility B	25,000	25,000
Revolving credit facility	5,000	5,000
	<b>30,000</b>	<b>30,000</b>

Loan maturity:

	2016 £'000	2015 £'000
Between two and five years	10,000	10,000
	<b>10,000</b>	<b>10,000</b>

### 19. Provisions

	Dilapidations £'000
At 1 January 2015	223
Unwinding of discount	9
At 31 December 2015	232
New provisions	295
Unwinding of discount	17
<b>At 31 December 2016</b>	<b>544</b>

### 20. Financial instruments

	2016 £'000	2015 £'000
Interest rate cap	–	–

The Group has entered into the following interest rate contract 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	31.10.13	31.10.17

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

#### Fair value hierarchy

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

Level 1: inputs are quoted prices in active markets

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

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

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

## 20. Financial instruments continued

### 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 approximate their carrying values.

	2016		2015	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
<b>Held at amortised cost</b>				
Trade and other receivables	926	926	394	394
Cash and cash equivalents	4,822	4,822	2,860	2,860
Trade and other payables	(13,230)	(13,230)	(8,823)	(8,823)
Borrowings	(10,000)	(10,000)	(10,000)	(10,000)
<b>Held at fair value</b>				
Derivative financial instruments	–	–	–	–

## 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 Statement of Financial Position plus net debt. The gearing ratios for the periods under review are as follows:

	2016 £'000	2015 £'000
Total borrowings	10,000	10,000
Less: cash and cash equivalents	(4,822)	(2,860)
Net debt	5,178	7,140
Total equity	136,292	136,292
Total capital	141,470	143,432
Gearing ratio	4%	5%

### 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 2016 and 2015. 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.

# Notes to the Consolidated Financial Statements

## continued

For the year ended 31 December 2016

### 21. Capital and financial risk management continued

#### 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 2016 and 2015 all of the Group's borrowings were at floating rates of interest.

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

	2016 £'000	2015 £'000
Change in interest rates of 0.5%	50	50

#### Liquidity risk

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

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

	2016				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	13,230	–	–	–	13,230
Borrowings	288	288	10,552	–	11,128
	13,518	288	10,552	–	24,358
	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	8,823	–	–	–	8,823
Borrowings	307	307	10,895	–	11,509
	9,130	307	10,895	–	20,332

#### Credit risk

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

## 22. Issued share capital and reserves

	2016 £'000	2015 £'000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £0.0001 each	12	12
<b>Own shares held</b>		
Deferred Ordinary shares of £1 each	48	48

The number of Ordinary shares in issue is as follows:

	2016	2015
Ordinary shares of £0.0001 each	128,105,275	128,105,275
Deferred Ordinary shares of £1 each	48,050	48,050

Throughout 2016, 112,770 Ordinary shares of £0.0001 each were issued and held by an employee benefit trust.

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

### Own shares held and capital redemption reserve

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

### Share premium

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

### Retained earnings / deficit

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

## 23. Share based payments

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

- The Gym Group plc Performance Share Plan
- The Gym Group plc Share Incentive Plan – Free shares
- The Gym Group plc Share Incentive Plan – Matching shares

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

The Group recognised a total charge of £465,000 (2015: £1,018,000) in respect of the Group's share based payment arrangements and related employer's national insurance of £54,000 (2015: £51,000).

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

Scheme name	Year of grant	Outstanding at 1 January 2016	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	Outstanding at 31 December 2016	Exercisable at 31 December 2016
Performance Share Plan	2016	–	591,265	(111,570)	–	479,695	134,297
Share Incentive Plan – Free shares	2016	–	79,248	(5,715)	–	73,533	–
Share Incentive Plan – Matching shares	2016	–	33,522	(150)	–	33,372	–
		–	704,035	(117,435)	–	586,600	134,297

The exercise price of all options under the schemes held during the year is 0.01p. 134,297 options were exercisable under the PSP scheme as at 31 December 2016 (2015: nil). No other options were exercisable as at 31 December 2016.

### a) Performance Share Plan

The outstanding awards as at 31 December 2016 will vest after three years, subject to continued employment and the achievement of earnings per share ('EPS') and total shareholder return ('TSR') targets, with each target contributing to 50% of the vesting conditions. The vesting conditions of the Performance Share Plan awards are set out in Part B of the Report of the Remuneration Committee. The maximum term of these awards is three years and settlement is in the form of shares. The fair value of the EPS element was determined using the share price at the date of grant. The fair value of the TSR element of the award was estimated at the grant date using a Monte-Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share price performance.

# Notes to the Consolidated Financial Statements

## continued

For the year ended 31 December 2016

### 23. Share based payments continued

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

The following assumptions were used to determine the fair value of the TSR element for options granted during the year:

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

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

#### b) Share Incentive Plan – Free shares

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

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

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

#### c) Share Incentive Plan – Matching shares

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

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

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

#### d) Senior Management Share Option Plan

During the prior year the Group operated The Gym Group Senior Management Share Option Plan.

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. 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	507,579
Fair value at grant date	200.5p
Exercise price	1.97p

## 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 13.8 years (2015: 14.6 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:

	2016 £'000	2015 £'000
Within one year	13,222	10,053
Between one and two years	14,264	11,334
Between two and five years	44,720	35,904
Greater than five years	146,765	128,025
	<b>218,971</b>	185,316
<b>Capital commitments</b>		
	2016 £'000	2015 £'000
Contracted for but not provided	1,804	2,342

## 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.

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.

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. Since 12 November 2015 the Company has no controlling shareholder. The Phoenix Funds were considered to be a related party during 2015, but not during 2016.

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 Midco1 Limited. Bridges Community Ventures Nominees Limited held the shares on behalf of the shareholders. Bridges Ventures LLP was considered to be a related party during 2015, but not during 2016.

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%

The registered office of the subsidiaries; is No.1 Croydon, 12-16 Addiscombe Road, Croydon, CR0 0XT.

# Notes to the Consolidated Financial Statements

## continued

For the year ended 31 December 2016

### 25. Related party transactions continued

#### Transactions with related parties

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

	2016 £'000	2015 £'000
Closewall Limited	–	49
C Treharne	2	–
Phoenix Funds	–	–
Bridges Ventures LLP	–	–
	2	49
Opening balance	49	69,647
Loan note interest	–	1,809
Purchases	3,800	7,635
Repayments	(3,847)	(79,042)
	2	49
Representing:		
Trade & other payables	2	49
	2	49

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

	2016 £'000	2015 £'000
Closewall Limited	3,793	7,627
C Treharne	7	8
Phoenix Funds	–	–
Bridges Ventures LLP	–	–
<b>Total</b>	<b>3,800</b>	<b>7,635</b>

#### 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 carried 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 Executive Committee.

The compensation paid or payable to key management for employee services is shown below:

	2016 £'000	2015 £'000
Remuneration	1,893	1,160
Company contributions to defined contribution pension scheme	96	31
Share based payment charge	468	305
	2,457	1,496

At the year end £2,000 (2015: £nil) was owed by key management personnel in respect of season ticket loans. At the year end £110,000 (2015: £116,000) was owed to key management personnel in respect of year end bonus.

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

### 26. Dividends made and proposed

	2016 £'000	2015 £'000
Interim dividend of 0.25p per Ordinary share paid and declared (2015: nil)	321	–
Final dividend of 0.75p per Ordinary share proposed (2015: nil)	962	–

# Company Statement of Financial Position

As at 31 December 2016

		31 December 2016 £'000	31 December 2015 £'000
	Note		
<b>Non-current assets</b>			
Investments in subsidiaries	4	132,795	132,330
<b>Current assets</b>			
Trade and other receivables	5	14,536	13,454
Cash and cash equivalents		12	15
<b>Total current assets</b>		<b>14,548</b>	13,469
<b>Total assets</b>		<b>147,343</b>	145,799
<b>Current liabilities</b>			
Trade and other payables	6	247	617
<b>Non-current liabilities</b>			
Borrowings	7	9,178	8,966
<b>Total liabilities</b>		<b>9,425</b>	9,583
<b>Net assets</b>		<b>137,918</b>	136,216
<b>Capital and reserves</b>			
Issued capital	8	12	12
Own shares held	8	48	48
Capital redemption reserve	8	4	4
Share premium	8	136,280	136,280
Retained earnings / (deficit)	8	1,574	(128)
<b>Total equity shareholders' funds</b>		<b>137,918</b>	136,216

The notes on pages 85 to 88 form an integral part of the Financial Statements.

As permitted by s408 of the Companies Act 2006, the Company's profit and loss account is not presented as part of these accounts. The Company's profit for the year was £1,558,000 (2015: £13,000 loss).

These Financial Statements were approved by the Board of Directors on 14 March 2017.

Signed on behalf of the Board of Directors

**John Treharne**  
Chief Executive Officer

**Richard Darwin**  
Chief Financial Officer

Company Registration Number 08528493

# Company Statement of Changes in Equity

For the year ended 31 December 2016

	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Retained earnings £'000	Total £'000
At 1 January 2015	9	–	–	48,974	7,653	56,636
Loss for the year and total comprehensive loss	–	–	–	–	(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
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>
Profit for the year and total comprehensive income	–	–	–	–	1,558	1,558
Capital contribution to subsidiaries	–	–	–	–	465	465
Dividends paid	–	–	–	–	(321)	(321)
<b>At 31 December 2016</b>	<b>12</b>	<b>48</b>	<b>4</b>	<b>136,280</b>	<b>1,574</b>	<b>137,918</b>

The notes on pages 85 to 88 form an integral part of the Financial Statements.

# Notes to the Company Financial Statements

## For the year ended 31 December 2016

### 1. General information

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

### 2. Summary of significant accounting policies

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

#### Statement of compliance and basis of preparation

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

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

- (a) the requirements of IFRS 7 'Financial Instruments';
- (b) the requirements of paragraphs 45(b) and 46 to 52 of IFRS 2 'Share Based Payments';
- (c) the requirements of paragraph 97 of IFRS 13 'Fair Value Measurement';
- (d) the requirements of IAS 7 'Statement of Cash Flows';
- (e) the requirements of paragraphs 10(d), 111 and 134 to 136 of IAS 1 'Presentation of Financial Statements';
- (f) the requirements of paragraphs 30 and 31 of IAS 8 'Accounting Policies, Changes in Accounting Estimates and Errors';
- (g) the requirements of paragraph 17 of IAS 24 'Related Party Disclosures'; and
- (h) 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.

The functional currency of the Company is Pounds Sterling. The Financial Statements of the Company are presented in Pounds Sterling and all values are rounded to the nearest thousand Pounds, except where otherwise indicated.

#### 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.

# Notes to the Company Financial Statements

## continued

For the year ended 31 December 2016

### 2. Summary of significant accounting policies continued

#### Deferred taxation

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

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

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

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

### 3 Significant accounting judgements, estimates and assumptions

The preparation of the Financial Statements in accordance with FRS 101 requires estimates and assumptions to be made that affect the value at which certain assets and liabilities are held at the balance sheet date and also the amounts of revenue and expenditure recorded in the period. The Directors believe the accounting policies chosen are appropriate to the circumstances and that the estimates, judgements and assumptions involved in its financial reporting are reasonable.

#### Critical accounting estimates and assumptions

There are no critical estimates or assumptions within these Financial Statements.

### 4. Investments in subsidiaries

	£'000
At 1 January 2015	49,838
Capitalisation of intercompany loans	81,474
Capital contribution to subsidiaries	1,018
At 1 January 2016	132,330
Capital contribution to subsidiaries	465
<b>At 31 December 2016</b>	<b>132,795</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 current and prior year share options in the Company's shares were granted to employees of The Gym Group Operations Limited and The Gym Limited. Corresponding capital contributions have been recognised within investments in subsidiaries. Details of the Company's share based payment arrangements are shown in note 23 to the Consolidated Financial Statements.

The Company's subsidiary undertakings are shown in note 25 to the Consolidated Financial Statements.

**5. Trade and other receivables**

	2016 £'000	2015 £'000
Income and other taxes	–	574
Prepayments and accrued income	27	–
Amounts owed by Group undertakings	14,509	12,880
	<b>14,536</b>	<b>13,454</b>

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.

**6. Trade and other payables**

	2016 £'000	2015 £'000
Trade payables	3	114
Social security and other taxes	6	6
Accruals	238	497
	<b>247</b>	<b>617</b>

**7. Borrowings**

	2016 £'000	2015 £'000
Bank facility A	10,000	10,000
Loan arrangement fees	(822)	(1,034)
	<b>9,178</b>	<b>8,966</b>

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

**Bank facility A**

On 12 November 2015 the Company entered into a five year bullet repayment facility with HSBC and Barclays. The facility comprises a £10.0 million term loan ('facility A') for the purposes of refinancing the Group's previous finance leases, a £25.0 million term loan ('facility B') to fund acquisitions and capital expenditure, and a £5.0 million revolving credit facility. 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 2016, facility A was fully drawn and facility B and the revolving credit facility were undrawn, giving £30.0 million of undrawn and available facilities.

# Notes to the Company Financial Statements

## continued

For the year ended 31 December 2016

### 8. Issued capital and reserves

	2016 £'000	2015 £'000
<b>Allotted, called up and fully paid</b>		
Ordinary shares of £0.0001 each	12	12
<b>Own shares held</b>		
Deferred Ordinary shares of £1 each	48	48

The number of Ordinary shares in issue is as follows:

	2016	2015
Ordinary shares of £0.0001 each	128,105,275	128,105,275
Deferred Ordinary shares of £1 each	48,050	48,050

Throughout 2016, 112,770 Ordinary shares of £0.0001 each were issued and held by an employee benefit trust.

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

#### Own shares held and capital redemption reserve

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

#### Share premium

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

#### Retained earnings

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

# Five Year Record

For the year ended 31 December 2016

The following table sets out a summary of selected audited key financial information and key performance indicators for the business.

	2016 £'000	2015 £'000	2014 £'000	2013 <sup>1</sup> £'000	2012 <sup>1</sup> £'000
Revenue	<b>73,539</b>	59,979	45,480	35,734	22,264
Group Adjusted EBITDA	<b>22,691</b>	17,016	14,688	11,752	6,000
Group Adjusted EBITDA before Pre-Opening Costs	<b>24,888</b>	19,681	16,668	12,886	7,615
Group Operating Cash Flow	<b>24,944</b>	18,616	16,514	14,751	9,624
Group Operating Cash Flow Conversion	<b>109.9%</b>	109.4%	112.4%	125.5%	160.4%
Expansionary Capital Expenditure	<b>20,922</b>	28,230	20,335	14,058	21,645
Net Debt	<b>5,178</b>	7,140	49,205	36,743	18,979
Net Debt to Group Adjusted EBITDA	<b>0.23x</b>	0.42x	3.35x	3.11x	3.16x
Adjusted Earnings	<b>7,153</b>	(1,107)	(4,452)	(3,551)	(958)
Adjusted Earnings per share (p)	<b>5.6</b>	(1.8)	(9.1)	(13.3)	(3.6)
Total Number of Gyms (number)	<b>89</b>	74	55	40	32
Total Number of Members ('000)	<b>448</b>	376	293	225	166
Average Revenue per Member per Month (£)	<b>14.29</b>	14.08	13.98	14.06	13.78
Number of Mature Gyms in Operation (number)	<b>55</b>	40	32	16	10
Mature Gym Site EBITDA	<b>26,161</b>	18,828	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

For the year ended 31 December 2016

## Company Secretary

Richard Darwin

## Company number

08528493

## Registered office

5th Floor  
No. 1 Croydon  
12-16 Addiscombe Road  
Croydon  
CR0 0XT

## 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

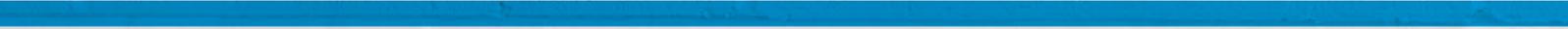
### Registrar

Capita Registrars Limited

# Notes

# Notes





[www.tggplc.com](http://www.tggplc.com)  
[www.thegymgroup.com](http://www.thegymgroup.com)