thegym

THE GYM GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2018

FIT FOR THE FUTURE

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

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

Contents

2018 HIGHLIGHTS

STRATEGIC

In 2018 we continued to expand our network of gyms across the UK with 17 organically opened sites, the acquisition of 13 gyms from easyGym and the completion of the integration of all 18 sites acquired from Lifestyle Fitness in 2017.

Number of Gyms

158

OPERATIONAL

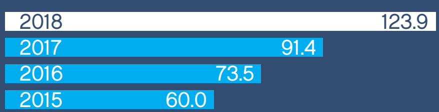
Average membership in the year has grown by 31.3% to 693,000 compared to 2017. The rollout of our new LIVE IT membership was completed successfully in May 2018 and penetration reached 11.7% by the end of the year.

Total number of members

724,000

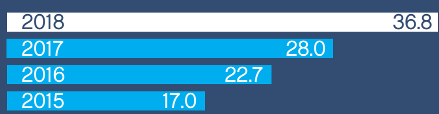
+35.6%

Revenue £m



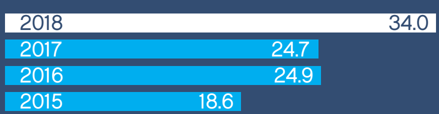
+31.6%

Group Adjusted EBITDA £m



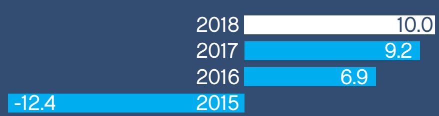
+37.7%

Group Operating Cash Flow £m



+8.4%

Statutory Profit before Tax £m



Note: Refer to page 28 for definitions of Key Performance Indicators.

COMPANY OVERVIEW

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.

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

INVESTMENT CASE

A GROWING MARKET FOR LOW COST GYMS

The UK low cost gym market has grown strongly over the last five years and still has significant headroom for growth. The continued growth is supported by increasing gym membership, low cost operators winning share from other segments and a broadening of the locations in which low cost providers can successfully operate.

PROVEN BUSINESS MODEL ENABLED BY TECHNOLOGY AND ECONOMIES OF SCALE

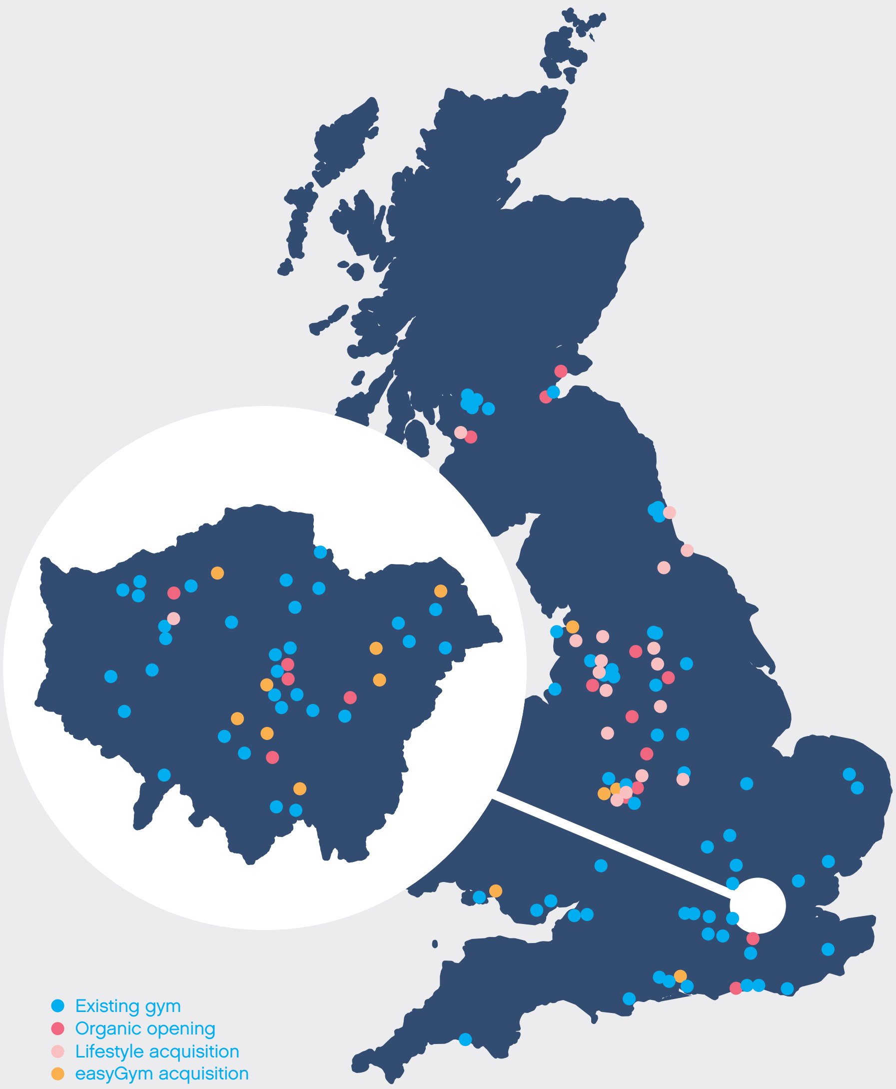
Our technology-led business model has re-engineered the traditional gym operating model, removed costly under-used facilities and enables focus on core operations.

STRONG RETURN ON CAPITAL

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

GYM NETWORK

In 2018 we rebranded the remaining acquired Lifestyle Fitness sites, acquired 13 well positioned sites from easyGym, of which we successfully rebranded ten by the end of the year, and opened an additional 17 high quality sites across the UK.



"I LOVE COMING TO THE GYM. I ALWAYS FEEL COMFORTABLE AND CONFIDENT AS IT IS A VERY FRIENDLY ENVIRONMENT AND ALL THE STAFF ARE REALLY HELPFUL."

MEMBER

MEMBER PROPOSITION

- HIGH QUALITY GYM EQUIPMENT AND EXERCISE AREAS
- MARKET-LEADING LOW PRICE MONTHLY MEMBERSHIP
- 24/7 ACCESS
- CONVENIENT LOCATIONS
- FREE GROUP EXERCISE CLASSES
- NO CONTRACT
- EXTRA BENEFITS WITH LIVE IT MEMBERSHIP
- ONLINE JOINING AND MEMBER AREA
- PROFESSIONAL, HELPFUL STAFF AND ACCESS TO PERSONAL TRAINERS

DELIVERING RESULTS

+30
Gyms

£123.9m
Revenue

£36.8m
Group Adjusted EBITDA

+31.3%
Average number of members (vs 2017)

CHAIRWOMAN'S STATEMENT

FOCUSSED ON OUR GOALS

WE HAVE HAD A YEAR OF SIGNIFICANT PROGRESS THAT POSITIONS US STRONGLY IN THE LOW COST GYM SECTOR.

"OUR PURPOSE IS TO BREAK DOWN BARRIERS TO PROVIDE FITNESS FOR ALL."

Penny Hughes

Introduction

The past year has seen significant progress at The Gym Group. Our rollout of sites took the number of gyms in which we operate from 128 to 158, comprising 17 organic openings and the acquisition of 13 gyms previously branded easyGym. This positions us strongly in the low cost gym sector, growing our market share to 24%. In addition to the organic site openings and acquisition, we converted and rebranded 22 sites including 12 former Lifestyle sites, acquired in 2017, and ten of the 13 former easyGym sites, strengthening our platform for growth in 2019 and beyond. The rapid development of the Company has continued, with revenue and Group Adjusted EBITDA increasing in excess of 30% whilst mature estate ROCE was maintained above our 30% target.

These are significant achievements; however, our overall financial performance was marginally below the stretching targets set for the business and the high EBITDA hurdle set for bonus purposes. Whilst we decided to convert more Lifestyle sites than originally planned, the conversions took longer than expected and membership uplift following reopening took longer than planned. In addition, some of the organic openings began trading later in the year than originally anticipated, resulting in fewer trading weeks and lower revenue than expected. We have spent time reviewing performance and adapting to build further resilience. But the bigger picture is that we start 2019 as a larger business than first planned and with strong brand and operating standards across all 158 gyms in a consumer market that continues to appreciate our proposition. This signals significant room for growth in a growing market – a recent study by PwC indicates the size of the UK low cost gym market could double to 1,200 to 1,400 sites by 2026.

Our team

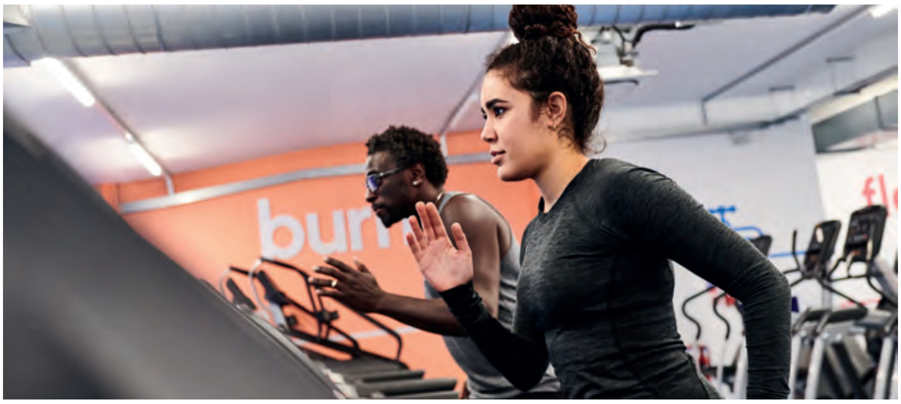
It was also an important year for our leadership team. John Treharne, Founder of the business in 2007, expressed his desire to step back from the CEO position having led the business through more than ten years of continued profitable growth, through our IPO in 2015 and beyond 100 gyms; achievements he could barely have dreamed of in the early days. It has been a real privilege to work with such a successful entrepreneur whose restless energy to deliver higher standards and whose personal style has created a culture of which we are all proud. I am delighted that John remains on the Board as Founder Director, focussing on continued innovation and development and providing his great experience, network and wisdom to our business and to Board deliberations.

The Nomination Committee engaged in a thorough process to determine our succession plans. Further details are provided in the Report of the Nomination Committee. Having considered external candidates, we were pleased to ask Richard Darwin to step up from CFO to CEO; this continuity is welcome and Richard is ambitious and committed to grow into the CEO role. We also undertook a thorough search to find a successor CFO to Richard and were delighted to appoint Mark George to the Board. Mark brings high quality, relevant experience and a good cultural fit; he is settling well into his role.

Transitioning a business from being Founder-led requires some thought about the unique qualities that Founders bring, particularly around culture and tone from the top. We have always been proud of the enthusiasm of our colleagues and our strong culture; the Board and executive team are determined to maintain this culture and our values as we begin the next chapter. Our purpose is to break down barriers to fitness for all: Open 24/7, whenever members are ready; no contract, come and go as it suits; outstanding value; excellent quality gyms. This simple and inclusive approach has introduced hundreds of thousands of people to health and fitness for the first time and we are passionate about continuing with this mission.

Our initiatives

In order to codify the culture that we hold dear at The Gym Group we have established our values. We are committed to lead an organisation that helps members and each other 'Take The First Step'. We are characterised by 'Realness', being fair and honest in all we do. We run gyms that accentuate 'Friendliness' being welcoming, inclusive and not intimidating. 'Challenging Your Limits' is a mindset we bring to members, to each other and to the Company as a whole. We intend to live by these values throughout the Company.



During 2018 we worked on three key initiatives to build a stronger business. We began the rollout of LIVE IT, a class of membership that offers additional benefits for a small premium. This is developing well, with members enjoying the benefits of 'multiple sites' and 'bring a friend' as well as the FitQuest monitoring machines. We also undertook the implementation of a new ERP system, Workday, which will provide a far superior platform for our financial and HR systems going forward and was an important milestone. Finally, we continued to trial and refine our innovative new ways of working with Personal Trainers. This is perhaps the most important change to our business model since inception and so getting it right was more important than going fast. Our trial phase is now complete and full rollout will run from April through to September 2019. We are confident this makes us more attractive to Personal Trainers, who in turn contribute significantly to higher member satisfaction. All of our colleagues are supportive of this important change.

My Board colleagues and I continue to visit sites regularly; I have been pleased to visit former Lifestyle and easyGym sites this year to see the high quality of our conversions with member gratitude obvious. We grow fast but I have still visited the majority of our sites! Working out alongside members is the most fun, but also the most valuable way to see the daily life of our operations.

Our sites are often in some of the more economically challenged locations or in areas that have not previously had affordable access to a gym and so we bring an important benefit to the community to engage in fitness, many for the first time. With a young membership we know that adopting a healthy lifestyle can bring long term benefits to individuals and society as a whole. We were also proud to support 'Move for Movember', contributing over £100,000 from member and staff activities and donations to this important charity, in addition to member donations to other charities collected as part of the joining process.

Of course, much is being written about the uncertain economic times and Brexit in particular. We continue to expect to perform well; our high quality, outstanding value fitness proposition will remain relevant even if the economy becomes more subdued. We do not expect Brexit to impact our trading, having taken steps to ensure we have ready access to sufficient fitness equipment and fixtures to support our growth. We will remain focussed on delivering value for all stakeholders.

Finally, let me extend thanks to my Board colleagues, particularly so in a year of executive succession. Their support and challenge are much appreciated. In turn, on behalf of the Board, thank you to all our colleagues for their hard work, good nature and commitment to delivering results for all.

Penny Hughes
Chairwoman
19 March 2019

CHIEF EXECUTIVE'S STATEMENT

RESHAPING FITNESS

WE BELIEVE THAT OUR CORE PROPOSITION PROVIDING A HIGH QUALITY, LOW COST OPERATION WILL CONTINUE TO DRIVE STRONG DEMAND.

"WE HAVE DEVELOPED A PORTFOLIO OF OUTSTANDING GYMS."

Richard Darwin

Introduction

This is my first report since becoming CEO of The Gym Group. It is a privilege to be the second CEO in the Company's 11 year history, succeeding our Founder, John Treharne. I am delighted that John remains an integral part of the business and is on the Board as Founder Director, enabling us to benefit from his experience, knowledge and contacts. As the low cost gym market continues to develop and grow, we will draw on his insight and ensure that we continue to develop the business reflecting the culture that John established.

This has been another significant year of growth for the business, and The Gym Group continues to build a strong market share in the low cost gym sector through a combination of acquisition and organic openings. During the year we expanded our estate by a further 30 sites, bringing the total to 158 at year end. We have doubled the number of sites in two and a half years. 17 new sites were opened during the year as a result of our organic opening programme (within our target of 15-20 sites), and additionally we acquired 13 sites from easyGym – further strengthening our position in the South East. We financed this acquisition principally through an equity placing to maintain a relatively unleveraged balance sheet and a strong covenant for landlords; we are grateful for the support of our shareholders which enabled us to accelerate our growth in this way.

This expansion continues to grow our membership base, with total year end members up 19.3% to 724,000 (2017: 607,000) and average members up 31.3% to 693,000 (2017: 528,000). The ongoing expansion of our business has led to an increase in all our key metrics: revenue up 35.6% to £123.9 million (2017: £91.4 million) and Group Adjusted EBITDA up by 31.6% to £36.8 million (2017: £28.0 million). Adjusted Profit before Tax increased by 19.4% to £14.4 million (2017: £12.0 million) and Basic Adjusted Earnings per Share up by 13.5% to 8.4p (2017: 7.4p). Our statutory Profit before Tax has increased to £10.0 million (2017: £9.2 million).

Despite these metrics, a combination of the acceleration of the rebranding of the Lifestyle Fitness sites and some delays to the new opening schedule to be later second half weighted, caused lower revenue and fewer trading weeks. Despite rapid growth in both revenue and EBITDA, the Company delivered a less profitable result than the Board's high expectations and below the EBITDA hurdle set for bonuses.

These impacts on profits are expected to have only a short term effect. We are extremely encouraged by the response of the Lifestyle sites, which have had more than 20% membership growth since acquisition; and the gyms opened in 2018 are maturing as we expect.

The low cost gym market continues to grow rapidly, and our organic and acquisition strategy has enabled us to continue to build market share. Low cost gyms remain the most attractive part of the health and fitness market. Overall, our market share increased from 22.4% in December 2017 to 24.2% in December 2018. The Gym Group achieved 40% of the net growth in the market, as we continue to expand our market share, taking members from existing operators as well as those who have never been a member of a gym before.

In a recent market report commissioned by us, PwC has evaluated the gym market in the UK and estimated the potential size of the market to be 1,200 to 1,400 low cost gyms, compared to 1,000 in previous assessments. This means that the market is forecast to double in size from where it is today (654 low cost gyms at December 2018). Penetration is estimated to increase both into new catchments that currently do not have a low cost gym, as well as other catchments that can increase their number of low cost gyms. Half of the future growth is forecast to come in the size of catchments in which we have opened to date ('standard catchments') and half in smaller catchments. The PwC assessment implies that low cost member penetration could grow to 5-7% of the population by 2026 (2018: 3.7% penetration), a penetration growth rate well below that achieved historically. With the strength of our pipeline we are extremely well placed to take advantage of the growth in standard catchments and are working on the concept that can take advantage of the smaller catchment opportunity; we intend to open our first small box format gym later this year and expect to commence a rollout thereafter.

Strategic progress

Delivering performance from gyms

Our primary financial goal is to develop sites to maturity and achieve high levels of return on capital. Overall this remains a business with significant potential, with a number of sites that have been acquired or opened in the last two years yet to reach maturity (in terms of member numbers). At the year end we had 89 sites that have been operating for more than two years (2017: 74 sites), just 56% of the total estate. Of the remaining 69 sites, 31 were acquired and 38 opened organically in 2017 and 2018. These sites continue to increase profitability and are maturing as anticipated. Mature Site EBITDA was £39.2 million, up 15.0% (2017: £34.1 million), and Mature Site EBITDA per site was £440,000 (2017: £461,000). This reduction in Mature EBITDA per site was expected and consistent with our move to smaller sites built at lower capital cost; we continue to target returns on capital of greater than 30% across our mature sites for organic openings and in 2018 we achieved that target again with a return on capital in the mature estate of 31% (2017: 32%). The return on capital for mature sites opened between 2008 and 2013 and for sites opened in 2014 to 2016 is also consistent at 30%.

The 18 sites acquired as part of the Lifestyle transaction in September 2017 are still maturing. We took the decision during the year to accelerate rebranding of all 18 sites to The Gym brand, with 12 of these conversions taking place in 2018. This will enable these gyms to benefit from our brand, marketing, systems and operating model in 2019. Although it resulted in lower revenue and more weeks of site closures than initially expected in 2018, we were prepared to make this decision in order to maximise the best long term result for the business. The consideration for the Lifestyle business was £20.5 million, alongside total conversion costs of £9.0 million, an average of £499,000 per site. We will target a 20% plus return on capital by 2020 on this acquisition. This percentage is lower than for our organic openings, reflecting the acquisition premium incurred on such sites.

Having integrated the Lifestyle sites ahead of schedule, we successfully completed on a second significant transaction with the acquisition of 13 sites branded easyGym in July 2018. This acquisition demonstrates our focus on quality as we purchased 13 out of 16 sites, leaving behind three sites that failed to meet our location and financial criteria.

The consideration for these 13 sites was £20.6 million, with contingent consideration of £4.1 million if two sites have lease extensions agreed; discussions on the £4.1 million remain ongoing. At December 2018 we had successfully converted ten of these sites to The Gym brand, enabling them to benefit from our marketing and our platform during the important January / February trading period. The total cost of conversion has been £312,000 per site. The easyGym acquisition further strengthens our network in London (eight sites) and in four other cities where we already operate (Southampton, Cardiff, Liverpool and Birmingham). In particular, we expect strong take-up of LIVE IT, our premium pricing initiative, across the easyGym sites where there has not previously been a multi-site option for members. As with the Lifestyle acquisition, we are targeting a 20% return on capital for this acquisition by 2020.

One of the most significant changes in the past year has been the overhaul of our marketing capability. This was facilitated by the appointment of new agencies in media and creative, which has enabled us to deliver fresh and innovative marketing ahead of the peak trading periods. During 2018 our marketing plans used out of home, social media, performance marketing and local awareness. The marketing plan for January / February 2019 introduced a fresh new campaign based on members' motivations for using The Gym – 'So I can' – with the launch of our first ever TV advert.

Improving operating efficiencies

Mature Site EBITDA margin in 2018 was marginally lower at 45.3% (2017: 47.0%), in line with our expectations and reflecting our continued ability to apply our operating model across a business of growing scale. The slight decrease in Mature Site EBITDA margin does not impact our ability to meet return on capital targets. We have had ongoing success in being able to secure new sites with the appropriate level of fixed cost base to operate our business efficiently, taking advantage of our ever increasing scale.

CHIEF EXECUTIVE'S STATEMENT CONTINUED

31%
Return on Capital Employed

55
Sites within the M25

We ended 2018 with an average headline price of £17.14 per month (2017: £17.50). Our philosophy remains to be a high quality operator charging the lowest price in any given market. As in previous years, we have sought to maximise revenue on a site-by-site basis by balancing volume and price, so took the decision at the end of 2018 to reduce prices across approximately 30% of the estate. We are pleased with the response to this decision, with membership volumes growing by 1.5 times the growth rate of the rest of the estate (October 2018 to February 2019).

Some of these sites were the Lifestyle sites that had not gone through the same pricing changes that one of our organic openings experiences. In other sites we continue to endeavour to increase yield where the local market allows – pricing decisions are made through a combination of data analytics and local market intelligence. Average Revenue per Member per Month increased by 3.3% across our estate and we expect further progress in 2019 as sites become more established and LIVE IT has been in place for a whole year across the estate.

LIVE IT, our premium pricing initiative, was rolled out nationally by May 2018 and 85,000 members had taken advantage of this offer by December 2018. We continue to be encouraged by the level of take-up and expect further growth in absolute numbers as those sites that have not had LIVE IT for a whole year go through their initial months of member acquisition. As expected, the most significant take-up is from new members joining. We continue to monitor the characteristics of tenure and attrition of our LIVE IT members and currently they match those of our DO IT members. LIVE IT will be an important contributor to yield growth in 2019.

Achieving our rollout strategy

We opened 17 sites organically in 2018. Our primary focus is choosing optimal locations and we open the number of sites that is consistent with that aim. Our strong, listed company covenant is highly attractive to landlords, which results in winning the best sites that come onto the market. We continue to expect to open a geographically diverse range of sites to build on our strength in the South East, where 50% of our gyms are currently located. In 2018 we opened a number of strong London sites; today 55 of the sites are located within the M25. Our new sites continue to trade well with strong opening profiles. We are very encouraged by the performance of the gyms opened in 2017, which have delivered an EBITDA margin that is consistent with the first year performance of previous cohorts, and expect to see strong returns on capital.

The 2018 cohort opened later in the year than originally planned. This meant they were earlier in their maturity profile and therefore resulted in lower revenue in 2018 than our original plans.

The flexibility of our model allows us to take advantage of trends in the property market. Increasingly we are taking space in new developments such as Tottenham White Hart Lane, Sutton and Stockport. In 2019 we anticipate opening 15 to 20 sites and the pipeline of new sites is encouraging for 2019 and into 2020. As in previous years, openings are expected to be weighted towards to the second half of 2019.

In addition to the conversions of the Lifestyle and easyGym sites, investment continued across our existing estate with a substantial refurbishment programme to ensure that all our sites benefit from modern signage along with the most up-to-date branding and product mix. Our aim was to ensure the estate matched a common standard by the end of 2018 and other than in a handful of sites this was achieved. Our rolling maintenance programme requires sites to be closed every six months for two days and ensures sites are maintained to a high standard. In the future we will focus the more substantial refurbishments on sites that need a competitive boost in their local market.

In the past year we retendered our gym equipment supply contract, splitting the contract into equipment and accessories and in the process achieving a further 10% reduction in capital costs across these areas. As part of our Brexit planning we have stockpiled the capital requirements, including gym equipment, sourced from Europe to ensure we can continue to meet our rollout target in the first six months of 2019.

Developing the member proposition

Our new system of tracking member satisfaction, which measures customer feedback, has now been deployed at site level for over a year. Detailed member satisfaction feedback is available via an app for General Managers, enabling them to focus their time on activities that improve levels of member satisfaction. This new system has enabled us to identify best practice and roll it out across the estate. The new Personal Trainer operating model is another driver behind enhanced member satisfaction and reflects the determination of our business to put member service at the heart of everything we do.

"85,000 MEMBERS HAD TAKEN ADVANTAGE OF 'LIVE IT' BY DECEMBER 2018."

Our use of technology

Following the launch of the Member Management System in 2017, further advances have been made in developing technology infrastructure in 2018. The launch of Workday has given us a robust finance and HR system that will strengthen our capability in these areas for the future and was another significant achievement by our team. Having developed a platform for future growth, we will continue to research ways in which using technology will enhance the customer experience. Late in 2018 we launched our member app and there will be further upgrades launched over the coming months. In addition, we are investing in Artificial Intelligence to give us further insight in areas such as pricing and churn and to enable us to drive further efficiencies from our operating processes. Technology will remain fundamental to the delivery of our business model and assist in facilitating the low cost environment in which we operate.

Our people

During the year we commenced the trial of a new operating model that will enable our Personal Trainers to take up part-time employment. The majority of our Personal Trainers will be contracted for 12 hours and, outside these hours, they will continue to run their business on a self-employed basis in our gyms and will pay a monthly rent to access the gym. During the year we received HMRC clearance for the new model. We transitioned 24 new and existing sites onto the new model during the year. The trials have shown that the new model enhances member satisfaction compared to the previous arrangements. During the trial we re-evaluated the commercial proposition to the Personal Trainers and decided to reduce the rent that is charged to those Personal Trainers who will also be part-time employees. The new model will be financially neutral for Personal Trainers. This change to the financial arrangements has been extremely well received by our Personal Trainer colleagues. The new model is probably the most significant change to the way this business has operated in its history, hence the care and attention we have taken to ensure the model is correct.

We believe it will deliver tangible benefits and retain our competitive advantage by attracting and retaining the best Personal Trainers operating in our gyms.

The business has grown rapidly over the past few years and in doing so it is important that we identify the features that have made it a special place to work. As a result of the transition of John Treharne from CEO to Founder Director, we decided we needed to consult with a number of colleagues to define the values and culture associated with The Gym Group. These values will drive our colleague engagement and member interaction in future years. Our overall brand purpose is that The Gym breaks down barriers to fitness. This has been central to The Gym's purpose since it created the first low cost gym brand in the UK, and became the first to offer 24/7 operation and online-only sign-ups. As we continue to develop we will ensure we remain true to our culture.

I feel proud that our business has a strong social purpose in improving the health of the nation. We believe this conviction and our core low cost ethos will allow us to continue to drive demand, even with the uncertain economic environment caused by Brexit.

We continue to build the central teams that can support the management at site level. Our intent remains to drive performance at a local level while providing high quality central support. In 2018, the focus has been to build strong teams that can support our ambition. Infrastructure developments will enable us to run a business of greater scale and substance. I was delighted to welcome Mark George to the team and the Board as CFO. Mark brings a highly relevant set of skills in digital businesses such as ASOS and Auto Trader as well as multi-site experience from a number of roles at Tesco. Ann-marie Murphy also joined as Director of People and Development during the year and already has made significant progress in supporting our front-line operations.

The commitment of all our people remains key to the success of this business, whether it be in supporting new site openings, integrating acquisitions or in day-to-day operations. Over the past year we have welcomed many employees from Lifestyle and easyGym and other new colleagues to support our growth. Additionally, during the coming year we will bring on board a further 1,500 Personal Trainers as part-time employees. I would like to welcome them all to the business and along with our existing dedicated colleagues, I thank them all for their ongoing commitment to this business.

Outlook

The new financial year has started well and current trading is in line with the Board's expectations. Membership numbers at the end of February show an increase to 793,000, another record level, with a 9.5% increase since December 2018. The significant levels of member growth are being reinforced by the performance of our acquisitions from Lifestyle and easyGym that have been fully integrated into the Group. In 2019 we anticipate opening 15 to 20 sites, with six in the first half of the year. We expect to maintain our ratio of having over 50% of our sites in the South East and expect LIVE IT to continue to increase in penetration and underpin our yield growth.

We have developed a portfolio of outstanding gyms and in 2019 we are committed to continue driving profitable progress. We remain confident in our model and its ability to drive value for colleagues and shareholders as the business continues its rapid development.

Richard Darwin
Chief Executive Officer
19 March 2019

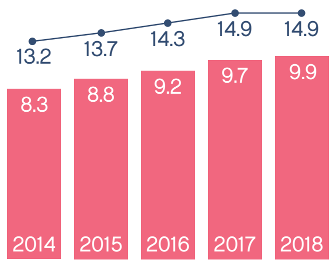
MARKET OPPORTUNITY

A SIGNIFICANT MARKET OPPORTUNITY

THE LOW COST GYM SEGMENT CONTINUES TO DRIVE THE GROWTH OF THE UK HEALTH AND FITNESS MARKET. OUR POSITION AS A LEADING OPERATOR MEANS WE ARE WELL PLACED TO TAKE ADVANTAGE OF THE LONG TERM STRUCTURAL GROWTH WITHIN THE SECTOR.

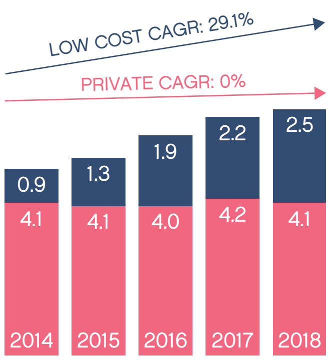
TOTAL SIZE OF UK HEALTH AND FITNESS MARKET £4.9bn

UK health and fitness club members



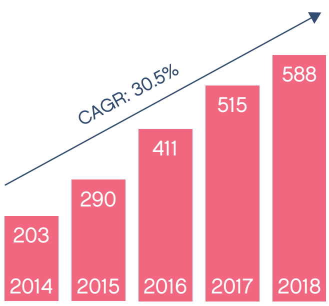
● UK health and fitness club members (m)
● Penetration (%)

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

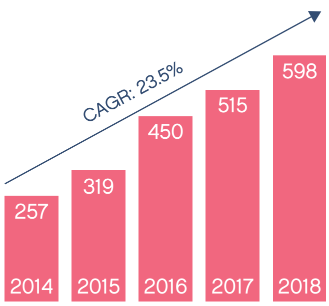


● Traditional private
● Low cost

Revenue of UK low cost gyms (£m)



Number of low cost gyms



Market fundamentals – UK public health
The UK government has recognised that increasing physical activity has the potential to improve the physical and mental wellbeing of individuals, families, communities and the nation as a whole[1].

It has been widely known for some time that exercise has a positive impact on the body and reduces the risks of physical illnesses such as cardiovascular disease, type 2 diabetes, colon cancer, breast cancer, hip fractures and dementia. What has gained more prominence recently is that participation in regular physical activity can also increase self-esteem and reduce stress and anxiety[2]. It also plays a role in preventing the development of mental health problems and in improving the quality of life of people experiencing mental health problems.

People in the UK are around 20% less active now than in the 1960s[1]. According to Public Health England, the UK population will be 35% less active by 2030 if current trends continue.

It has been recognised that this is the first generation that needs to make a conscious decision to build physical activity into the daily routine[1]. Fewer of us have manual jobs. Technology dominates at home and at work, the two places where we spend most of our time. Societal changes have designed physical activity out of our lives.

Helping more people to be more active, more often is an over-arching policy objective of the government and with our high quality, affordable, 24/7 proposition and a network of 158 sites across the UK, we are leading the way in motivating the nation to be more active.

Market overview – UK health and fitness sector
The UK health and fitness sector has been identified as one of the fastest growing sectors in the UK economy by a joint report from Leisure Database Company (LDC) and Allegra Strategies in their report Project Fitness UK 2018.

The industry has seen continued growth in 2018 with market value rising 4.3% from £4.7 billion in 2017 to £4.9 billion. In this period, the number of clubs has increased by 4.6% from 6,728 to 7,038 and membership has increased from 9.7 million in 2017 to 9.9 million in 2018. The sector is characterised by two distinct segments – private clubs operated by commercial enterprises and public facilities funded by local authorities. While the UK private market expands year on year, the UK public fitness market has shown a decline in the three key metrics for the second year in a row, with private health clubs continuing to take a more prominent role.

Focus on accessibility and affordability

Much of the increase in the private sector is accounted for by the rapid growth of the low cost model where the number of clubs has increased 16% to 598 and membership by 13% to 2.5 million by March 2018. The model now accounts for 14% of private clubs and 38% of all private membership and continues to be the driving force behind the sustained increase in penetration rates across the private sector. Whilst the penetration for the industry remained at 14.9% (based on the estimated population of the UK in 2016, which was 1.7% higher than used in the 2017 LDC report), the penetration within the private sector has increased from 9.8% to 9.9%. This increase in penetration continues to be driven mainly by the low cost sector increasing by 0.3 points to 3.7%[4].

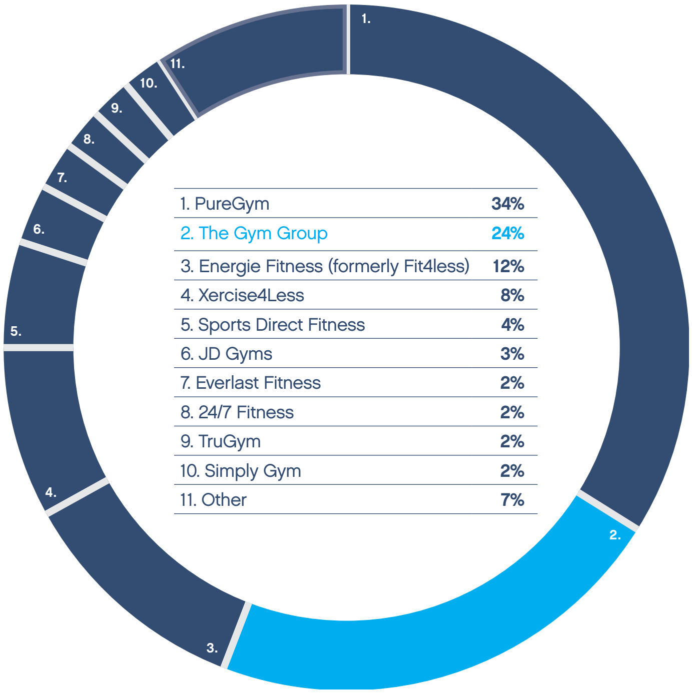
Our position in the market

The Gym Group's market share[5]

As at 31 December 2018 over 80% of the low cost market share is held by the five largest operators, including The Gym Group. The private sector growth continues to be driven largely by the low cost gyms, with The Gym Group and two other low cost operators now included in the LDC 'Top ten private operators'. We have continued to grow our market share of the low cost market from 22.4% to 24.2% as at December 2018. Our model continues to attract members who are new gym-goers as well as taking share from other operators. Overall, we added 17 new locations organically, as well as acquiring 13 well-located gyms from easyGym, adding a total of 30 new locations to our portfolio whilst holding true to our principle of systematically selecting premium sites that offer a consistent high quality gym experience at market-leading low cost pricing.

PERCENTAGE OF UK LOW COST FITNESS MARKET

24.2%
The Gym Group market share



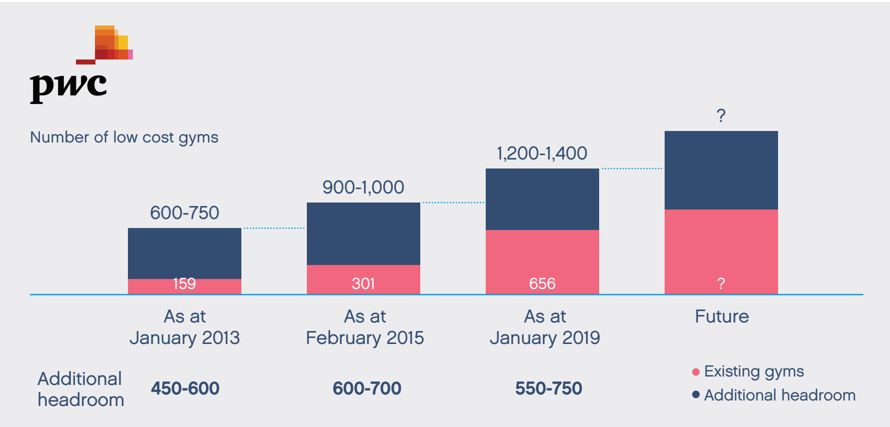
1. PureGym	34%
2. The Gym Group	24%
3. Energie Fitness (formerly Fit4less)	12%
4. Xercise4Less	8%
5. Sports Direct Fitness	4%
6. JD Gyms	3%
7. Everlast Fitness	2%
8. 24/7 Fitness	2%
9. TruGym	2%
10. Simply Gym	2%
11. Other	7%

Market potential

The UK low cost gym market has grown strongly over the last five years with 25% CAGR in the number of sites[4]. PwC recently completed a study into the total market potential for low cost gyms and estimates that the overall opportunity for low cost gyms lies between 1,200 and 1,400 gyms in the UK[6]. We estimate the number of existing low cost gyms as of December 2018 at 654, which would suggest a headroom for an additional 550–750 low cost gyms. This is an increase on PwC's previous assessment in 2015 (900–1,000 low cost gyms in total) and reflects the broadening of locations where low cost gyms operate. The continued growth is also supported by increasing gym membership penetration and low cost operators winning share from other segments.

The PwC assessment of market potential is based on the current landscape; as the low cost market evolves they believe the overall opportunity is likely to increase further.

Increasing opportunity in the low cost gym market



Sources
1 Public Health England: Health matters – getting every adult active every day.
2 Mental Health Foundation: How to look after your mental health.
3 Leisure Database Company and Allegra Strategies: Project Fitness UK 2018.
4 Leisure Database Company: State of the UK fitness industry report 2018.
5 Company's own calculations.
6 The above information has been extracted by the Gym Group from PricewaterhouseCoopers LLP's UK low cost gym market headroom assessment dated 5 March 2019 (the 'Report'), which was commissioned by the Gym Group solely for the purpose and on the terms agreed with the Gym Group. PricewaterhouseCoopers LLP accepts no liability (including for negligence) to anyone else in connection with the Report or any information extracted from the Report.

BUSINESS MODEL

FIT FOR THE FUTURE

OUR UNIQUE PROPOSITION AND PROVEN BUSINESS MODEL UTILISES TECHNOLOGY AND ECONOMIES OF SCALE TO PROVIDE A GREAT VALUE MEMBER EXPERIENCE, WHILST ALSO DELIVERING STRONG FINANCIAL RETURNS.

DELIVERING AN OUTSTANDING VALUE MEMBER EXPERIENCE

HIGH QUALITY ESTATE
See pages 14 to 15

COMPELLING MEMBER EXPERIENCE
See pages 16 to 17

PROPRIETARY DATA AND TECHNOLOGY
See pages 18 to 19

UNIQUE TEAM AND CULTURE
See pages 20 to 21

BUSINESS MODEL BASED ON ECONOMIES OF SCALE AND REINVESTMENT

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

DELIVERING VALUE TO ALL OUR STAKEHOLDERS

MARKET SHARE

24.2%

Market share

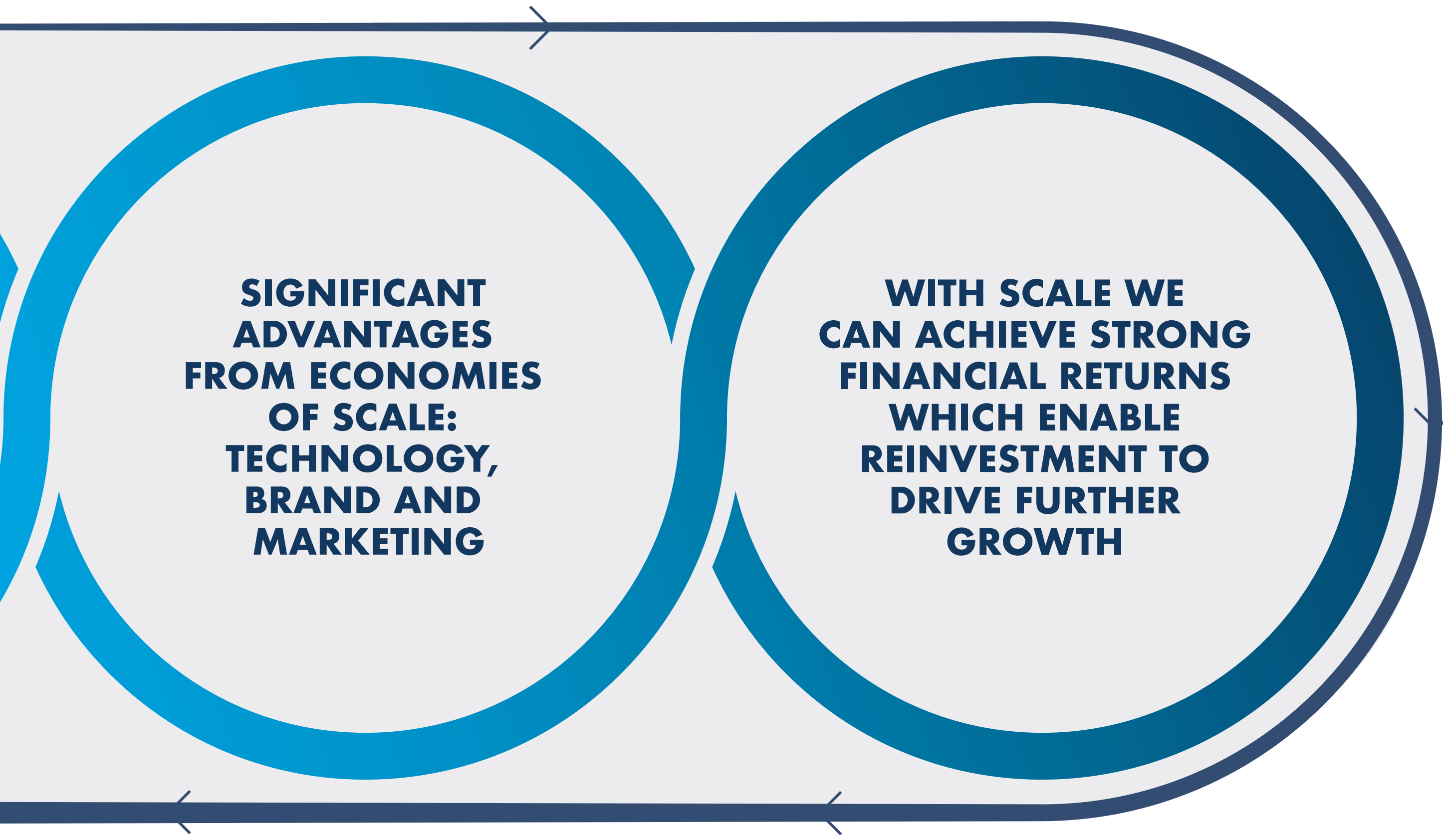
Over the past 30 months we have added 69 gyms, growing our market share from 16.7% and have substantiated our position as a leading provider of low cost gyms in the UK market.

MEMBERS

724,000

Our 24/7, no contract, member focussed product has continued to attract members across the UK with the number of members in 2018 having increased by 19.3%.

"WE ARE CONFIDENT IN OUR MODEL AND ITS ABILITY TO DRIVE REAL VALUE FOR MEMBERS, COLLEAGUES AND SHAREHOLDERS."



EMPLOYEES

61%

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

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

COMMUNITY

11

Charities receiving donations in 2018

During the course of 2018 we have had the privilege to work with and support national and international charities. Most recently we created a national campaign for the Movember Foundation. Our team and members rallied around this worthy cause with innovative initiatives and raised in excess of £100,000.

INVESTORS

31%

Return on Capital Employed

We continue to target returns on capital of greater than 30% across our mature sites for organic openings and in 2018 we achieved that target again with a return on capital in the mature estate of 31%.

BUSINESS MODEL IN ACTION

HIGH QUALITY ESTATE

WE ARE RIGOROUS IN THE SELECTION OF NEW SITES AND METICULOUS IN DESIGN, FIT-OUT AND MAINTENANCE TO ENSURE WE MAINTAIN THE HIGHEST STANDARD OF FACILITIES IN ALL OUR GYMS.

We have proven our ability to expand rapidly, nearly doubling our estate over the past 30 months, and our highly selective approach to property acquisition ensures our sites continue to deliver consistent financial performance.

"THE PLACE HAS GOT A VIBRANCY NOW THAT IT IS OPEN AND HAS BEEN A GREAT SOURCE OF STRESS RELIEF FOR ME. I CAN ALSO USE THE OTHER LOCAL GYMS AS ALTERNATIVES."

MEMBER, CROYDON

"I AM PLEASED WITH THE CONVERSION TO THE GYM GROUP AND FEEL PROUD THAT WE CAN OFFER A GREAT, FLEXIBLE AND AFFORDABLE GYM EXPERIENCE TO THE PEOPLE OF CHESTERFIELD."

GENERAL MANAGER, CHESTERFIELD

Our Kilmarnock gym after conversion.

Organic site openings

Our highly selective and scientific approach to site selection, as well as our excellent 5A1 covenant and long term relationships with landlords, have resulted in 17 strong organic openings in 2018 and a robust pipeline for 2019.

Acquisitions

The conversion and integration of the Lifestyle sites acquired in 2017 was completed during 2018, enabling the gyms to benefit from our brand, marketing, systems and operating model. The acquisition of 13 gyms from easyGym in July 2018 added eight sites within London and diversified the geographical mix in this fast-developing part of the country. We completed the rebrand of ten of the sites by December 2018, ready for the important January / February trading period.

Maintaining high quality

We also completed 21 refits of mature gyms to maintain consistent brand presentation and ensure the range of equipment continues to exceed member expectations. Our intensive planned maintenance programme with regular site visits and a six-monthly refresh of every site ensures that our entire estate continues to be competitive in providing high quality facilities to all our members.

BUSINESS MODEL IN ACTION

COMPELLING MEMBER EXPERIENCE

WITH OUR LOW COST, 24/7, NO CONTRACT PROPOSITION, DELIVERED THROUGH WELL-EQUIPPED AND MAINTAINED GYMS, STAFFED WITH FRIENDLY FITNESS EXPERTS, WE OFFER A VERY COMPELLING MEMBER EXPERIENCE THAT HAS A WIDE APPEAL ACROSS AGE AND INCOME GROUPS AND TO GYM NOVICES AND EXPERTS ALIKE.

" WORKING OUT WITH MY MATES IN DIFFERENT GYMS HAS REALLY BOOSTED MY CONFIDENCE. I AM HELPING THEM AND THEY ARE HELPING ME."

MEMBER, WALTHAMSTOW

LIVE IT

LIVE IT is the product of in-depth market research that explored the members' needs from a gym membership to introduce benefits that are designed to elevate the overall member experience.

The four key benefits were all chosen by members and, alongside the core benefits of The Gym, offer a compelling fitness support package:

Multi-site LIVE IT members can visit the gym near work, near home or near a friend's house. There is always an opportunity to slip a workout into the day.

Bring a friend makes the gym more approachable, more motivating and more fun. Studies demonstrate that people who train together, get results quicker and LIVE IT members can do this up to four times a month.

Discounts and offers create value to members not only for their gym membership but also for items such as fitness wear, nutritional supplements and gym accessories.

Fitness and body composition measurement delivers a full assessment of a member's health and tracks this over time by means of state-of-the-art FitQuest machines located in our gyms.

As a result of our focus on members' requirements, the uptake to the end of December 2018 has been encouraging with 11.7% of members subscribing to LIVE IT memberships.

← A happy member of our Walthamstow gym.

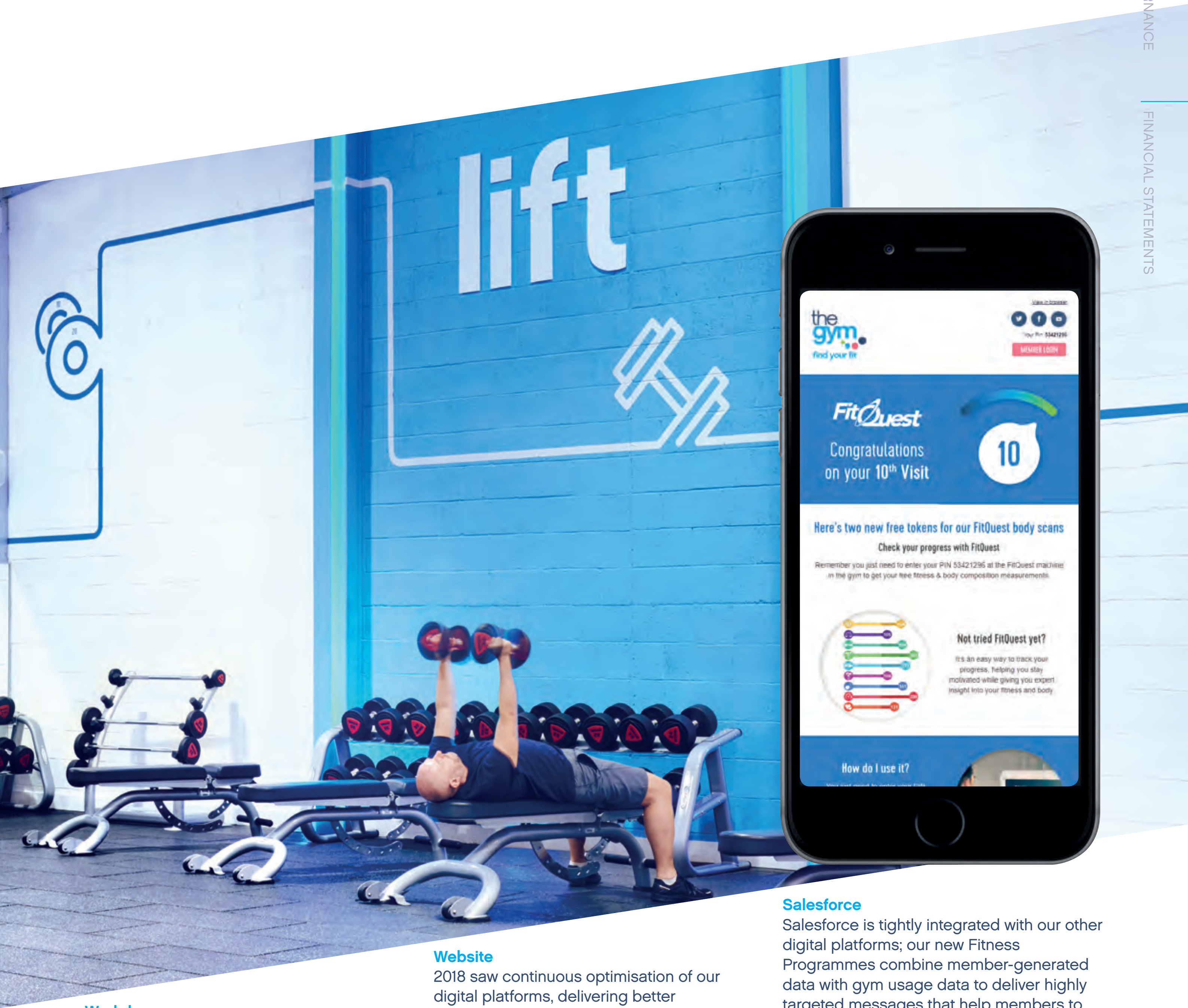
BUSINESS MODEL
IN ACTION

PROPRIETARY DATA & TECHNOLOGY

WE CONTINUE TO TRANSFORM THE DIGITAL USER EXPERIENCE WITH MEMBERS SIGNING UP ONLINE, ACCESSING THE GYM VIA A SELF-SERVICE SECURITY PORTAL AND MONITORING THEIR FITNESS PROGRESS VIA THE GYM GROUP APP AND FITQUEST BODY MEASUREMENT MACHINES. CONTINUED INVESTMENT IN INTERNAL SYSTEMS ENABLES US TO OPERATE A HIGHLY EFFECTIVE, LOW COST OPERATING MODEL.

"OUR SUBSTANTIAL WEBSITE UPGRADE NOT ONLY CREATED A FOUNDATION FOR FUTURE ENHANCEMENTS AND INNOVATION, BUT ALSO SECURED US THE 2018 DIGITAL TRANSFORMATION AWARD PRESENTED BY MARKETING WEEK."

HEAD OF DIGITAL PLATFORMS, THE GYM



Workday
The launch of Workday, a leading ERP platform, in July 2018 is a key part of our internal digital transformation; we are now able to implement our growth strategy and business model more efficiently and at lower cost.

Website
2018 saw continuous optimisation of our digital platforms, delivering better experiences for our members and a more powerful acquisition platform for our marketing campaigns.

Salesforce
Salesforce is tightly integrated with our other digital platforms; our new Fitness Programmes combine member-generated data with gym usage data to deliver highly targeted messages that help members to develop effective fitness regimes, promote relevant new products and services, and improve revenue collection.

Mobile app
In 2018 we launched our member app, which allows members to book classes, set goals and track workouts. Further developments will be launched in 2019.

← Engaging in member communications.

BUSINESS MODEL IN ACTION

UNIQUE TEAM AND CULTURE

MAINTAINING A FRIENDLY, OPEN ENVIRONMENT IN OUR GYMS HAS BEEN FUNDAMENTAL TO OUR SUCCESS IN ATTRACTING MEMBERS, MANY OF WHOM HAVE NEVER BEEN A MEMBER OF A GYM BEFORE. WE HAVE ACHIEVED THIS BY NURTURING A UNIQUE STAFF CULTURE AND SET OF CORE VALUES THAT RUN THROUGHOUT THE BUSINESS.

"I FEEL VERY PRIVILEGED TO BE SELECTED FOR THE EMERGING TALENT COURSE. THERE'S BEEN A LOT OF LEARNINGS, LESSONS AND LAUGHS ALONG THE WAY WITH A GREAT BUNCH OF COLLEAGUES."

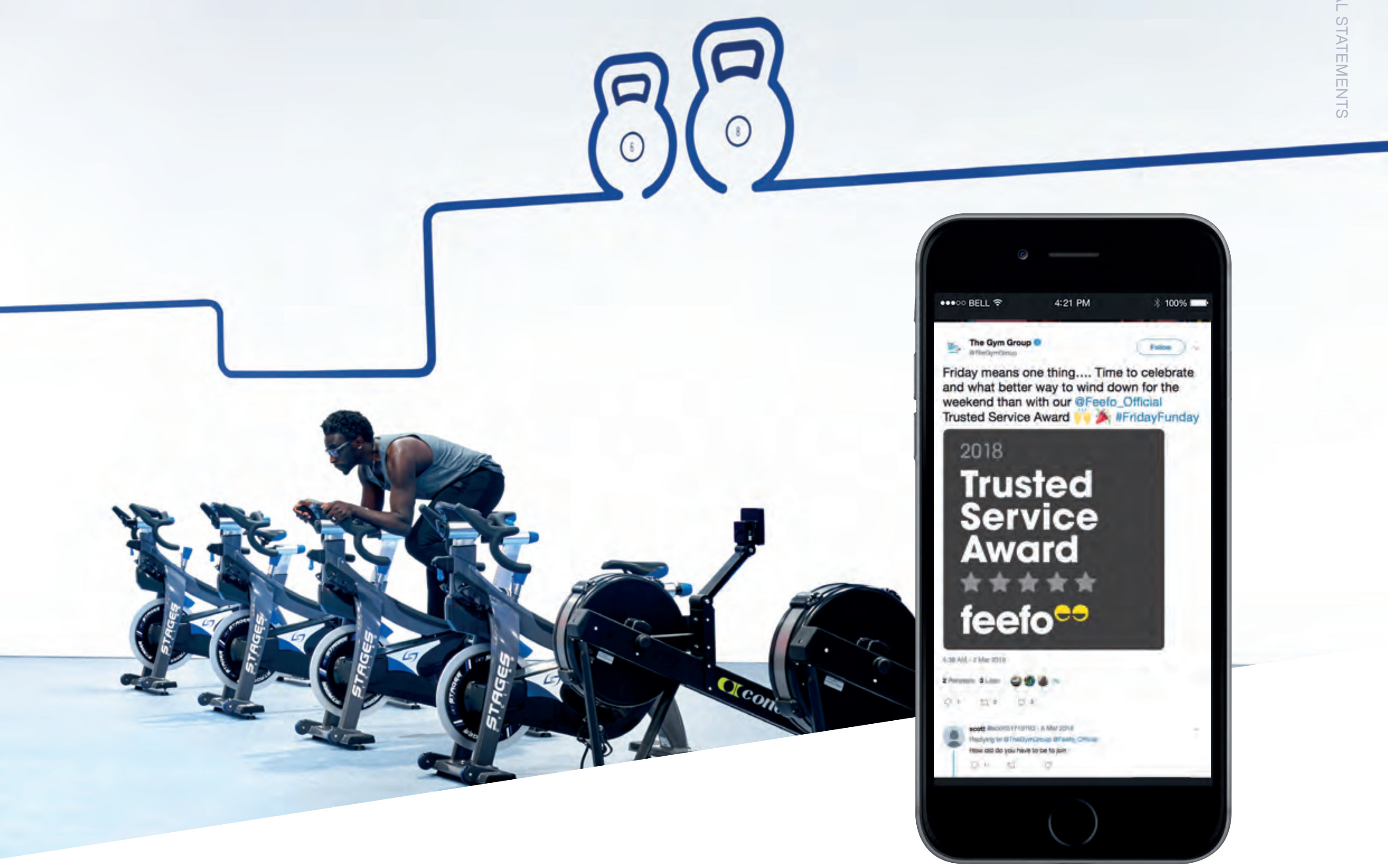
MALACHI,
RECENTLY PROMOTED TO GENERAL MANAGER
AT MANCHESTER ASHTON OLD ROAD

"THE GYM HAS GOT A GREAT ATMOSPHERE, FRIENDLY AND PROFESSIONAL TRAINERS AND A VARIETY OF CHALLENGING CLASSES. IT'S BUSY BUT THERE IS ALWAYS EQUIPMENT AVAILABLE. IT'S THE BEST GYM I HAVE EVER BEEN TO."

MEMBER, EDINBURGH CITY

OUR VALUES:

- TAKING THE FIRST STEP
- FRIENDLINESS
- REALNESS
- CHALLENGING YOUR LIMITS



Crunchtime

We provide the support, training and tools to ensure our General Managers are well-equipped to delivering the highest possible standards of service. We have recently implemented Crunchtime – a customer experience measurement tool – to deliver member feedback and insight to managers in real time to enable them to deliver the best possible experience.

'Emerging Talent' programme

Our highly effective 'Emerging Talent' programme was developed further in 2018 and is aimed at our Assistant General Managers ('AGMs'), developing our future leadership team. To date, 33 AGMs have graduated from the programme and 61% have already been promoted into General Manager positions.

Personal Trainers

During 2018 we started the trial of a new operating model that will enable our Personal Trainers to take up part-time employment.

The trials have shown the new model enhances member satisfaction, and it will be rolled out during 2019.

OUR STRATEGY

BY FOCUSSING ON CONSISTENTLY IMPROVING THE MEMBER EXPERIENCE IN OUR GYMS, GROWING THE ESTATE WITH EXCELLENT NEW SITES AND CONTINUALLY REFINING OUR OPERATING MODEL, WE DELIVER SUSTAINABLE, PROFITABLE GROWTH AND A STRONG RETURN ON CAPITAL.

INITIATIVES	DRIVE PERFORMANCE OF OUR OPEN GYMS	IMPROVE OPERATING EFFICIENCIES
LINK TO OUR BUSINESS MODEL	**02, 03**	**03**
PROGRESS IN 2018	In 2018 our Mature Site EBITDA contributed £39.2 million, compared to £34.1 million in 2017. Our sites opened in 2017 and 2018 are showing good progress and are on similar growth trajectories to previous cohorts.	We continue to examine our cost base to operate most efficiently, taking advantage of our increasing scale. The launch of Workday has given us a cutting edge finance and HR system that will form the backbone of our capability in these areas for the future.
RISKS	• Operational gearing • Member experience • Competition	• IT dependency • Data protection • Operational gearing
PERFORMANCE MEASURES	**Mature Gym Site EBITDA £m** **+15.0%** 2018 39.2 2017 34.1	**Group Adjusted EBITDA £m** **+31.6%** 2018 36.8 2017 28.0

Link to our business model

01 High quality estate
02 Compelling member proposition
03 Proprietary data and technology
04 Unique team and culture

ROLLOUT AND EXPANSION

01

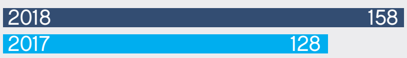
We have delivered on our guideline of 15 to 20 gyms per annum and opened 17 well-positioned new gyms. In addition, we acquired 13 selected sites from easyGym.

Our strong covenant is highly attractive to landlords and continues to give us access to the best sites available in the market.

- Organic rollout
- Economic conditions
- Regulatory

Total number of Gyms

+23.4%



CONTINUE TO IMPROVE MEMBER PROPOSITION

02, 04

Our new system of tracking member satisfaction, which measures member feedback, has now been deployed at site level. This new system enables us to identify best practice.

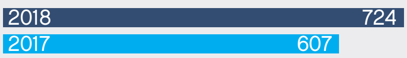
The LIVE IT membership has proven to be popular, with 85,000 members having subscribed to the product by the end of 2018.

In February 2019 we were once again awarded the prestigious FEEFO Trusted Service award for exceptional customer service as voted for by our members.

- Member experience
- Competition

Total number of members '000

+19.3%



FOCUS ON PEOPLE

04

We commenced a trial of a new operating model that will enable some of our Personal Trainers to take up part-time employment.

We transitioned 24 new and existing sites onto the new model during the year and will continue the rollout in 2019.

- Staff retention
- Regulatory

61%

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

INVESTORS IN PEOPLE | Gold

STRONG TO THE CORE

WE HAVE A PROVEN BUSINESS MODEL THAT DELIVERS AN EXCELLENT RETURN ON CAPITAL.

Summary

I am pleased to be presenting these annual results for the first time as The Gym Group's new CFO. I am fortunate to have joined such a great business; one that's in a market of long term structural growth and has a well proven business model that can deliver outstanding value for its members and at the same time an attractive return on capital to shareholders.

2018 has been a significant year of progress for the Group, with strong organic growth, a new acquisition, the integration of a previous acquisition and many other important initiatives that position us well for continued growth in the coming years.

The Group has delivered another strong set of financial results, with revenue growing 35.6% to £123.9 million and Group Adjusted EBITDA growing 31.6% to £36.8 million. We have also continued to deliver a strong return on capital, with ROCE in our mature sites at 31% (2017: 32%).

The growth in Group Adjusted EBITDA has been achieved alongside significant transformation and investment in the business in 2018 with 17 organic site openings, the acquisition of 13 sites from easyGym and the conversion of the remaining sites acquired from Lifestyle Fitness in 2017. We financed the easyGym acquisition principally through an equity placing, raising £24.0 million.

Group Operating Cash Flow increased 37.7% to £34.0 million (2017: £24.7 million) as a result of the growth in EBITDA and continuing efficient use of working capital.

	2018 £'000	2017 £'000
Total number of Gyms	**158**	128
Total number of members ('000)	**724**	607
Revenue	**123,884**	91,377
Group Adjusted EBITDA[1]	**36,813**	27,963
Group Adjusted EBITDA before Pre-Opening Costs[2]	**39,305**	30,598
Adjusted Earnings[3]	**11,230**	9,527
Group Operating Cash Flow[4]	**33,972**	24,677
Statutory profit before tax	**9,967**	9,191

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

Result for the year

	2018 £'000	2017 £'000
Revenue	**123,884**	91,377
Cost of sales	**(1,007)**	(982)
Gross profit	**122,877**	90,395
Administration expenses	**(107,825)**	(78,015)
Long term employee incentive costs	**(1,012)**	(774)
Exceptional items	**(2,343)**	(1,664)
Operating profit	**11,697**	9,942
Finance income	**22**	12
Finance costs	**(1,752)**	(763)
Profit before tax	**9,967**	9,191
Tax charge	**(2,761)**	(2,020)
Profit for the year	**7,206**	7,171
Tax charge	**2,761**	2,020
Amortisation of intangible assets	**2,051**	1,175
Exceptional administration expenses	**2,343**	1,664
Adjusted profit before tax	**14,361**	12,030
Tax charge	**(2,761)**	(2,020)
Tax effect of above items	**(370)**	(483)
Adjusted Earnings	**11,230**	9,527

Group Adjusted EBITDA

	2018 £'000	2017 £'000
Operating profit	**11,697**	9,942
Depreciation of property, plant and equipment	**19,710**	14,408
Amortisation of intangible assets	**2,051**	1,175
Exceptional items	**2,343**	1,664
Long term employee incentive costs	**1,012**	774
Group Adjusted EBITDA	**36,813**	27,963

Revenue

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

We ended the year with 724,000 members, an increase of 19.3% compared with the closing membership level in December 2017. As a result of having the Lifestyle sites for a whole year compared to just three months in 2017, plus the 13 easyGym sites acquired in July 2018, the average membership level across the 12-month period grew by 31.3% to 693,000 (2017: 528,000).

ARPMM increased from £14.41 to £14.89 in 2018 through a combination of price increases, member mix and the take-up of our premium membership package LIVE IT, which, following a full year's rollout, increased its penetration to 11.7% of our membership by the end of the year.

As a result of these factors, revenue for the year increased 35.6% to £123.9 million (2017: £91.4 million).

Group Adjusted EBITDA

Group Adjusted EBITDA increased by 31.6% to £36.8 million (2017: £28.0 million), due to sites opened in recent years increasing their contribution to profits. Group Adjusted EBITDA margin reduced from 30.6% to 29.7%, reflecting the absorption of the Lifestyle Fitness and easyGym sites, and the fact that a large proportion of our sites are immature. Our mature sites (those more than two years old) delivered Group Adjusted EBITDA margin of 45.3%, we therefore expect the overall Group margin to grow over time as our estate matures.

Group Adjusted EBITDA is adversely affected by pre-opening costs. Group Adjusted EBITDA before Pre-Opening Costs increased by 28.5% to £39.3 million. Pre-opening costs decreased from £2.6 million to £2.5 million, reflecting 17 site openings in 2018 compared to 21 in 2017.

Growth in EBITDA from our mature sites has contributed significantly towards the growth in Group Adjusted EBITDA. Mature Site EBITDA[1] contributed by the 89 mature sites increased to £39.2 million (2017: £34.1 million Mature Site EBITDA from 74 mature sites).

EBITDA from new sites increased from £3.0 million in 2017, representing 54 sites, to £8.3 million in 2018, with 69 sites at 31 December 2018. New sites include 18 sites acquired from Lifestyle Fitness in 2017 and 13 sites from easyGym in 2018, in addition to new gyms opened in 2017 and 2018, which are performing well.

1 Mature sites are defined as gyms that have been open for 24 months or more measured at the end of the year. New sites are defined as gyms that have been open for fewer than 24 months at the end of the year, and include all 18 Lifestyle sites and all 13 easyGym sites.

FINANCIAL REVIEW
CONTINUED

Administration expenses
Administration expenses increased by 38.2%, primarily due to the number of gyms increasing from 128 at 31 December 2017 to 158 at 31 December 2018.

The largest cost within administration expenses is property lease rentals, which increased from £17.3 million in 2017 to £23.0 million in 2018 due to the increase in the number of gyms. Staff costs also form a significant part of administration expenses and increased from £13.2 million to £16.0 million, excluding a charge of £1.0 million (2017: £0.8 million) from long term employee incentives. The increase was driven by both gym openings and a scaling up of support office costs to support future growth. Support office costs increased from £9.1 million in 2017 to £10.7 million in 2018 due primarily to headcount increases.

Depreciation
Depreciation charges increased from £14.4 million in 2017 to £19.7 million in 2018, as a result of the increased number of sites in our estate. Depreciation as a percentage of revenue remained flat at 16%. Amortisation charges increased from £1.2 million to £2.1 million due to increases in software investment and acquisition intangibles.

Exceptional items
Exceptional costs increased to £2.3 million from £1.7 million in 2017 and comprised: £1.2 million in restructuring costs relating to the change in how we work with Personal Trainers in our gyms (including restructuring costs expected to be incurred in the rollout in 2019); £0.6 million of costs associated with the acquisition of easyGym; and £0.5 million of costs relating to the integration of the Lifestyle Fitness and easyGym assets.

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

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

The Group recognised a charge of £1.0 million (2017: £0.8 million) in relation to these share based payment arrangements.

Finance costs
Finance costs increased to £1.7 million in 2018 (2017: £0.8 million) with further drawing on our debt facilities to fund the expansion of our estate. At December 2018 the Group had undrawn facilities of £4.0 million within its five-year bullet repayment facility and £7.0 million from its revolving credit facility, ending the year with net debt of £46.0 million, representing 1.25x Group Adjusted EBITDA (2017: 1.34x). This relatively low level of leverage ensures we can offer a strong covenant to potential landlords, providing us with a significant commercial advantage in the securing of desirable new sites.

Taxation
The Group has incurred a tax charge of £2.8 million for the year ended 31 December 2018, which represents an effective tax rate ('ETR') on statutory profit before tax of 27.7% (2017: 22.0%). The increase in ETR is due to an increased level of exceptional items which are not deductible for tax purposes, and increased charges relating to share based payments.

The underlying effective tax rate on adjusted profit before tax, after adjusting for amortisation and exceptional items, is 21.8% (2017: 20.8%).

Earnings
Statutory profit before tax increased to £10.0 million (2017: £9.2 million), largely as a result of the increase in Group Adjusted EBITDA, offset by increased depreciation due to increased number of sites, increased amortisation of intangible assets from acquisitions and higher exceptional costs. The Group delivered a profit for the year of £7.2 million (2017: £7.2 million) as a result of the factors discussed above.

Basic earnings per share ('EPS') was 5.4p (2017: 5.6p). Basic adjusted EPS was 8.4p (2017: 7.4p). Adjusted EPS is calculated by excluding amortisation, exceptional items, and the resultant tax effect from earnings.

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

The Group declared an interim dividend of 0.35p per share earlier in the year. The Board recommends a final dividend of 0.95p per share in respect of the financial year ending 31 December 2018, resulting in a full year dividend of 1.30p per share. Shareholders will be asked to approve the dividend at the AGM on 4 June 2019, for payment on 14 June 2019 to shareholders whose names are on the register on 24 May 2019.

Cash flow

Group Operating Cash Flow has increased by 37.7% from £24.7 million to £34.0 million as a result of an increase in Group Adjusted EBITDA and efficient use of working capital. Total maintenance capital expenditure was £8.3 million (2017: £6.3 million). Our Group Operating Cash Flow Conversion has increased slightly to 92.3% (2017: 88.2%).

Expansionary capital expenditure of £57.6 million (2017: £52.5 million) arises as a result of the fit-out of new gyms, the acquisition of the easyGym portfolio and the conversion of the Lifestyle sites acquired in 2017.

Balance sheet

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

Non-current assets have increased by £44.3 million to £241.0 million (2017: £196.7 million). This is largely as a result of £22.9 million of assets and goodwill acquired from easyGym, capital expenditure in property, plant and equipment and intangibles totalling £43.7 million, offset by depreciation and amortisation of £21.8 million.

Current assets have increased due primarily to higher cash balances. Current liabilities have increased by £11.6 million as a result of lease incentives associated with new gyms opening in the year, contingent consideration associated with the easyGym acquisition, £3.0 million drawn on the revolving credit facility at 31 December 2018 and increases in trade and other payables as the size of our business grows.

The Group has drawn £46.0 million of its five-year bullet repayment facility and £3.0 million of its revolving credit facility. £11.0 million of the facilities were undrawn at 31 December 2018.

Guidance for 2019

On 1 January 2019 the Group will adopt IFRS 16 'Leases'. The indicative effect of this new accounting standard is shown in note 4 to the Financial Statements.

We plan to continue our progressive dividend policy in which we pay 10 to 20% of adjusted earnings to shareholders each year in the form of dividends. With the move to the IFRS 16 in 2019 our statutory earnings will change versus earnings levels previously stated under the previous accounting standard. However, our intention is to continue to pay dividends based on 10 to 20% of adjusted earnings as measured in the pre-IFRS16 definition.

Cash flow

	2018 £'000	2017 £'000
Group Adjusted EBITDA	**36,813**	27,963
Movement in working capital	**5,477**	2,981
Maintenance capital expenditure[1]	**(8,318)**	(6,267)
Group Operating Cash Flow	**33,972**	24,677
Expansionary capital expenditure[2]	**(57,551)**	(52,453)
Exceptional items	**(2,105)**	(1,147)
Taxation	**(2,009)**	(1,050)
Finance costs	**(1,349)**	(759)
Dividends paid	**(1,637)**	(1,347)
Other net cash flows from financing and investing activity	**33,249**	27,714
Net cash flow	**2,570**	(4,365)

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

Balance sheet

	2018 £'000	2017 £'000
Non-current assets	**241,039**	196,723
Current assets	**15,318**	9,691
Current liabilities	**(56,957)**	(45,401)
Non-current liabilities	**(49,558)**	(40,129)
Net assets	**149,842**	120,884

In addition:

- We expect 15 to 20 new site openings.
- We expect new site fit-out costs to continue to be between £1.3 million and £1.4 million per site.
- We anticipate £3.5 million to £4.0 million of capital expenditure on technology projects.
- Maintenance capital expenditure is expected to be between 6% and 7% of revenue in 2019.
- Depreciation is expected to be just under 16% of revenue (on an IAS 17 basis, consistent with 2018 reporting).
- The charge for long term employee incentives is anticipated to be £1.8 million in 2019.
- To support the growth of the business we expect support office costs to be 8.0% to 8.5% of revenue (2018: 8.6%).
- The future effective tax rate, after adjusting for amortisation and exceptional items, is estimated to be 23.0% in 2019 (2018: 21.8%).

Mark George
Chief Financial Officer
19 March 2019

KEY PERFORMANCE INDICATORS

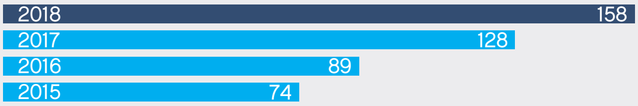
WE USE A NUMBER OF FINANCIAL AND NON-FINANCIAL KEY PERFORMANCE INDICATORS (‘KPIs’) TO MEASURE OUR PERFORMANCE OVER TIME.

WE SELECT KPIs THAT DEMONSTRATE THE FINANCIAL AND OPERATIONAL PERFORMANCE UNDERPINNING OUR STRATEGIC DRIVERS.

NON-FINANCIAL

Total Number of Gyms

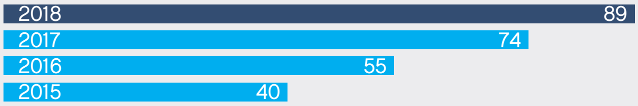
+23.4%



2018 performance
The total number of sites grew by 23.4% during 2018, with 17 new sites opening through our organic programme and 13 sites acquired from easyGym.

Number of Mature Gyms in Operation

+20.3%

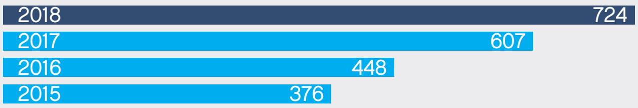


Definition
Mature gyms are defined as gyms that have been open for 24 months or more measured at the end of the year.

2018 performance
The Group’s progressive rollout strategy means that gyms opened in 2016 are considered to be mature in 2018.

Total Number of Members ’000

+19.3%

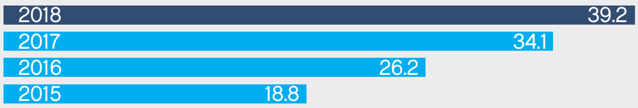


Definition
Total number of members reflects gym memberships at the year end.

2018 performance
Total number of members has increased from 607,000 at 31 December 2017 to 724,000 in 2018, largely as a result of the opening of 17 sites and the acquisition of 13 sites from easyGym.

Mature Gym Site EBITDA £m

+15.0%

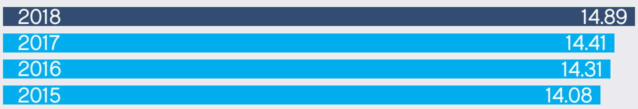


Definition
Mature Gym Site EBITDA is calculated as Group Adjusted EBITDA contributed by the mature gym portfolio.

2018 performance
Mature Gym Site EBITDA has increased by 15.0% due to gyms opened in 2016 reaching maturity in the current year, offset by a small decrease in the average profitability per site.

Average Revenue per Member per Month £

+3.3%



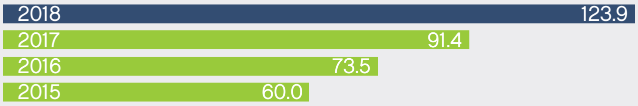
Definition
Average Revenue per Member per Month is calculated as revenue divided by the average number of members divided by the number of months in the period.

2018 performance
Average Revenue per Member per Month increased by 3.3% due to the maturation of pricing and strategic pricing decisions.

FINANCIAL

Revenue £m

+35.6%

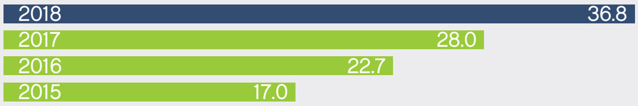


Definition
Revenue is generated from membership fees and ancillary services such as rental and vending income.

2018 performance
The 35.6% increase in revenue was driven by a 31.3% increase in average member numbers and a 3.3% increase in Average Revenue per Member per Month.

Group Adjusted EBITDA £m

+31.6%

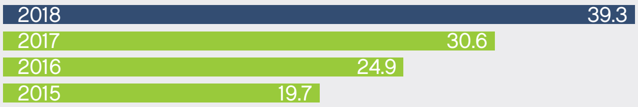


Definition
Group Adjusted EBITDA is calculated as operating profit before depreciation, amortisation, long term employee incentive costs, and exceptional items. This is an important measure used to assess performance of sites which is a proxy for cash and is a measure used internally and externally by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

2018 performance
Group Adjusted EBITDA increased by 31.6%, largely due to sites opened during the last two years becoming increasingly mature.

Group Adjusted EBITDA before Pre-Opening Costs £m

+28.5%

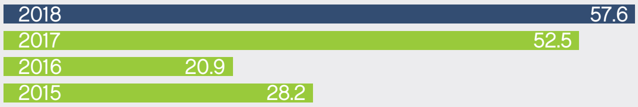


Definition
Group Adjusted EBITDA before Pre-Opening Costs is defined as Group Adjusted EBITDA excluding the costs associated with new site openings.

2018 performance
Group Adjusted EBITDA before Pre-Opening Costs increased by 28.5%, reflecting the 31.6% increase in Group Adjusted EBITDA offset by a slight decrease in Pre-Opening Costs due to the opening timings of sites.

Expansionary Capital Expenditure £m

+9.7%

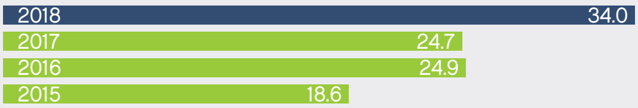


Definition
Expansionary Capital Expenditure is expenditure in relation to the fit-out of new gyms, acquisition of gyms and technology projects.

2018 performance
Expansionary Capital Expenditure has increased by 9.7% largely due to the timing of supplier payments.

Group Operating Cash Flow £m

+37.7%



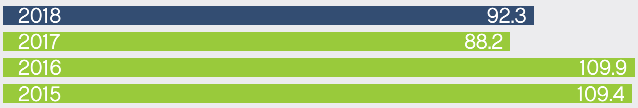
Definition
Group Operating Cash Flow is calculated as Group Adjusted EBITDA less working capital less maintenance capital expenditure.

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

2018 performance
Group Operating Cash Flow has increased by 37.7% as a result of an increase in Group Adjusted EBITDA and efficient use of working capital.

Group Operating Cash Flow Conversion %

+4.6%

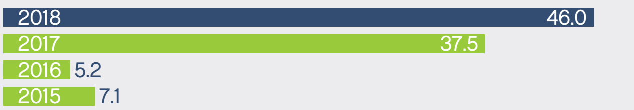


Definition
Group Operating Cash Flow Conversion is calculated as Group Operating Cash Flow as a percentage of Group Adjusted EBITDA.

2018 performance
Group Operating Cash Flow Conversion has increased from 88.2% to 92.3% due to the efficient use of working capital.

Net Debt £m

+£8.5m

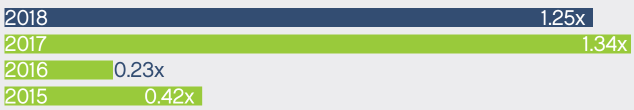


Definition
Net Debt is defined as borrowings from bank facilities and finance leases less cash and cash equivalents.

2018 performance
Net Debt increased by £8.5 million due to the drawdown of £11.0 million of bank loan facilities to fund site openings, offset by operating cash inflows.

Net Debt to Group Adjusted EBITDA

1.25x



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

2018 performance
Net Debt to Group Adjusted EBITDA has reduced due to the efficient use of working capital and the financing of the easyGym acquisition through equity.

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.

Principal risks

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

Responsibility for risk

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

THE BOARD

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

THE AUDIT AND RISK COMMITTEE

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

EXECUTIVE COMMITTEE

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

Principal risk	Definition	Impact	Mitigation
COMPETITION AND MARKET SATURATION	The Group may face increased competition and pressure from competitor pricing decisions. This will become more significant if the low cost gym market becomes saturated.	The ability of the Group to hold or increase prices and therefore achieve performance targets could be affected.	• A recent PwC report indicates significant headroom in the low cost gym market. • Maintain price discipline and leadership. • Maintain focus on choosing the best sites in a geographical area. • Continue to invest in the member proposition.
ORGANIC ROLLOUT	Site scarcity may affect the delivery of our rollout plan.	Delays to our rollout plan may have an adverse impact on growth targets and operational returns.	• Our highly experienced property team are focussed on site selection and sourcing the best deals.
MEMBER EXPERIENCE	Failure to provide members with a high quality product and service would damage the Group's reputation. The Group also relies on third parties to provide high quality equipment and services.	Reductions in actual or perceived member service could result in a decrease in membership numbers and revenue generation.	• Monitor utilisation and member satisfaction scores. • Enhance monitoring and feedback processes. • Ongoing review of equipment usage to ensure we meet member requirements. • Explore further innovations to improve the member experience. • Service level agreements and monitoring of service levels for key suppliers.
STAFF RETENTION	Loss of key staff through retention policy and failure to manage succession.	A lack of experienced and motivated staff will have a detrimental impact on all areas of the business, from operations to central functions.	The Group uses a variety of techniques to attract, retain and motivate staff at all levels across the business. These techniques include: • competitive remuneration packages; • opportunities to own shares in the Company; • opportunities for training and progression; • short, clear reporting lines; and • succession planning.

PRINCIPAL RISKS AND UNCERTAINTIES CONTINUED

Principal risk	Definition	Impact	Mitigation
ECONOMIC CONDITIONS	The result of Brexit could cause significant disruption to business conditions.	Incoming equipment and materials could increase in cost due to currency movement and additional import costs.	• As part of our Brexit planning we have stockpiled the capital requirements needed to be imported from Europe to ensure we can continue to meet our rollout target in the first six months.
INFORMATION TECHNOLOGY DEPENDENCY	Our ability to enrol members, carry out online marketing activity, process payments and control gym access is dependent on the performance of our IT systems.	Disruption in critical IT systems could have a negative impact on our reputation and our ability to collect revenue.	• Our primary data systems are hosted by fully qualified organisations in suitable data centres. • Our primary IT infrastructure is fully managed by specialist IT companies who provide best-practice architecture and support. • All membership and business information is backed up using third party locations. • Robust disaster recovery and business continuity plans are in place.
DATA PROTECTION	The Group holds business critical and confidential information electronically. A breach of security or data protection rules is a key risk.	Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	• The Group's networks and systems are protected by firewalls, security software and secure passwords. • All sensitive data is captured and presented using SSL encryption. Our transactional website is scanned quarterly to ensure PCI compliance. • Access to central member data systems requires 2-Factor authentication. • All customer payment data is stored externally on systems that are PCI-DSS and/or BACS certified. • A third party data security audit took place in 2018.
OPERATIONAL GEARING	High operational gearing from the fixed cost base.	A limited number of corrective options in the cost base could be made to correct any underperformance in membership numbers, which could have an adverse impact on profitability.	• Monthly monitoring and re-forecasting of business performance at site level. • Active yield management on a gym-by-gym basis. • Regular financial management by Executive Committee and Board.

Principal risk	Definition	Impact	Mitigation
REGULATORY	Failure to adhere to regulatory requirements such as the Listing Rules, taxation, the Data Protection Act, employment law, health and safety requirements, planning regulations, noise abatement and advertising and marketing regulations.	Potential reputational damage and penalties.	• The Board has oversight of the management of regulatory risk and compliance, and delegates specific responsibilities to senior management. • Expert opinion sought where relevant. • Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act. • Third party health and safety risk assessments and audits carried out. Staff conduct periodic health and safety assessments. • Employment and continuous training and development of appropriately qualified staff.

Going concern

In assessing the going concern position of the Group, the Directors have considered the Group's cash flows, liquidity and business activities. At 31 December 2018, the Group had cash balances of £3.0 million and undrawn financing facilities of £11.0 million which are available to fund new sites, working capital and capital expenditure.

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

Viability Statement

In accordance with provision C.2.2 of the UK Corporate Governance Code 2016, the Directors have assessed the viability of the Group taking into account the Group's current position and the potential impact of the principal risks documented above that would threaten its business model, future performance, solvency or liquidity. Based on this assessment, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2021.

The Directors have determined that the three-year period to 31 December 2021 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 2018 and those planned to be opened in 2019. The strategic planning process occurs annually on a rolling basis. The strategic plan includes the 158 sites open at the end of 2018, 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 focussed on for enhanced stress testing. These included membership numbers, pricing, transitioning to the new Personal Trainer model, changes to return on capital and changes to the rollout programme. Both individual and aggregated scenarios were tested, as well as a reverse stress testing exercise. Scenarios with mitigating actions were then modelled. Mitigating actions included modifications to the rollout plan and cost control measures.

The principal risks detailed above which have the greatest effect on financial results are considered to be competition, member experience and staff retention.

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.

To deliver this vision we create a friendly, welcoming environment in our gyms, staffed with knowledgeable and passionate colleagues, who not only provide a great experience to our members but also contribute to the wider communities in which they're located. This purpose and culture, combined with our continued growth, makes The Gym a great place to work and build a career.

Our members

The Gym exists to break down barriers to fitness for all and our core proposition of low cost, no contract and 24/7 opening has been helping the nation get more active for over a decade. We were proud to announce the 100 millionth workout in one of our gyms last year.

Our membership grew to 724,000 in 2018 and our affordable and flexible product continues to encourage people to take up exercise and become more active, with many of our members being members of a gym for the first time. By making our gyms welcoming and not intimidating, we aim to attract people of all ages and experience levels. The experience and culture of our Gym Managers and Personal Trainers are key to creating this inclusive environment and we believe are a critical factor in our success.

The average age of our members is 31. Part of our philosophy is that if members can get into fitness and stay healthy while relatively young, the benefits for them and for society are clear and our discounted memberships for students support this. Equally, 8% of our membership is over the age of 50 and with continued focus on physical activity in later life, again the benefits to society are clear.

During the year, we have worked hard to ensure our members receive the best service possible, and being able to listen, understand and respond to their needs has enabled us to improve the overall member experience in 2018. In recognition of this, we were awarded the prestigious FEEFO Trusted Service Award in February 2019, an independent seal of excellence that recognises businesses for delivering exceptional experiences, as rated by our members. We look forward to continuing these improvements in the year ahead.

Member requirements and demographics are also of paramount importance when we develop our member experience and in 2018 we gave our members our LIVE IT premium membership package, enhanced group exercise classes and improved the equipment mix to meet their changing needs.

We are proud of our diverse membership and welcome anyone from any walk of life, ethnicity or ability level to be a member at The Gym. We were delighted to showcase our brilliant members in our 2019 marketing campaign, including powerlifter Syeda Bukhari and Felicia Cantone, who is battling cancer and exercises to 'fight the fight'.

Over £100,000

donated to charities

8%

of membership over 50 years of age

Member interview

21 year old Felicia Cantone is a member at The Gym Cutty Sark, star of our TV ad and undergraduate at the University of Greenwich. She's currently undergoing monthly chemotherapy. After losing her right leg she works out every week using her full-length prosthesis. She has the most wonderful attitude to life and inspires all of us at The Gym.

Q When did you start using the gym?

A I started using the gym with my dad in about 2016. My dad and I trained together for about a year, he helped me get into it and taught me some of the basics. We used each other as motivation to go.

Q Which one of our gyms do you use?

A The Gym Cutty Sark. I joined when I started university as it was close and affordable.

Q What do you like about The Gym and The Gym's staff?

A Everyone is nice and always smiley. I like the fact you can just enter your PIN, get in, put your headphones on and start your workout. There is no reception process to get signed in or anything. So on a day you just need to focus you can get started straightaway, but the staff are always there and happy to help If you need anything.

I like the fact it is affordable for students. The flexible hours are good because I don't like to go when it's busy so I try and go at off-peak times.

Q Do you work out with friends?

A I workout alone but will start to take my friend with me now I have a LIVE IT membership.

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

A I find it super important to go to The Gym. I don't do that much physical activity due to my prosthetic feeling uncomfortable when I am wearing it, so I am mainly in my chair at uni or the shops. I try and go to The Gym to keep up being physical.

I'm not one of those people who loves going to the gym. I do find it a chore sometimes to get up and go but afterwards I feel good about myself. I used to do yoga and after a yoga class, you feel happy and relaxed and I feel the same after I leave The Gym.

Q What was it like to be part of The Gym TV advert?

A As someone who has a physical disability, it was rewarding to be given a platform to show an audience that I'm just as capable as an able-bodied person. I hope that the disabled community can be inspired to take fitness into their stride regardless of their differences.

"I HOPE THAT THE DISABLED COMMUNITY CAN BE INSPIRED TO TAKE FITNESS INTO THEIR STRIDE."

FELICIA CANTONE, CUTTY SARK MEMBER

CORPORATE SOCIAL RESPONSIBILITY STATEMENT CONTINUED

Our colleagues

The Gym Group has a unique team culture that started with our Founder, John Treharne, in our first gym in Hounslow in 2008 and continues today in our 158 gyms across the country. We believe in making health and fitness accessible for all and to do this we create an open and welcoming environment with knowledgeable and friendly staff.

In 2018 we created many new jobs and increased our number of colleagues to over 600 as we have started to rollout our new employment model for Personal Trainers. There will be further growth in 2019 as we continue to open new gyms and as more of the Personal Trainers ('PTs') in our gyms become part-time employees. To support this growth we have expanded and enhanced our People function during the year, including the appointment of Ann-marie Murphy as Director of People and Development. In addition to growing the team we have also invested significantly in new systems with the successful launch of our new HR system, Workday.

In 2018 The Gym commenced the pilot of our innovative new model for how we work with the PTs in our gyms. Under this model, PTs will work 12 hours per week for The Gym as part-time employees and then separately, outside of these hours, they will offer PT services directly to members on a self-employed basis. As employees they will be eligible for holiday and sick pay benefits plus training and career development. We have also established a range of other benefits to help them run their self-employed PT business, such as discounts on insurance and financial advice. We believe the new model will give us a competitive advantage in the recruitment of the best PTs, enabling the delivery of an even better member experience in our gyms. The initial results from the 24 trial gyms have been encouraging, with member satisfaction levels higher than our Company average. As a result, we now plan to rollout the model to the rest of the estate in 2019, starting in April.

Our Emerging Talent programme has gone from strength to strength in 2018. We have successfully taken four cohorts through the programme in which Assistant General Managers ('AGMs') receive in-depth leadership and development training to help them progress their careers. We are extremely proud to say, to date, 61% of the AGMs who have graduated through Emerging Talent have already been promoted to a General Manager position within the Company.

We are committed to ensuring we provide a supportive and healthy workplace for our people. In addition to our existing Employee Assistance Programme which offers 24-hour confidential professional advice and counselling, this year saw two of our employees qualify as Mental Health First Aiders. We strongly believe in the importance of recognising the critical warning signs of mental ill health and our Mental Health First Aiders will be playing an active role in promoting mental wellbeing as well as providing support and guidance to those that may require this.

We are delighted that in recognition of our team culture, our working environment and the career opportunities we offer, we have once again been awarded an Investors In People Gold Award.

Our communities

Regular use of The Gym doesn't just improve physical wellbeing, but mental also. For this reason, we renewed our partnership with Movember to help them on their mission to reduce the number of men dying too young from cancer and suicide. This year we doubled our fundraising commitment to £100,000; we kept the mission very simple, asking Mo Bros and Mo Sisters to move 60km in November to raise awareness of the 60 men we lose to suicide each hour, globally. This culminated in the 'National Move for Movember Day' where we opened our doors to anyone who wanted to get active. We exceeded our target for the campaign and raised over £100,000.

Each month The Gym Group supports a different charity. These charities are selected by employees and advertised on www.thegymgroup.com and members are given the option to donate during their joining process. Over the Easter period we invited our members to exchange an Easter egg for a free day pass; we collected over 9,000 eggs which our General Managers personally delivered to children's charities and hospitals within their communities.

Our employees also focus on supporting charities local to their gyms. An example of this was our staff from The Gym in Hamilton teaming up with Social Bite for their Sleep in the Park event, a sleepout to end homelessness for good in Scotland. The Hamilton community embraced the fundraising campaign, kicking off with a '24 classes in 24 hours' event on 1 November before ending it with the big sleepout on 8 December, raising a grand total of £3,653. Not only did five staff members from Hamilton complete all 24 classes in 24 hours for the first event, but one of their members, 60 year old Phyllis Burrell, also finished all 24 classes.

We help bring new life to communities by bringing opportunities for employment and using vacant spaces. 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 2018 we took up vacant retail space in Glasgow Anniesland, Sutton Coldfield and Worthing. We always seek to enhance spaces by providing bright, spacious developments with good parking.

Our responsibilities

The safety of our members and staff always sits at the heart of our operation and as the business has grown we have continued to evolve our health and safety management system. A clear understanding and continuous review of our risk profile ensures our processes are both compliant and mitigate risk but are also functional and fit for purpose. Our external health and safety auditors deliver a consistent and transparent review of performance at site level together with audits of our wider safety and building maintenance systems, as well as supporting our staff with a 24/7 advice line.

Onboarding of all new staff includes the relevant health and safety training with an ongoing online training programme to ensure gym teams have the necessary knowledge and skills. In addition, our gym teams receive first aid training, including the use of the defibrillators that are installed in all our gyms.

All new gym members have the opportunity of an induction session with a qualified member of the gym team. Every gym has high quality gym equipment that is inspected daily and regularly serviced with remotely monitored access control, CCTV and emergency call points providing 24-hour support.

We recognise our responsibility to the environment and we continue to develop a sustainable approach to our development and operation, reducing consumption and waste.

As part of our environmental strategy, we aim to minimise our energy consumption by making our buildings as efficient as possible with the use of high efficiency air conditioning heat pumps, LED lighting and heat recovery ventilation systems. We monitor our energy consumption and automatically send notification should usage increase beyond set parameters.

We also continue to develop the use of low consumption showers and install concussive or electronic taps and shower controllers to minimise water wastage. Our intensive maintenance regime ensures equipment is operating efficiently and safely.

Segregated waste and recycling bins are provided in all gyms and waste is collected and monitored to minimise landfill waste and maximise recycling.

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

Greenhouse gas information

Greenhouse gas ('GHG') emissions for the year ended 31 December 2018 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.

Human rights, anti-bribery and anti-corruption

We conduct our business in an honest and ethical manner wherever we operate. We take a zero-tolerance approach to bribery and corruption and are committed to implementing and enforcing effective systems to prevent and detect bribery and corruption. The Company complies with the Modern Slavery Act and the Company's statement can be found on the Company's website www.tggplc.com.

The Company also has an anti-bribery and anti-corruption policy, which is available to all employees via our intranet. The Company does not consider anti-bribery and anti-corruption to be a principal risk to the Company because it operates only within the United Kingdom and has a low level of discretionary spending due to its fixed cost base.

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

This Strategic Report is signed on behalf of the Board

Richard Darwin
Chief Executive Officer
19 March 2019

Number of employees at 31 December 2018	Female	Male
Board	2 (28.6%)	5 (71.4%)
Senior managers	7 (19.4%)	29 (80.6%)
All staff	151 (27.0%)	408 (73.0%)

Greenhouse gas emissions tCO_2e	2018	2017
Emissions from operations (scope 1)	**1,950**	1,267
Emissions from energy usage (scope 2)	**8,840**	8,023
Total	**10,790**	9,290
Intensity ratio (tCO_2e per gym)	**70**	80

BOARD OF DIRECTORS

PENNY HUGHES
Independent Non-Executive Chairwoman

Committees
Nomination Committee
Audit and Risk Committee
Remuneration Committee

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

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

Other appointments
Aston Martin – Chairwoman
SuperDry plc – Non-Executive Director
iQ Student Accommodation – Chairwoman

RICHARD DARWIN
Chief Executive Officer

Committees
None

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

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

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

Other appointments
None

MARK GEORGE
Chief Financial Officer

Committees
None

Skills and experience
Mark has held senior roles in finance, strategy and general management in a number of leading consumer businesses, including Tesco, ASOS and most recently Auto Trader PLC, where he was Deputy Chief Financial Officer and a member of the Operational Leadership Team.

He started his career as a management consultant with McKinsey & Co.

Other appointments
None

JOHN TREHARNE
Founder Director

Committees
Nomination Committee

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

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

Other appointments
Ukactive – Board Member
Jigsaw South East – Chairman

PAUL GILBERT
Senior Independent
Non-Executive Director

Committees
Nomination Committee
Audit and Risk Committee
Remuneration Committee

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

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

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

Other appointments
New Look – Non-Executive Director
Sykes Cottages – Non-Executive Chairman
Grip-UK – Non-Executive Chairman

DAVID KELLY
Independent
Non-Executive Director

Committees
Nomination Committee
Audit and Risk Committee
Remuneration Committee

Skills and experience
David is an experienced digital operating executive.

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

Other appointments
Camelot Lotteries, Trinity Mirror plc, On the Beach plc, Holiday Extras – Non-Executive Director
Simply Business, Atcore, Prezola – Chairman

EMMA WOODS
Independent
Non-Executive Director

Committees
Nomination Committee
Audit and Risk Committee
Remuneration Committee

Skills and experience
Emma has wide-ranging customer focussed multi-site leisure and FMCG experience.

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

Other appointments
Wagamama – Chief Executive Officer

CORPORATE GOVERNANCE REPORT

Dear Shareholders,

I AM PLEASED TO INTRODUCE THE 2018 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 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.

In 2018, our key areas of focus have been the acquisition and successful integration of easyGym sites and its staff, the continued integration of the Lifestyle Fitness sites, developing our member service proposition, discussing our longer term strategy and succession planning for our Founder Chief Executive Officer, John Treharne. During the year the Board was pleased to announce the appointment of Richard Darwin, previously the Group's Chief Financial Officer, as Chief Executive Officer and the appointment of Mark George as Chief Financial Officer.

The remainder of this report explains in more detail the corporate governance structure in place, including our Board and Committee structure and our policies and protocols on internal controls, which is discussed in more detail in the Report of the Audit and Risk Committee on page 46.

Penny Hughes
Chairwoman
19 March 2019

BOARD GOVERNANCE

Overview

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

Compliance with the Code

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

The Board has reviewed and considered the UK Corporate Governance Code 2018 ('the 2018 Code')[2], which will apply to companies with accounting periods beginning on or after 1 January 2019. The Board has agreed a number of minor actions which will be taken ahead of the implementation date and the Company will report on its compliance against the 2018 Code in its 2019 Annual Report.

The Board and Sub-Committees

As at the date of this report, the Board comprises seven members, namely the Independent Non-Executive Chairwoman, three Independent Non-Executive Directors, two Executive Directors and one Founder Director. A full list of the Directors and their biographies can be found on pages 38 to 39.

Board and Committee composition has been a key focus during the year, along with succession planning (as explained in more detail in the Report of the Nomination Committee on pages 44 to 45). Our Nomination and Audit and Risk Committees continue to be made up of Non-Executive Directors. The Board is satisfied that there is a sufficient balance between Executive and Non-Executive Directors on the Board to ensure that no one individual has unfettered decision-making powers, and that the Board has the appropriate balance of skills, experience, independence and knowledge of the Company to enable it to discharge its duties and responsibilities effectively.

The primary responsibility of the Board is to promote the long term success of the Company and to grow shareholder value sustainably. The Board has responsibility for the management, direction and performance of the Group and for ensuring that appropriate resources are in place to achieve its strategy. The Board directs and reviews the Group's operations within an agreed framework of controls, allowing risk to be assessed and managed within 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 of the Committees' roles and responsibilities are set out in formal terms of reference, which are determined by the Board. These are available for review on the Company's website. Reports from each of these Committees are provided on pages 44 to 65.

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

EXECUTIVE COMMITTEE

Barney Harrison – Commercial and Marketing Director
Barney is an experienced marketing and eCommerce professional. He has held a number of senior marketing positions at Sky, including the Head of Multi-Channel Acquisition, Head of Direct Marketing and eCommerce (ROI) and Head of Media and Acquisition (Sky Betting and Gaming).

Jasper McIntosh – Chief Information Officer
Jasper has headed the Gym Group's technology operation since 2011.

With 20 years' experience in the technology sector, Jasper has held directorships at three different digital technology companies. In this time he has delivered a series of high profile projects for organisations including GlaxoSmithKline, Global Fund, the NHS, British Library and the French Presidential Palace.

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

Jonathan Spaven – Property Director
A Chartered Surveyor, Jonathan has over 35 years' experience in the real estate business. Formerly the Director of Property at Matalan, he oversaw the expansion from c. 70 to over 200 sites.

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

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

CORPORATE GOVERNANCE REPORT CONTINUED

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

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

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

Chairwoman and Chief Executive Officer

There is a clear separation of responsibilities between the Chairwoman and the Chief Executive Officer. Penny Hughes, as Non-Executive Chairwoman, sets the Board agenda and leads discussion and decision making. She uses her experience of chairing in both her current and previous non-executive roles to promote effective debate and contribution from both Executive and Non-Executive Board members. John Treharne, as Chief Executive Officer, led the Executive Committee, which supported him in the operational and day-to-day management of the Company. As mentioned, John has been succeeded by Richard Darwin who has now taken over leadership of the Executive Committee.

Senior Independent Director ('SID')

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

Board meetings

There were eight scheduled Board meetings held in 2018 and there are eight Board meetings scheduled for 2019. Eleven additional ad-hoc Board meetings were held during 2018 to discuss specific business matters, including the easyGym acquisition, succession planning and recruitment, and also to approve financial and trading statements and dividend payments. Three additional Remuneration Committee meetings were held to consider remuneration packages as part of the succession planning and recruitment processes as well as to approve the grant of awards of shares under the Performance Share Plan, further details of which can be found in the Report of the Remuneration Committee on page 48. One additional Nomination Committee meeting was held to consider CEO succession planning.

The scheduled Board and Committee meetings have standing agenda items, which ensure that all aspects of the business are given due consideration. The Board regularly reviews strategic matters as part of the standing agenda items. In addition, the Board held specific strategy meetings in May and October 2018 with the Executive Committee to review, consider and discuss the ongoing strategic development of the Group and the key strategic focuses for 2018, 2019 and beyond.

Our Directors' attendance and engagement has continued to be excellent.

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

	Board	Nomination Committee	Audit and Risk Committee	Remuneration Committee
Penny Hughes	8/8	4/4	4/4	6/6
Richard Darwin	8/8	–	–	–
Paul Gilbert	7/8	4/4	4/4	5/6
David Kelly	8/8	4/4	3/4	6/6
John Treharne	7/8	3/4	–	–
Emma Woods	7/8	4/4	3/4	5/6
Mark George[1]	1/1	–	–	–

1 Appointed on 31 October 2018.

Appointment and induction of new Directors

During the year, an external consultancy firm, Spencer Stuart & Associates Limited, was used in the search for candidates for the role of CEO, and appointment of Mark George. 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 has in 2018 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 to have sufficient time to perform their duties. In accordance with the Articles of Association, Mark George will submit himself for election at the Company's Annual General Meeting ('AGM') to be held on 4 June 2019, as this will be his 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, Richard Darwin, David Kelly and Emma Woods will be offering themselves for re-election at the Company's AGM.

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

Board evaluation and effectiveness

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

As part of the 2018 evaluation, a tailored questionnaire specifically designed to assess the performance of the Board, each of its Committees and the Chairwoman, was circulated and completed by all Directors. The questionnaire also covered the performance of several key initiatives which took place during the year, including the rollout of both the new Personal Trainer model and Workday; and the acquisition of the easyGym sites. The questionnaire was supplemented by a review of the Chairwoman's performance which was carried out by the SID and which identified no matters of concern. The results were collated, and a summary paper was prepared, which was discussed in detail by the Nomination Committee and a list of action points was compiled which will be monitored by the Nomination Committee to ensure all outcomes are monitored and achieved in a timely manner.

The results of the evaluation exercise demonstrated that the Board, its Committees and the Chairwoman continue to operate effectively. A number of specific actions were agreed, including ensuring the Company continues to develop a diverse pipeline of talent, undertaking a review of Board and Committee reporting to ensure that papers issued to Directors are of an appropriate level of detail to encourage healthy debate, dedicating more time to Audit and Risk Committee meetings to enable greater discussion on key risks and considering expanding the Company's in-house capabilities through additional appointments, such as hiring a Company Secretary.

The performance of each Director was also assessed and discussed by the Nomination Committee and, accordingly, the Board believes 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 Director continues to be effective and that they each demonstrate commitment to the role.

Directors' conflicts of interest

Closewall Limited ('Closewall') is a building firm owned by the brother and sister-in-law of John Treharne. Closewall is one of several contractors that tender for contracts for the design and construction of the Group's gyms with which the Group has long term relationships. The Group paid £2.3 million (2017: £3.7 million) to Closewall in connection with the fit-out of new gyms during the year ended 31 December 2018. 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.

During the year under review, the Chairwoman was appointed as the Non-Executive Chairwoman of Aston Martin Lagonda Global Holdings plc, following its admission to the London Stock Exchange on 8 October 2018. The Board considered this appointment and agreed that it did not give rise to a conflict, nor would it negatively impact her time dedicated to The Gym Group given that the Chairwoman ceased her appointment at the Royal Bank of Scotland at the same time.

Information and support

An agenda and accompanying pack of detailed papers is circulated to the Board in advance of each Board meeting via a secure digital app. Given the fast-paced nature of the business, relevant information up to the prior day is shared with Directors at Board meetings. These include reports from Executive Directors, other members of senior management and external advisors. Members of senior management are often invited to present relevant matters to the Board. All Directors have direct access to senior management should they require additional information on any of the items to be discussed. The Board and the Audit and Risk Committee also receive further regular and specific reports to allow the monitoring of the adequacy of the Company's systems of internal controls.

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

Relationship with shareholders

The Board is committed to maintaining good communications with existing and potential shareholders based on the mutual understanding of objectives. The Group has regular dialogue with institutional shareholders in order to develop an understanding of their views which is communicated back to, and discussed with, the Board. Management also conduct meetings and site visits with institutions that focus on private clients as a way of extending the Company shareholder base.

During the year the Company appointed Peel Hunt to be joint brokers alongside Numis, our existing advisor on investor relations matters. We receive regular investor feedback through our brokers as well as via our remuneration consultants who provide updates to the Board on institutional shareholder views.

Presentations given to analysts and investors covering the annual and interim results, along with results and further information for investors, are included in the investors section of the Company's website at www.tggplc.com. The Chair, CEO and CFO present the half year and full year results in person in the City, with such presentations being made as audio recordings on the investor website. All Board members attend the Annual General Meeting.

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

Penny Hughes
Chairwoman
19 March 2019

REPORT OF THE NOMINATION COMMITTEE

COMMITTEE MEMBERS

Chairwoman	Penny Hughes
Committee members	Paul Gilbert, David Kelly, John Treharne, Emma Woods
Number of meetings held in 2018	4

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

Key achievements in 2018
- Led the succession planning process which resulted in the transition of John Treharne into the role of Founder Director and the promotion of Richard Darwin into the role of CEO.
- Led the recruitment process for the appointment of Mark George as CFO.
- Led the recruitment process for the appointment of Ann-marie Murphy, Director of People and Development, to the Executive Committee.
- Reviewed the skills and experience of the Board and senior management team to ensure appropriate succession plans are in place.

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

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

Diversity
Our Diversity and Equality Policy is that no individual should be discriminated against on the grounds of race, colour, ethnicity, religious belief, political affiliation, educational background, gender, age or disability. Whilst we have not currently established diversity targets, our policy is reflected in our approach to recruitment at all levels, including Board level. As at 31 December 2018 the Board comprised 28.6% (two) female and 71.4% (five) male Board members. We have published our 2017 Gender Pay Gap Report and whilst our gender pay gap compares favourably with other organisations across both the low cost retail and fitness sector and the UK economy more widely, we are committed to reporting on an annual basis the actions we are taking to further reduce the gap and on our progress made against these actions. Our report for 2018 will be published shortly.

We commit to monitor and report our progress against diversity targets during 2019.

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 2018, the Committee met four times and attendance at the meetings is shown in the table on page 42.

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

Main activities
Our primary effort during the year was Executive Director succession planning. Our Founder CEO, John Treharne worked with the Committee to ensure an orderly succession plan given his desire to stand back from the CEO role. The Nomination Committee discussed at length the skills and experience needed to continue successful leadership of the Company. We engaged Spencer Stuart & Associates, external recruitment consultants, to support our work; Spencer Stuart provide no other services to the Group. We considered several external candidates alongside our current executive colleagues and a shortlist of candidates interviewed individually by Directors were then invited to a panel interview with the full Committee. From this process we were pleased to invite Richard Darwin to step up from the CFO role to lead the Company as CEO. We have put in place mentoring support to Richard as he makes this transition. This decision then led to a similar process, also supported by Spencer Stuart, that concluded with the appointment of Mark George as CFO. Finally, we crafted the role and responsibilities of the Founder Director role that John Treharne now fulfils with a focus on innovation, development and utilising his significant network.

The Committee considers that the combination of retaining the knowledge and wisdom of John as Founder Director, the internal promotion of Richard as CEO and the external appointment of Mark as CFO provides the right balance of skills and leadership, experience and fresh perspective. We are pleased to have concluded this succession process and are enjoying working with the new team.

Outside of the four formal Nomination Committee meetings held during the year, Committee members met on several occasions to discuss succession planning progress and were actively engaged in the interview processes.

We also appointed Ann-marie Murphy to the role of Director of People and Development to the Executive Committee, which has further strengthened our People function as the Company continues to grow. Senior management succession planning will continue to be a focus for 2019.

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

Annual evaluation of the Nomination Committee's performance

As part of the evaluation process, the performance and effectiveness of the Nomination Committee was considered and it was agreed that the Committee continued to work effectively. 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 changes in the year, it was agreed that additional focus needed to be made with regard to succession planning at all levels and this will be a key focus for 2019.

Penny Hughes
Chairwoman of the Nomination Committee
19 March 2019

REPORT OF THE AUDIT AND RISK COMMITTEE

COMMITTEE MEMBERS

Chairman	Paul Gilbert
Committee members	Penny Hughes, David Kelly, Emma Woods
Number of meetings held in 2018	4

Objectives

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

Key achievements in 2018

- Oversaw the successful implementation of Workday, which has enhanced the Company's financial control, transaction processing, reporting and HR capabilities.
- Considered the plans and outcome of the Group's half year results announcement and full year Annual Report.
- Oversaw the planning and execution of an interest rate hedging facility.
- Commenced initial preparations ahead of the implementation of IFRS 16.
- Reviewed the Corporate Risk Assessment and methodology.
- Reviewed the implications of Brexit and implemented appropriate contingency plans.
- Oversaw the Financial Reporting Council's review of the 2017 Annual Report, with a positive outcome[1].
- Oversaw the introduction of IFRS 9 'Financial Instruments' and IFRS 15 'Revenue from Contracts with Customers'.

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 2018 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 experience relevant to our market. The Chairman of the Committee is a chartered accountant and brings recent and relevant financial experience and expertise. The Committee has formal terms of reference which can be viewed on the Company's website www.tggplc.com. In its most recent meeting, these terms of reference were reviewed and updated to reflect the provisions of the UK Corporate Governance Code 2018 ('the 2018 Code'), which will apply to companies with accounting periods beginning on or after 1 January 2019.

The Committee agreed in 2018 that Penny Hughes would stand down from the Committee, with effect from 1 January 2019, in compliance with the 2018 Code, which recommends that the Chair of the Board should not sit on the Audit Committee.

Significant issues

Prior to each meeting of the Committee at which they are to be considered, the management team produces a paper providing details of any significant accounting, tax, compliance and legal issues. Management are also invited to attend these meetings where further guidance is required. The significant issues considered by the Committee in respect of the 2018 Annual Report are as follows:

Deferral of membership fee income

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

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

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

Annual goodwill impairment testing

Impairment reviews have been performed by management on the Group's cash generating units to which goodwill and other intangible assets have been allocated. The cash flow forecasts used were based on the budgets approved by the Board together with assumed growth rates thereafter. The key assumptions around future growth rates and discount rates used were reviewed and considered by the Audit Committee. The Committee is satisfied that there was no impairment of goodwill and other intangible assets as at 31 December 2018. Please refer to note 15 to the Financial Statements for further information.

1 The review only covered specific disclosures and does not verify information provided.

Accounting for the acquisition of easyGym sites

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

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

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

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 2018 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.

The Audit and Risk Committee is satisfied with the performance and independence of Ernst & Young LLP and therefore 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 and therefore the Company will conduct a tender process no later than 2025.

Risk management

Our risk management process and the risks which are considered to be the principal risks of the Group are detailed on pages 30 to 33. During the year the Committee has reviewed the Group's risk assessment and methodology, including the mitigating actions put in place to reduce each risk.

Internal control

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

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

The above risk management and internal control systems have been in place during 2018 and up to at least 19 March 2019. 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'. In particular, the Committee noted that the purchase to pay and cash controls were assessed and improved as part of the Workday implementation; and the bank mandate was reviewed and updated.

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

Whistleblowing

The Group encourages staff to report any concerns which they believe need to be brought to management's attention concerning any financial or other impropriety. All employees receive a copy of the employee handbook, which includes whistleblowing arrangements and sets out the procedures which apply for a member of staff to raise concerns in 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 2018 meeting and, following some recommendations to improve the effectiveness of these procedures, a revised policy to strengthen some of the provisions was approved at the July 2018 meeting.

The Committee reviewed and considered the responses to any whistleblowing reports during the year.

Non-audit services

In addition to their audit services, in 2018 the auditor provided a review of the half year results announcement and conducted financial due diligence in relation to the acquisition of the easyGym sites. The fees for these services totalled £58,000, compared to a statutory audit fee of £166,000. The statutory audit fee included the additional audit work undertaken by Ernst & Young LLP in relation to the acquisition of the easyGym sites.

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

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

Annual evaluation of the Audit and Risk Committee's performance

As part of the evaluation process, the performance and effectiveness of the Audit and Risk Committee was considered and it was agreed that the Committee continued to work effectively, although it was further agreed that more time would be dedicated to Committee meetings going forwards.

Fair, balanced and understandable

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

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

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

As detailed in the Directors' Responsibility Statement on page 70, 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 and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy

Paul Gilbert
Chairman of the Audit and Risk Committee
19 March 2019

REPORT OF THE REMUNERATION COMMITTEE

COMMITTEE MEMBERS

Chairman	David Kelly
Committee members	Penny Hughes, Paul Gilbert, Emma Woods
Number of meetings held in 2018	6

Dear Shareholder

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

2018 has been a busy time for the Remuneration Committee at The Gym Group. During the year, the Committee has had to consider the implications for remuneration arising from:

- changes in the scale of our business, which has continued to grow, including through the acquisition of easyGym;
- the changes in our executive team, which are more fully detailed in the Chairwoman's Statement at the beginning of the Annual Report; and
- the changes regarding the governance, oversight and design of remuneration as recommended by the new UK Corporate Governance Code which takes effect from 1 January 2019.

As a Committee we believe that we have addressed each of these challenges in ways which are appropriate and support the best interests of our shareholders. Remuneration at The Gym Group seeks to support our strategy, culture and values at all times. The importance of this extends beyond our Executive Directors and senior managers and, starting from 2018, each year the Committee receives a detailed report on pay levels and structures across our entire workforce that enables the Committee to have an informed insight on how pay arrangements across our organisation are working to support our strategy.

In addition, at the 2019 AGM we will be seeking shareholders' authority for the three-yearly renewal of our Directors' Remuneration Policy which was first approved at the 2016 AGM. The new policy is substantially unchanged from the original policy which we believe has served the Company and shareholders well. With the passage of time, some changes are appropriate and the main changes are summarised in this letter, including the introduction of a deferral feature for annual bonus. None of the changes increase the maximum amounts which may be awarded under our policy.

The Gym Group's performance in 2018

As detailed earlier in the Annual Report, 2018 was a year of continued growth for The Gym Group, with our main profits KPI (Group Adjusted EBITDA) growing to £36.8 million. However, the Committee used its judgement to exclude the net contribution of easyGym for the part-year and determined that the threshold Group Adjusted EBITDA target for the 2018 annual bonus had been narrowly missed; accordingly, no annual bonus is being paid to our Executive Directors on this measure (70% weighting). The Committee believes that this is appropriate to maintain the integrity of its approach to the setting and measurement of annual targets.

Having considered overall Group performance in the year, including the growth in profits, the Committee determined that it was appropriate to allow payment of those elements of 2018 annual bonus for which the originally set non-financial targets have been achieved, giving a total bonus of 16% of maximum (site openings, achieved, at 10 of 10% available; customer satisfaction, achieved at 6 of 10% available; new PT model, achieved at 0 of 10% available). The Committee believes that this is consistent with its approach of setting non-financial metrics for annual bonus which are strategically important and objectively measurable. Full details of the 2018 annual bonus measures and targets are set out on page 52.

The end of the 2018 financial year was also the end of the first three year performance period for our Performance Share Plan ('PSP') and shares from awards made in March 2016 are anticipated to vest in March 2019. In this regard:

- the 50% of PSP award shares subject to a TSR condition measured against the constituents of the FTSE SmallCap ex IT will vest at 83.3% for this part, reflecting relative TSR performance between a median and upper quintile level over three years; and
- the 50% of PSP award shares subject to an EPS condition will vest at nil for this part, reflecting an Adjusted Diluted EPS of 8.3p for 2018 (PSP target range between 9.0p and 13.6p for FY2018).

The Committee determined that it would be appropriate for the March 2016 PSP awards to vest without further adjustment as this was believed to align PSP participants with the broader shareholder experience over the three-year PSP performance period, including an absolute TSR return of 44.9% in this period.

Changes in our Executive Director team

As we announced in May 2018, from 17 September 2018 John Treharne stood down as our CEO and took on the role of Founder Director, thus enabling John, as our Founder, to continue to provide the benefit of his immense network and experience across the sector with a focus on nurturing culture and entrepreneurial activity, whilst also leaving more time for his family and personal interests. The change in John's role made it necessary to redesign his package, and in doing so the Committee applied the following principles:

- the only elements of fixed pay which John should receive as Founder Director are base salary and benefits. John no longer receives any pension contribution from the Company (previously 15% of base salary);
- John's base salary is set at £195,000 p.a.;
- John will not participate in the annual bonus after 2018 (and his 2018 annual bonus was pro-rated until 17 September 2018); and
- John will not receive any new grants of PSP awards. The PSP awards which John holds currently will continue on their original terms (subject to ongoing performance conditions and with no acceleration of vesting) whilst he remains as Founder Director. John remains subject to shareholding guideline requirements (300% of salary), and whilst acting as Founder Director he has committed to retain a minimum shareholding of at least 0.5% of total issued share capital.

Richard Darwin became our CEO from 17 September 2018, having previously served as our CFO from 2015. The only element of Richard's remuneration which has changed following his succession to John is his base salary (£300,000 p.a.). All other elements of Richard's remuneration package (pension contribution, annual bonus and PSP award level) remain at the same levels (expressed as percentages of base salary) which applied whilst he was CFO. The Committee is aware of the practice of phasing base salary increases for newly appointed Executive Directors but determined that this was not appropriate in this case given that:

- we believe that this level of salary is appropriate given Richard's unrivalled experience and knowledge of both the multi-site leisure industry and the Company, with Richard having been instrumental in delivering and executing the Group's strategy with John since IPO;
- the new CEO base salary level remains modest relative to similarly sized FTSE SmallCap companies (where CEO salaries are typically around 20% to 25% higher than at The Gym Group), and these higher levels would have been the expectation of external candidates;
- the salary level aligns to our overall remuneration philosophy at The Gym Group which favours a weighting of the total package towards incentive pay elements, particularly long term incentives; and
- with this repositioning on CEO base salary, there is no further intention to 'catch-up' to perceived market levels for CEO base salaries over a number of years.

Mark George was appointed as our CFO from 31 October 2018. Within Mark's remuneration package, the only element which differs from that for the prior CFO is with regard to his base salary of £220,000 p.a. (compared with £191,000 p.a.). All other entitlements (pension contribution levels, annual bonus opportunity and PSP annual award levels) are unchanged (as percentages of base salary) from those offered to Richard Darwin as CFO in 2018. The Committee determined that it was appropriate to offer Mark this level of base salary as this was necessary to recruit a candidate of his experience and calibre. Also, as explained with regard to Richard's new base salary, the Committee believes that this salary level is (i) modest compared to that for CFOs in similarly sized companies, and (ii) consistent with our overall remuneration philosophy which favours a weighting of the total package towards incentive pay elements, particularly long term incentives. For completeness, Mark did not receive a pro rata 2018 PSP award.

Finally, in early 2019 the first reviews of the Chairwoman's fees and of the Non-Executive Directors' fees since our IPO were undertaken by the Committee and by the Board respectively. The new fee levels are detailed on page 61. There is no expectation for further reviews of these fees to take place until the next review of the Directors' Remuneration Policy at The Gym Group.

Remuneration policy for 2019

As explained above, at the 2019 AGM we will be submitting our Directors' Remuneration Policy for renewal by our shareholders. The policy is materially unchanged since our first policy as a newly listed company was approved at our 2016 AGM.

The main features of our proposed policy are as follows:

Base salaries	Clarified that an appropriate cap applies to base salaries.
Pensions	Maximum employer's contributions reduced to a limit of 10% of base salary (from a previous maximum of 15%). For newly appointed Executive Directors contribution levels will be aligned with the majority of the workforce.
Annual bonus	Maximum bonus unchanged at 100% of base salary. For annual bonus from FY2019 onwards, any bonus outcomes achieved above 75% of salary will be deferred as awards of The Gym Group shares for two years.
Long term incentives	Maximum unchanged at 200% of base salary. Current practice is to make annual awards to Executive Directors over shares with a maximum value of 175% of base salary. A two-year holding period also now applies to all PSP awards (and was applied to awards granted to Executive Directors in 2018).

In addition to these changes, we have made a number of other amendments to the policy to reflect the new UK Corporate Governance Code, to which we are subject from 1 January 2019. Although we will fully report on the Remuneration Committee's response to the new Code in our Directors' Remuneration Report for 2019, the Committee has already undertaken some actions which it was appropriate to initiate at an early stage. These include:

- clarifying the Committee's ability to adjust purely formulaic outcomes for all incentive plans;
- supporting the whole Board's initiative to develop good structures for employee engagement and establishing regular meaningful dialogue with employees;
- publishing in this report as a voluntary matter the disclosure that will be required from next year for CEO to employee pay ratios; and
- aligned to the Committee building its understanding of pay at all levels within the Group, encouraging management in its initiative to launch Sharesave in 2019 as a second all-employee share plan.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

For completeness, whilst not a matter requiring shareholders' approval as part of our policy, from 2019 the Committee has, in response to requests from shareholders, introduced ROCE on mature sites as a third measure for new PSP awards. As disclosed on page 60, the weighting of metrics for 2019 PSP will be 25% on each of ROCE and EPS, with relative TSR retaining its current 50% weighting. As a Committee, we believe that ROCE is an appropriate metric for long term incentives at The Gym Group as it encourages the efficient application of our capital base in generating profits.

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

At the AGM, to be held on 4 June 2019, shareholders will be asked to approve three resolutions related to Directors' remuneration matters:

- to approve the Directors' Remuneration Policy as set out in Part A of this Directors' Remuneration Report;
- to approve the Implementation Report sections of this Directors' Remuneration Report (excluding the Directors' Remuneration Policy); and
- to approve the establishment of our new Deferred Share Bonus Plan under which elements of annual bonus outcomes can be deferred as described above.

The vote on the Implementation Report is our normal annual advisory vote on such matters. If approved by our shareholders, the Directors' Remuneration Policy will apply for a maximum of three years from the 2019 AGM and the policy will replace the Directors' Remuneration Policy previously approved at the 2016 AGM.

I hope that our shareholders will remain supportive of our approach to executive pay at The Gym Group and that you will vote in favour of the resolutions on remuneration matters to be tabled at the 2019 AGM.

David Kelly
Chairman of the Remuneration Committee
19 March 2019

At a glance

Remuneration policy and implementation

	Overview of policy	Remuneration in 2018	Implementation for 2019
Base salary	Reviewed annually. Consideration given to performance of the Company and the individual, responsibilities or scope of the role, as well as pay practices in relevant comparator companies. See page 53.	John Treharne: £237,382 Richard Darwin: £222,489 Mark George: £37,258 See page 61.	Richard Darwin: £300,000 Mark George: £220,000
Pension and benefits	Pension – maximum contribution of 15% of salary. Benefits consist of travel allowance, life insurance, private medical cover, a car parking space (in the case of the CEO) and additional mobile telephone contracts (in the case of the Founder Director). See pages 53 to 54.	In line with policy. See page 61.	Richard Darwin and Mark George: pension at 10% of base salary.
Annual bonus	Maximum of 100% of salary. Paid in cash. Subject to achievement of relevant performance conditions. Subject to malus and clawback provisions. See page 54.	Outcomes at 16% of maximum.	No changes in maximum. Performance conditions: 70% Group Adjusted EBITDA; 30% strategic. Introduction of deferral for bonus outcomes in excess of 75% of salary.
Long term incentives	Performance share award, subject to service and performance over a three year period. Maximum award of 200% of salary (300% in exceptional circumstances). Subject to malus and clawback provisions. See page 55.	No PSP awards vested in 2018. Awards granted in 2018: • John Treharne: 175% of salary. • Richard Darwin: 175% of salary. • Mark George: n/a. 50% Adjusted Earnings per Share, 50% Relative TSR targets. See page 62.	PSP awards for 2016 vesting at c.42% (EPS portion not achieved). Awards for 2019: • Richard Darwin: 175% of salary. • Mark George: 175% of salary. Performance conditions: 50% relative TSR; 25% Adjusted Earnings per Share; 25% ROCE in mature sites.
Share ownership guidelines	300% for Executive Directors. (200% for new Executive Directors). See page 55.	At the year end John Treharne and Richard Darwin met the requirements. Mark George will build a shareholding to the required levels. See page 63.	No change.

2018 single total figure

	Salary	Taxable benefits	Bonus	Long term incentives	Pension	Total remuneration
Richard Darwin	£222,489	£11,008	£35,598	£46,980	£22,249	£338,324
Mark George	£37,258	–	£5,979	–	£3,726	£46,963

See page 61.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

2018 annual bonus outcomes

	Weighting	Threshold	Target	Maximum	Actual	Outcome	Bonus payout (% of salary)
Group Adjusted EBITDA[1]	70%	£36.0m	£37.1m	£40.8m	£35.5m	0%	16.0%
Site openings[2]	10%	–	17	17	17	100%	
Customer satisfaction	10%	–	49%	55%	49%	60%	
New Gym Team	10%	–	–	–	–	0%	

1 The actual Group Adjusted EBITDA for the year was £36.8 million. However, the Committee moderated this to remove the net contribution of easyGym, and for the purposes of the 2018 annual bonus plan regarded the appropriate Group Adjusted EBITDA to be £35.5 million.
2 For site openings, maximum achievement required a 2019 pipeline to be established in addition to 17 openings in 2018.

Vesting outcomes for 2016 PSP awards

	Weighting	Threshold	Maximum	Actual	Outcome	% of total award vesting
Adjusted Earnings per Share	50%	9.0p	13.6p	8.3p	0%	41.65%
TSR	50%	Median	Upper quintile	34.6 (from 130 companies)	83.3%	

Introduction

This report contains the material required to be set out as the Directors' Remuneration Report for the purposes of Part 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013, which amended The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 ('the DRR Regulations').

Part A represents the proposed policy which will take effect, subject to the approval of the shareholders, immediately after the 2019 AGM (the 'Directors' Remuneration Policy').

Part B constitutes the implementation sections of the Directors' Remuneration Report (the 'Implementation Report'). The 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.

Summary of changes from previous policy:

As more fully detailed in the 'Changes from previous policy' sections in the Directors' Remuneration Policy table, the key changes to the Directors' Remuneration Policy from the policy currently in place are as follows:

Element	Change from previous policy
Base salary	Clarified the maximum amount of salary for the duration of the policy as a fixed amount.
Pension	Maximum employer's contributions reduced to a limit of 10% of base salary. Newly appointed Executive Directors will have pension contribution levels aligned to the contribution levels of the majority of the workforce.
Annual bonus	Introduction of deferral from FY2019's annual bonus.

Part A: Directors' Remuneration Policy

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

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
Base salary This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution.	Base salaries will typically be reviewed annually, with consideration given to the performance of the Company and the individual, any changes in responsibilities or scope of the role, as well as pay practices in relevant comparator companies of a broadly similar size and complexity with due account taken of both market capitalisation and turnover. The Committee does not strictly follow benchmark pay data but instead uses it as one of a number of reference points when considering, in its judgement, the appropriate level of salary. Base salary is paid monthly in cash.	It is anticipated that salary increases will generally be in line with those awarded to salaried staff. That said, in certain circumstances (including, but not limited to, changes in role and responsibilities, market levels, individual and Company performance), the Committee may make larger salary increases to ensure they are market competitive. The rationale for any such increase will be disclosed in the relevant Annual Report. However, an overriding cap applies, the effect of which is that no increase will be made if it would take an Executive Director's base salary above £383,000 per annum (being the median level of salaries for CEOs in the bottom half of the FTSE SmallCap).	n/a	Clarified the maximum amount of salary for the duration of the policy as a fixed amount.
Benefits To provide benefits valued by recipients.	The Executive Directors currently receive private medical cover, a car or travel allowance, a car parking space (in the case of the CEO) and additional mobile telephone contracts (in the case of the Founding Director). The Committee reserves the discretion to introduce new benefits where it concludes that it is appropriate to do so, having regard to the particular circumstances and to market practice. Where appropriate, the Company will meet certain costs relating to Executive Director relocations.	It is not possible to prescribe the likely change in the cost of insured benefits or the cost of some of the other reported benefits year-to-year. Relocation expenses are subject to a maximum limit of 100% of base salary, provided that such expenses may be paid only in the year of appointment and for a further two financial years. The Committee will monitor the costs of benefits in practice and will ensure that the overall costs do not increase by more than the Committee considers appropriate in all the circumstances.	n/a	No material changes.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
Pension To provide retirement benefits.	Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance (or all) can be paid as a cash supplement.	The maximum employer's contribution is limited to up to 10% of base salary. Newly appointed Executive Directors will have employer's contribution levels aligned to the contribution levels for the majority of the workforce.	n/a	Reduced to 10% for all Executive Directors. This aligns Executive Directors' pension contribution levels with those for senior managers in the business. Newly appointed Directors will be aligned to the majority of the workforce.
Annual bonus plan To motivate executives and incentivise delivery of performance over a one-year operating cycle, focussing on the short to medium term elements of our strategic aims.	Annual bonus plan levels and the appropriateness of measures are reviewed annually at the commencement of each financial year to ensure they continue to support our strategy. Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions where the Committee considers it to be necessary, in its opinion, to make appropriate adjustments. Annual bonus plan outcomes will be paid in cash up to 75% of base salary. Outcomes above this level will be deferred in shares for two years. During the deferral period the value of any dividends will be credited as reinvested in further deferred shares. Clawback provisions apply to the annual bonus plan and malus and clawback will apply to deferred shares.	The maximum level of annual bonus plan outcomes is 100% of base salary for the duration of this policy.	The performance measures applied may be financial or non-financial and corporate, divisional or individual and in such proportions as the Committee considers appropriate. Where a sliding scale of targets is used, attaining the threshold level of performance for any measure will not typically produce a payout of more than 20% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full payout for maximum performance. However, the annual bonus plan remains a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust the outcome of the annual bonus plan for any performance measure (from zero to any cap) should it consider that to be appropriate.	Introduction of deferral feature for bonus outcomes in respect of financial year 2019 and later years. Deferral will be made under the new Deferred Share Bonus Plan ('DSBP') being proposed for approval by shareholders at the 2019 AGM.

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

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
All-staff share plans To encourage share ownership by staff, thereby allowing them to share in the long term success of the Group and align their interests with those of shareholders.	The Company operates an all-staff Share Incentive Plan (under which an award of 'free shares' can be made, as well as 'partnership shares' and 'matching shares'). The Company also intends to operate a Sharesave scheme. These all-staff share plans are established under HMRC tax-advantaged regimes and follow the usual form for such plans. Executive Directors are able to participate in all-employee share plans on the same terms as other Group staff.	The maximum participation levels for all-staff share plans will be the limits for such plans set by HMRC from time to time.	Consistent with normal practice, such awards will not be subject to performance conditions.	No material changes.

Chairwoman and Non-Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
Chairwoman and Non-Executive Director fees To enable the Company to recruit and retain Company Chairs and Non-Executive Directors of the highest calibre, at the appropriate cost.	The fees paid to the Chairwoman and Non-Executive Directors aim to be competitive with other fully listed companies of equivalent size and complexity. The fees payable to the Non-Executive Directors are determined by the Board, with the Chairwoman's fees determined by the Committee. Directors do not participate in decisions regarding their own fees. No benefits are envisaged for the Chairwoman and Non-Executive Directors but the Company reserves the right to provide benefits including travel and office support.	Fees are paid monthly in cash. The aggregate fees and any benefits of the Chairwoman and Non-Executive Directors will not exceed the limit from time to time prescribed within the Company's Articles of Association for such fees (currently £1,000,000 p.a. in aggregate). Any increases actually made will be appropriately disclosed.	n/a	No material changes.

Notes to the policy table

Malus and clawback

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

- the Company materially misstated its financial results for any reason and that misstatement would result or resulted either directly or indirectly in an award being granted or vesting to a greater extent than would have been the case had that misstatement not been made;
- the extent to which any performance target and/or any other condition was satisfied was based on an error, or on inaccurate or misleading information or assumptions which resulted either directly or indirectly in an award being granted or vesting to a greater extent than would have been the case had that error not been made;
- circumstances arose (or continued to arise) during the vesting period (including any holding period) of an award which would have warranted the summary dismissal of the participant; or
- (for awards made from 2019 onwards) there is a sufficiently significant impact on the reputation of the Company (including a Company failure) to justify the operation of malus or clawback.

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

Stating maximum amounts for the remuneration policy

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

Travel and hospitality

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

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

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

Committee discretions

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

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

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

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

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

Outstanding obligations

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

Recruitment remuneration policy

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

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

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

For the avoidance of doubt, buy-out awards are not subject to a formal cap. Any awards to a newly recruited Executive Director which are not buy-outs will be subject to the limits for the annual bonus plan and PSP as stated in the general policy.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

For any buy-outs, the Company will not pay more than is necessary in the view of the Committee, and will in all cases seek, in the first instance, to deliver any such awards under the terms of the existing annual bonus plan and PSP. It may, however, be necessary in some cases to make buy-out awards on terms that are more bespoke than the existing annual bonus plan and PSP (for example, specific arrangements under Listing Rule 9.4.2).

All buy-outs, whether under the annual bonus plan, PSP or otherwise, will take due account of the service obligations and performance requirements for any remuneration relinquished by the individual when leaving a previous employer. The Committee will seek, where it is practicable to do so, to make buy-outs subject to what are, in its opinion, comparable requirements in respect of service and performance.

However, the Committee may choose to relax this requirement in certain cases, such as where the service and/or performance requirements are materially completed, or where such factors are, in the view of the Committee, reflected in some other way, such as a significant discount to the face value of the awards forfeited, and where the Committee considers it to be in the interests of shareholders. Exceptionally, where necessary, such buy-outs may include a guaranteed or non-prorated annual bonus in the year of joining.

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

Service contracts

The date of each Executive Director's contract is:

Name	Date of service contract	Duration
John Treharne	6 November 2015	Each Executive Director's service agreement should be of indefinite duration, subject to termination by the Company or the individual on six months' notice. The service agreements of all current Executive Directors comply with that policy.
Richard Darwin	6 November 2015	
Mark George	31 October 2018	

The contracts of all current Executive Directors, which are available for inspection at the Company's registered office, contain a payment in lieu of notice clause which is limited to base salary only.

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

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

Termination policy summary

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

Annual bonus plan

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

Deferred Share Bonus Plan

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

Performance Share Plan

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

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

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

If there is a change of control or winding up of the Company, awards typically vest to the extent that the relevant performance conditions have been satisfied at that time and subject also to pro-rating. The Committee has a standard ability to vary time pro-rating.

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

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

Consideration of shareholder views

The Committee considers shareholder views received during the year and at each Annual General Meeting, as well as guidance from shareholder representative bodies more broadly, when determining the remuneration policy and its implementation. The Committee seeks to build an active and productive dialogue with investors on developments on the remuneration aspects of corporate governance generally and it will consult with major shareholders in advance of any material change to the structure and/or operation of the policy and will seek formal shareholder approval for any such change if required.

External appointments

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

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

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

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

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

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

Illustrations of application of remuneration policy

The following charts show how the remuneration policy for Executive Directors will be applied in 2019 using the following assumptions:

Minimum

- Consists of base salary, benefits and pension.
- Base salary is the salary to be paid in 2019.
- Benefits measured as benefits paid in the year ended 31 December 2018 to Richard Darwin.
- Pension measured as the defined contribution or cash allowance in lieu of Company contributions of 10% of salary for Richard Darwin and Mark George.

	Base salary	Benefits	Pension	Total fixed
Richard Darwin	£300,000	£11,008	£30,000	£341,008
Mark George	£220,000	£11,008	£22,000	£253,008

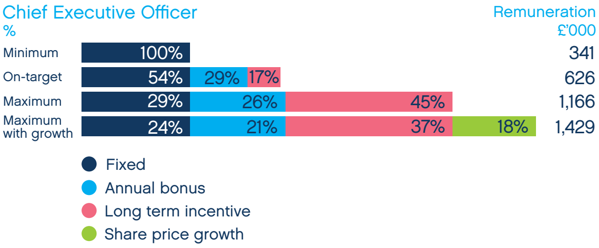
Target

Based on what the Director would receive if performance was on-target (excluding share price appreciation and dividends):
- Annual bonus: consists of the on-target bonus (60% of maximum opportunity used for illustrative purposes).
- LTI: consists of the threshold level of vesting (20% vesting) of PSP awards (at 175% of salary for Richard Darwin and Mark George).

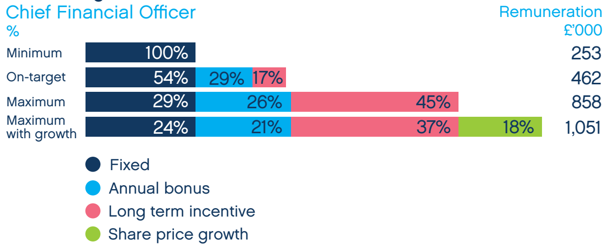
Maximum and growth

Based on the maximum remuneration receivable (excluding share price appreciation and dividends):
- Annual bonus: consists of maximum bonus of 100% of base salary.
- LTI: consists of full vesting of PSP awards (at 175% of salary for Richard Darwin and Mark George) under the PSP.
- Maximum with growth simply assumes 50% share price growth for PSP awards.

Richard Darwin
Chief Executive Officer



Mark George
Chief Financial Officer



Part B: Implementation Report

Implementation of policy for 2019 (unaudited information)

Base salary

The Executive Directors' base salaries for 2019 will be as follows:
- Richard Darwin: £300,000
- Mark George: £220,000

John Treharne will be paid a base salary of £195,000 as Founder Director.

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

Pension
Contributions rates for Richard Darwin and Mark George will be 10% of salary (John Treharne: £nil). 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 3 to the single figure table on page 61. There is no current intention to introduce additional benefits in 2019.

Annual bonus
The overall bonus plan maximum will be 100% of base salary for 2019. John Treharne will not participate in the annual bonus plan for 2019. 70% of the bonus will be based on financial targets (namely Group Adjusted EBITDA), with the remaining 30% based on strategic targets such as site openings and customer satisfaction. These targets are either specific KPIs (Group Adjusted EBITDA) or are lead indicators (site openings; customer satisfaction) towards a number of our non-financial KPIs (total number of gyms; total number of members; revenue per member per month).

Due to issues of commercial sensitivity, we do not believe it is in shareholders' interests to disclose any further details of these targets on a prospective basis. However, the Committee is committed to adhering to principles of transparency in terms of retrospective annual bonus target disclosure and will, therefore, provide appropriate and relevant levels of disclosure for the bonus targets applied to the 2019 bonus (and performance against these targets) in next year's Directors' Remuneration Report.

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

Long term incentives
Awards will be made in 2019 under the PSP to Richard Darwin and Mark George over shares worth 175% of salary. In calculating the number of shares for 2019 PSP awards, the Company will use the higher of the market value of shares at the award date and the three-month average share price to that date. This step is being taken by the Remuneration Committee in 2019 to ensure that the numbers of shares in awards is not increased inappropriately due to lower shares prices at the time of award. John Treharne will not participate in the PSP award for 2019.

These awards will vest three years after grant, and performance vested shares will also be subject to a further two-year holding period after the initial three-year period to vesting.

The performance conditions will be a mix of Adjusted Earnings per Share (25% weighting), ROCE in the mature estate (25% weighting) and relative TSR (50% weighting) targets as described below: These are measures which encourage the generation of sustainable long term returns to shareholders:

Adjusted EPS (25% of total award)

2021 Adjusted EPS	% of that part of the award that vests
Below 13.6p	0%
13.6p	20%
18.8p	100%
Between 13.6p and 18.8p	Pro rata straight-line between 20% and 100%

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

Three year average ROCE in mature estate	% of that part of the award that vests
Below 30%	0%
30%	20%
32%	100%
Between 30% and 32%	Pro rata straight-line between 20% and 100%

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

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

For the 2019 PSP awards:

- 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 diluted weighted average number of shares, unless the Committee determines otherwise. Adjusted EPS will be calculated using current accounting standards, excluding the impact of IFRS 16.
- ROCE in the mature estate reflects ROCE in those sites which have been developed organically by the Group and have been open more than two years. Vesting will vary according to a sliding scale depending on delivery of ROCE between 30% (threshold level, paying 20% of total ROCE element) and 32% (maximum level, paying 100% of total ROCE element). As an additional underpin, outcomes above 60% for this ROCE element will only be delivered if, in addition to the mature estate delivering a ROCE of 31% or more, the sites acquired from the Lifestyle and easyGym acquisitions in aggregate achieve an average ROCE of 20% or more across the two years 2020 and 2021. ROCE will be calculated using current accounting standards, excluding the impact of IFRS 16.
- Relative TSR is measured over three years from the date of award.

Non-Executive Directors' fees

Penny Hughes will receive an annual fee of £138,000 as Chairwoman. Paul Gilbert, David Kelly and Emma Woods will each receive a fee of £55,000.

Single total figure table (audited)

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

For the year ended 31 December 2018:

£	Salary/fees	Taxable benefits[3]	Bonus[4]	Long term incentives[5]	Pension[6]	Total remuneration
Executive Directors						
Richard Darwin[1]	222,489	11,008	35,598	46,980	22,249	338,324
Mark George[2]	37,258	–	5,979	–	3,726	46,963
Founder Director						
John Treharne[1]	237,382	18,057	28,827	73,080	27,157	384,503
Non-Executive Directors						
Paul Gilbert	50,000	2,512	–	–	–	52,512
Penny Hughes	130,000	–	–	–	–	130,000
David Kelly	50,000	–	–	–	–	50,000
Emma Woods	50,000	–	–	–	–	50,000

1 Until 17 September 2018, John Treharne was the CEO and Richard Darwin was the CFO. From that date, Richard Darwin became CEO and John Treharne became the Founder Director. John Treharne's salary was £254,600 p.a. until 17 September 2018 and £195,000 p.a. from that date and Richard Darwin's salary was £191,000 p.a. until 17 September 2018 and £300,000 p.a. from that date. The salary totals shown above represent appropriate part-year payments at the different rates.
2 Mark George joined the Board as CFO on 31 October 2018.
3 Taxable benefits comprise private medical cover travel and life assurance allowances, a car parking space (in the case of the CEO) and additional mobile telephone contracts (in the case of the Founder Director).
4 Further details of the bonus outturn for 2018 can be found on page 52. The bonus totals for Richard Darwin and John Treharne represent 16% of salary (pro rata to 17 September 2018 for John Treharne).
5 The 2018 value for long-term incentives reflects the vesting of 2016 PSP awards on 16 March 2019 when the share price was 200.0p (the closing price on Friday 15 March 2019). This is then multiplied by the number of shares vesting for these awards (23,490 shares for Richard Darwin and 36,540 shares for John Treharne).
6 Pensions are provided via a defined contribution and/or cash supplement. John Treharne did not receive a pension contribution after 17 September 2018.

For the year ended 31 December 2017:

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

The aggregate emoluments (being salary / fees, bonuses, benefits and pension allowances) of all Directors for 2018 was £1,052,302 (2017: £1,034,795).

Further information on the 2018 annual bonus (audited)

For 2018 the overall bonus plan maximum was 100% of base salary. 70% of the bonus was based on financial targets, with the remaining 30% based on strategic targets.

The financial targets were as follows:

	Threshold	Target	Maximum
Group Adjusted EBITDA	£36.0m	£37.1m	£40.8m
% of this element of bonus payable	20%	60%	100%

The actual Group Adjusted EBITDA for the year was £36.8 million. However, the Committee moderated this to remove the net contribution of easyGym, and for the purposes of the 2018 annual bonus plan regarded the appropriate Group Adjusted EBITDA to be £35.5 million. The judgement applied by the Committee in this way resulted in 0% of the financial targets elements being payable (0% of salary).

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

The strategic targets related to three metrics: the number of site openings; member satisfaction; and the delivery of the New Gym Team project in 2018. Each of these metrics had an equal weighting (10% of bonus each). A summary of overall performance against these metrics is as follows:

- Site openings – the target number of site openings was 17, with the stretch requiring an appropriate pipeline of sites exchanged for scheduled 2019 opening. In total, 17 sites were opened during the year and the pipeline requirement was also attained.
- Member satisfaction – stretch targets for member satisfaction was 55% (target 49%). Actual performance was 49% for member satisfaction.
- New Gym Team – the deferral of this project until 2019 meant that no element of the annual bonus for this metric was payable.

Having considered overall Group performance in the year, including the growth in profits, the Committee determined that it was appropriate to allow payment of those elements of 2018 annual bonus for which the originally set non-financial targets have been achieved, giving a total bonus of 16% of maximum payable (site openings, achieved at 10 of 10% available; member satisfaction, achieved at 6 of 10% available; New Gym Team, achieved at 0 of 10% available).

Performance Share Plan awards
Vesting outcomes for 2016 PSP awards

Performance measure and weighting	Target range (each measured to 31 December 2018)	Performance achieved	Vesting outcome	% of total award vesting
Earnings per share growth (50%)	Target range between 9.0 pence (20% vests) and 13.6 pence (100% vests) for financial year 2018.	8.3p	0.0%	0.0%
TSR (50%)	Target range between median performance (20% vests) and upper quintile performance (100% vests) against the constituents of the FTSE SmallCap (excluding Investment Trusts).	34.6 equivalent ranking (from 130 companies)	83.3% (between median and upper quintile)	41.65%
Total				41.65%

Grant of 2018 PSP awards

Executive	Awards held at 1 Jan 2018	Awards granted during the year[1]	Awards vested during the year	Awards lapsed during the year	Interests held at 31 Dec 2018
John Treharne	318,343	185,414	–	–	503,757
Richard Darwin	204,649	139,096	–	–	343,745

1 The above PSP awards were granted at the five-day average market price of 240.3p from the last trading day prior to grant on 28 March 2018. The awards thus represented awards to John Treharne over shares worth 175% of salary, and awards to Richard Darwin over shares worth 175% of salary.
2 The exercise price is 0.01p.
3 The minimum share price in 2018 was 219p and the maximum share price was 343p. The closing share price on 31 December 2018 was 273p.

PSP awards vest based on performance against the following targets:

Performance measure	2016 award (50% growth in Adjusted EPS and 50% TSR)	2017 award (50% growth in Adjusted EPS and 50% TSR)	2018 award (50% growth in Adjusted EPS and 50% TSR)
Adjusted EPS growth 20% of this part vests at threshold performance, rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range between 9.0 pence and 13.6 pence for FY2018.	Target range between 9.0 pence and 13.6 pence for FY2019.	Target range between 10.8 pence and 16.2 pence for FY2020.
TSR 20% of this part vests at threshold performance, rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range between median performance against the constituents of the FTSE SmallCap (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance.	Target range as for 2016.	Target range as for 2016.

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

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

Participation in the Share Incentive Plan

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

Executive	Total SIP shares at 1 Jan 2018	Partnership shares purchased	Matching shares awarded	Free shares awarded	Total SIP shares at 31 Dec 2018
Richard Darwin	2,001	937	937	–	3,875
Mark George	–	–	–	–	–

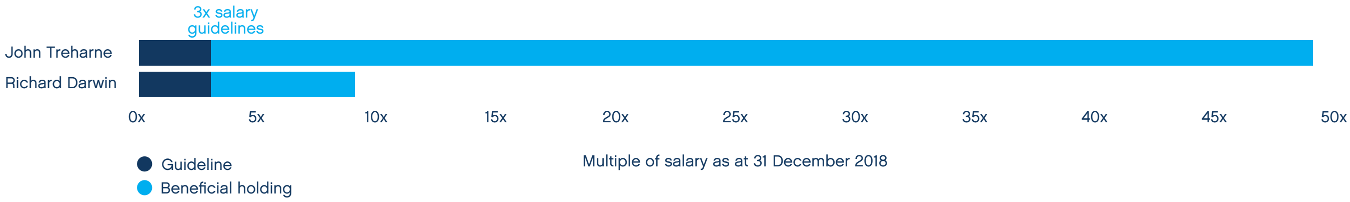
Statement of Directors' shareholding and share interests (audited)

The table below details, for each Director, the total number of Directors' interests in shares at 31 December 2018:

Director	Penny Hughes	John Treharne	Richard Darwin[1]	Mark George	Paul Gilbert	David Kelly	Emma Woods
Ordinary shares	26,089	3,530,937	971,821	–	187,776	5,000	8,930
Shares awarded under SIP	–	3,909	3,875	–	–	–	–
Maximum awards receivable under PSP	–	503,757	343,745	–	–	–	–
Total interests	26,089	4,038,603	1,319,441	–	187,776	5,000	8,930

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

Progress towards share ownership guidelines



Under share ownership guidelines implemented by the Remuneration Committee, John Treharne and Richard Darwin are required to build and then maintain a shareholding equivalent to at least 300% of base salary. Additionally, John Treharne has committed to maintaining a holding of at least 0.5% of issued share capital. At the 2018 year end, both complied with these requirements as shown above. As Mark George joined the business on 31 October 2018, he did not hold any shares at the year end. He will be required to build and then maintain a shareholding equivalent to at least 200% of base salary.

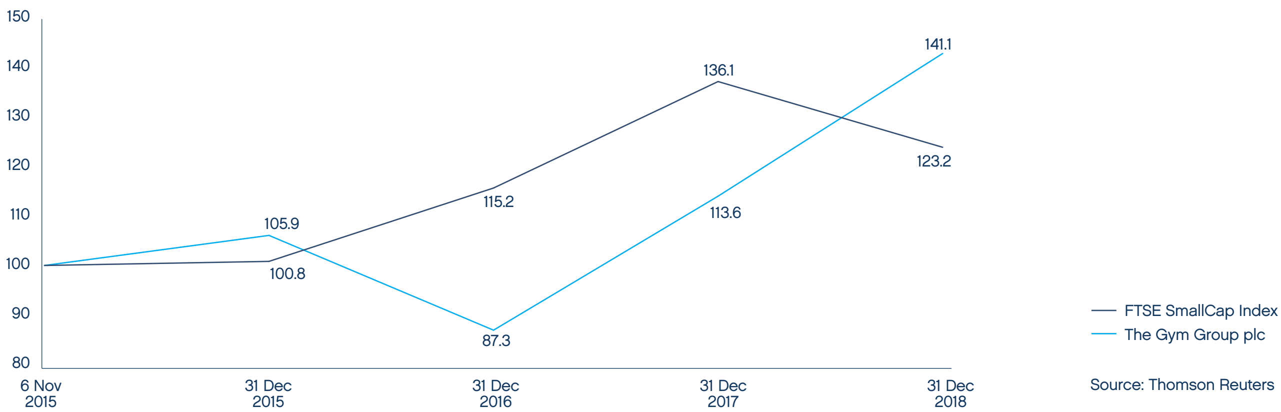
Payments to past Directors (audited)

No payments were made to past Directors during the year.

Performance graph and CEO remuneration table (unaudited)

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

Total Shareholder Return index



Source: Thomson Reuters

REPORT OF THE REMUNERATION COMMITTEE CONTINUED

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

	CEO	Single figure of total remuneration	Annual bonus payout against maximum %	Long term incentive vesting rates against maximum opportunity %
2015	John Treharne	£287,793	£60,000[2]	n/a
2016	John Treharne	£313,628	27.2%[3]	n/a
2017	John Treharne	£439,218	74.3%[3]	n/a
2018[1]	John Treharne	£272,721	16.0%	41.7%
2018[1]	Richard Darwin	£97,326	16.0%	41.7%

1 The 2018 figures represent the single figure of total remuneration for John Treharne for the period to 17 September 2018, and for Richard Darwin from that date.
2 The actual bonus paid has been inserted for 2015 as this related to the year of Admission when an uncapped discretionary bonus plan was in operation. No long term incentive awards vested in 2015, 2016 or 2017.
3 The maximum bonus for 2016 was 47.5% of base salary and so the outcome of 27.2% of maximum bonus was 12.9% of base salary. The maximum bonus for 2017 was 75% of base salary and so the outcome of 74.3% of maximum bonus was 55.7% of base salary.

Percentage change in remuneration of Director undertaking the role of CEO (unaudited)
The table below presents the year-on-year percentage change in remuneration received by the CEO, compared with the change in remuneration received by all UK staff. The figures represent salary, short term incentives and taxable benefits for John Treharne to 17 September 2018, and Richard Darwin thereafter.

	CEO	All staff
Salary and fees	8.1%	2.9%
Short term incentives	(68.8%)	(6.6%)
All taxable benefits	(31.1%)	2.9%

CEO to employee pay ratio
While not required to publish the CEO to employee pay ratio this year, the Committee felt that, in the interest of transparency, it would be appropriate to make this disclosure on a voluntary basis for 2018.

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

Notes to the CEO to employee pay ratio:

1. Option B (based on the gender pay gap reporting disclosures) was preferred as this data was already prepared on a Group basis.
2. In line with the gender pay gap reporting regulations, pay for the 25th percentile, median and 75th percentile employees was calculated with reference to 5 April 2018.
3. The ratios shown are representative of the FTE 25th percentile, median and 75th percentile pay for employees within the Group at the gender pay gap reference date.
4. FTE equivalent pay has been calculated using the gender pay gap reporting methodology.
5. In order to make the data more representative, the Chief Executive's salary and pension as at 31 December 2018 have been used, as well as actual bonus, long term incentives and benefits from the single total figure.
6. The Committee believes the median pay ratio for 2018 to be consistent with the pay, reward and progression policies for the Company's UK employees taken as a whole as at the reference date.

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

	Salary			Total pay and benefits		
Year	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
2018	£19,000	£28,560	£33,660	£21,470	£32,273	£39,719

In future years, this report will set out an explanation for movements in the ratios and the reasons behind this. The employee population of the Company is in a period of change, with the purchase of easyGym occurring after the reference date (and so the calculations outlined above do not include easyGym employees). This will cause some change in the data for 2019, as will the new Personal Trainer model which will offer part-time employment to our Personal Trainers during 2019.

Relative importance of spend on pay (unaudited)
The table below details the change in total staff pay between 2017 and 2018 as detailed in note 9 to the Consolidated Financial Statements, compared with distributions to shareholders by way of dividend, share buy backs on any other significant distributions or payments. These figures have been calculated in line with those in the audited Financial Statements:

	% change	2018 (£'000)	2017 (£'000)
Total gross staff pay	27.0%	15,224	11,988
Dividends / share buy backs	21.5%	1,637	1,347

Summary of shareholder voting
The following table shows the results of the advisory vote on the 2017 Directors' Remuneration Report at the 2018 Annual General Meeting and the binding vote on the Directors' Remuneration Policy at the 2016 Annual General Meeting:

	Approval of the 2017 Directors' Remuneration Report (2018 AGM)		Approval of the Directors' Remuneration Policy (2016 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	80,947,832	99.1%	105,025,422	97.5%
Against	734,711	0.9%	2,691,982	2.5%
Votes withheld	0	0%	0	0%

The Committee (unaudited information)
The Committee's principal responsibilities are to recommend the Group's policy on executive remuneration, determine the levels of remuneration for Executive Directors and the Chairwoman, 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 six times during the year and the table on page 42 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 2018 were £74,266 plus VAT. FIT's fees were charged on the basis of the firm's standard terms of business for advice provided.

On behalf of the Board

David Kelly
Chairman of the Remuneration Committee
19 March 2019

DIRECTORS' REPORT

As permitted by legislation, some of the matters normally included in the Directors' Report, including disclosures regarding greenhouse gas emissions, have instead been included in the Strategic Report (pages 4 to 37) as the Board considers them to be of strategic importance.

Corporate structure

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

The Board

The Directors who served during the year were:

Penny Hughes
John Treharne
Richard Darwin
Paul Gilbert
David Kelly
Emma Woods
Mark George (appointed 31 October 2018)

The roles and biographies of the Directors as at the date of this report are on pages 38 to 39.

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

Appointment and replacement of Directors

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

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

Directors' indemnity

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

Compensation for loss of office

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

Dividend

The Board recommends a final dividend of 0.95p per share in respect of the financial year ending 31 December 2018. Shareholders will be asked to approve the dividend at the AGM on 4 June 2019, for payment on 14 June 2019 to shareholders whose names are on the register on 24 May 2019. The ex-dividend date is 23 May 2019.

The Company has a Dividend Reinvestment Plan that allows shareholders to reinvest dividends to purchase additional shares in the Company. For shareholders to apply the proceeds of this and future dividends to the plan, application forms must be received by the Company's Registrars by no later than 24 May 2019. Existing participants in the plan will automatically have the interim dividend reinvested. Details on the plan can be obtained from Link Asset Services on 0371 664 0381 or at www.signalshares.com. Calls are charged at the standard geographic rate and will vary by provider. If you are outside the United Kingdom, please call +44 371 664 0381. Calls outside the United Kingdom will be charged at the applicable international rate. The lines are open from 9.00am to 5.30pm, Monday to Friday, excluding public holidays in England and Wales.

Post balance sheet events

There are no post balance sheet events to report.

Future developments in the business of the Company

The likely future developments in respect of the business of the Company can be found in the Strategic Report on pages 4 to 37 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 40 to 65, 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 pages 34 to 37 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 pages 34 to 37 and forms part of this report by reference.

Human rights, anti-bribery and anti-corruption

Information on the Group's human rights, anti-bribery and anti-corruption policies is set out in the Corporate Social Responsibility Statement on pages 34 to 37 and forms part of this report by reference.

Political donations

The Company made no political donations in 2018 (2017: £nil).

Employee involvement and policy regarding disabled persons

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

Gender pay gap

As mentioned in the Report of the Nomination Committee, we have published our 2017 Gender Pay Gap Report on both the government and Company's websites. Whilst our gender pay gap compares favourably with other organisations across both the UK economy and the low cost retail and fitness sector, we are committed to reporting on an annual basis the actions we are taking to reduce the gap and on our progress made against these actions. Our report for 2018 will be published shortly.

Directors' interests

The beneficial interests of the Directors of the Company at 31 December 2018, and their connected persons, in the issued Ordinary shares are provided on page 63 within the Directors' Remuneration Report.

Major interests in shares

As at 31 December 2018, 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
SFM UK Management LLP	8,998,097	7.01%
Legal & General Investment Management Limited	8,907,236	6.94%
Standard Life Aberdeen plc	8,914,400	6.46%
Old Mutual Global Investors (UK) Limited	8,300,440	6.01%
Threadneedle Asset Management Limited	7,499,632	5.85%
Quantum Partners LLP	7,400,000	5.8%
FIL Investments International	6,921,322	5.4%
Hargreave Hale Limited	6,607,036	5.15%
Liontrust Investments Limited	6,530,858	5.09%
River and Mercantile Asset Management LLP	6,147,500	4.79%
Legal & General Group Plc	5,150,182	4.01%

Between 31 December 2018 and 19 March 2019, the Company received further notifications under DTR 5:

Institution	Number of shares	Percentage
Merian Global Investors (UK) Limited (formerly Old Mutual Global Investors (UK) Limited)	Below 5%	Below 5%

Share capital

The details of the issued share capital can be found in note 25 to the Consolidated Financial Statements. The rights attached to the Company's Ordinary shares, being the only share class of the Company with voting rights, are set out in the Articles of Association.

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

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

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

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

There are no restrictions on transfers of Ordinary shares other than:
- certain restrictions which may from time to time be imposed by laws or regulations such as those relating to insider dealing;
- pursuant to the Company's Share Dealing Code whereby the Directors and designated employees require approval to deal in the Company's shares; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

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

Amendment to the Company's Articles of Association

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

Authority for the Company to purchase its own shares

At the 2018 AGM the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Act) of its Ordinary shares on such terms and in such manner as the Directors of the Company may determine subject to the following conditions:

(i) the maximum number of Ordinary shares authorised to be purchased is 12,827,071, representing 10% of the Company's existing share capital;

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

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

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

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

DIRECTORS' REPORT
CONTINUED

(iv) 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 2019.

The Company did not buy back any shares during the year. A resolution will be proposed at the 2019 AGM to renew this authority.

Authority to allot shares

At the 2018 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 £4,275.69.

A resolution will be proposed at the 2019 AGM to renew this authority.

The Company undertook an equity placing on 13 June 2018, which resulted in 9,677,420 new Ordinary shares of 0.01 pence each being issued at a price of 248 pence per share, raising gross proceeds of approximately £24 million (before expenses). These shares were admitted to trading on the premium listing segment of the Official List of the FCA and to trading on the London Stock Exchange on 18 June 2018. The terms of issue were fixed on 13 June 2018 and the market price on that date was 249.5 pence per share.

Significant agreements

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

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out in note 23 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 55)
7	Details of an allotment for cash of equity securities made during the period	Directors' Report (page 68 – authority to allot shares)
10	Details of contracts of significance	Corporate Governance Report (page 43 – Directors' conflicts of interest)

Auditor

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

a) so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and

b) the Director has taken all the steps which he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

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

AGM

The Notice convening the 2019 AGM will be circulated to shareholders separately.

On behalf of the Board

Mark George
Chief Financial Officer and Company Secretary
19 March 2019

Non-financial information statement

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

Reporting requirement	Where to read more in this report about our impact, including the principal risks relating to these matters	Page
Environmental matters	Corporate Social Responsibility Statement – Environmental responsibility and greenhouse gas information	37
Employees	Corporate Social Responsibility Statement – Our colleagues and health and safety Chief Executive's Statement – Our people Principal Risks – Staff retention	36 and 37 9 31
Human rights	Modern Slavery Act Statement[1] Human rights, anti-bribery and anti-corruption	37 37
Social matters	Corporate Social Responsibility Statement – Our communities	36
Anti-bribery and corruption	Human rights, anti-bribery and anti-corruption	37
Business model	Business model	12 to 13
Principal risks	Principal risk and uncertainties	30 to 33
Non-financial KPIs	Key Performance Indicators	28 to 29

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

DIRECTORS' RESPONSIBILITY STATEMENT

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

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

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

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

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

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

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

Responsibilities statement

We confirm that to the best of our knowledge:

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

On behalf of the Board

Mark George
Chief Financial Officer and Company Secretary
19 March 2019

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

Opinion

In our opinion:

- The Gym Group plc's Group Financial Statements and Parent Company Financial Statements (the 'Financial Statements') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2018 and of the Group's profit for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice including FRS 101 'Reduced Disclosure Framework'; and
- the Financial Statements have been prepared in accordance with the requirements of the Companies Act 2006, and, as regards the Group Financial Statements, Article 4 of the IAS Regulation.

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

Group	Parent Company
Consolidated Statement of Financial Position as at 31 December 2018	Company Statement of Financial Position as at 31 December 2018
Consolidated Statement of Comprehensive Income for the year then ended	Company Statement of Changes in Equity for the year then ended
Consolidated Statement of Changes in Equity for the year then ended	Related notes 1 to 9 to the Company Financial Statements including a summary of significant accounting policies
Consolidated Cash Flow Statement for the year then ended	
Related notes 1 to 30 to the Consolidated Financial Statements including a summary of significant accounting policies	

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

Basis for opinion

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

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

Conclusions relating to principal risks, going concern and viability statement

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

- the disclosures in the Annual Report set out on page 30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 30 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 33 in the Financial Statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least 12 months from the date of approval of the Financial Statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 33 in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

Overview of our audit approach

Key audit matters	• Deferral of membership income • Annual goodwill impairment testing including cash flow and discount rate assumptions • Accounting for the acquisition of easyGym gyms
Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further three components. • The components where we performed full or specific audit procedures accounted for 100% of profit before tax and exceptional items, 100% of revenue and 100% of total assets.
Materiality	• Overall Group materiality of £616,000 which represents 5% of profit before tax and exceptional items.

Key audit matters

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

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Deferral of membership income – total revenue for the year ended 31 December 2018: £123.9 million (31 December 2017: £91.4 million), of which £7.1 million was deferred at 31 December 2018 (31 December 2017: £5.3 million) and presented in the balance sheet as contract liabilities. *Refer to the Report of the Audit and Risk Committee (page 46); accounting policies (page 83); and notes 5 and 20 of the Consolidated Financial Statements (pages 89 and 96).* Member's monthly subscription payments are collected each month on various dates during each calendar month. The Group also collects non-refundable joining fees and longer term subscriptions at the commencement of the relevant subscription period. Consequently, in preparing the annual accounts, management need to calculate the amount of payments collected for all gyms, which relate to membership after the year end date and for which the related revenue should be deferred and presented as a contract liability under IFRS 15 'Revenue from Contracts with Customers' ('IFRS 15'). Although the calculation of deferred membership fees does not involve judgements and estimates, it is non-routine in its performance and given the number of members, varying subscription rates, the reliance on outsourced processes, this year being performed using an automated calculation within the newly implemented Workday ERP system, the adoption of IFRS 15 and the first year of accounting for easyGym memberships, there is an increased risk of material error and management override in making this calculation. The risk has increased in the current year due to the acquisition of easyGym gyms, the adoption of IFRS 15 and the move from a manual to automated calculation.	We obtained an understanding of the Group's revenue recognition process, in particular in respect of the membership subscription process associated with the easyGym gyms. This included visiting the outsourced membership management service provider to obtain an understanding of the outsourced elements of the membership income process. We also obtained an understanding of the deferred membership fee income calculation process and related controls, including in respect of the gyms acquired from easyGym. We also considered the appropriateness of management's assessment of the impact of adopting IFRS 15 on the recognition of revenues and the related recognition of deferred membership fee income as contract liabilities. We re-performed management's deferred membership fee income calculation. We tested the completeness of the members included in the deferred membership fee income calculation by using the December 2018 membership data in the income reports used to post revenue within our re-performance of the deferred membership fee income calculation. We agreed a sample of the data used in management's deferred revenue calculation (for example the membership ID, joining/direct debit date and subscription rate) to the members database and the December 2018 membership income reports used to post revenue. This included sample testing by reference to membership data held by the Group and membership data provided directly to us by the outsourced membership management service provider. We also tested completeness of the membership data held by the Group and used to recognise revenue, by agreeing a sample of membership data provided directly to us by the outsourced membership management service provider to the membership data held by the Group. We tested the appropriateness of manual journal entries recorded in the general ledger in relation to revenue, and in particular those related to deferred income. We considered the risk of management override in the revenue process including the deferred membership income calculation. The Group audit team performed full and specific scope audit procedures over this risk area in all locations, which covered 100% of the risk amount.	Based on our procedures we did not identify any material errors in the deferral of membership income in the year ended 31 December 2018 and presented as contract liabilities as at that date.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Annual goodwill impairment testing including cash flow and discount rate assumptions – 31 December 2018: £66.4 million (31 December 2017: £56.0 million). *Refer to the Report of the Audit and Risk Committee (page 46); accounting policies (page 84 and 87); and note 15 of the Consolidated Financial Statements (page 95).* As disclosed in note 15 to the Consolidated Financial Statements, goodwill recognised in the Group Statement of Financial Position of £66.4 million (arising on the acquisition of The Gym Limited in 2013, the acquisition of the trade and assets of 18 gyms from Lifestyle Fitness, the acquisition of the trade and assets of one gym in Aylesbury and the acquisition of the trade and assets of 13 gyms from easyGym) has been allocated to one group of cash generating units ('CGUs') comprising The Gym chain of health and fitness facilities. As required, management have undertaken an annual impairment review in respect of the goodwill allocated to the group of CGUs in accordance with the requirements of IAS 36 'Impairment of Assets' ('IAS 36') and concluded that no impairment arises at 31 December 2018. We focussed on this area due to both the significance of the carrying value of goodwill, the acquisition in 2018 and the inherent uncertainty involved in an impairment review, which requires management to make significant judgements and estimations as to future outcomes and assumptions of cash flows (for example customer acquisition and retention, changes in subscription rates, operating costs etc), along with the discount rate to be applied to those cash flows. In addition, such judgements and estimates could be influenced by management bias. The significant assumptions are disclosed in note 15 to the Consolidated Financial Statements. There has been no change to the risk, however goodwill has increased by £10.4 million resulting from the acquisition made in 2018.	We obtained and challenged management's updated CGU assessment in light of the easyGym gym acquisitions and the rebranding of the gyms previously operating under the Lifestyle Fitness brand. We obtained management's impairment testing model, considered the calculation methodology, sources for key assumptions and sensitivities applied and tested the integrity of the model. 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 2022 onwards, as disclosed in note 15 to the Consolidated Financial Statements. We then challenged the reasonableness of these assumptions by reference to historical data, external benchmarks and the risk of management bias. We also assessed the historical accuracy of management's forecasting by comparing actual financial performance to management's previous forecasts / budgets. We considered management's sensitivity analysis showing the impact of a reasonable change in impairment assumptions to determine whether an impairment charge was required. This consideration included performing our own sensitivity analysis by reference to the results of our assessment of assumptions referred to above. We ensured that the Financial Statement disclosures, particularly those in note 15 to the Consolidated Financial Statements, met the requirements of IAS 36 and IAS1 'Presentation of Financial Statements' ('IAS 1'), particularly those related to judgements, estimation uncertainty and sensitivities. The Group audit team performed the full scope audit procedures on the impairment models prepared for The Gym Group plc. As part of our work we utilised EY valuations specialists to assist in our assessment of the discount rate and long term growth rate cash flow assumptions used in the impairment models and the methodology of the models.	Based on our procedures, we believe that the combined effect of the cash flow and discount rate assumptions used by management in the CGU impairment model are within acceptable ranges and reasonably possible changes in the key assumptions would not cause an impairment to arise in respect of the goodwill. We consider that management's impairment model methodology is acceptable. The Financial Statement disclosures, particularly those in note 15 to the Consolidated Financial Statements, materially comply with the applicable requirements of IAS 36 and IAS 1.

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

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Accounting for the acquisition of easyGym gyms – consideration payable of £21.5 million (of which £18.5 million has been paid to date and £3.0 million relates to contingent consideration) and acquisition costs of £0.6 million, with assets acquired being goodwill of £10.4 million, other intangible assets of £0.8 million, property, plant and equipment of £11.7 million and liabilities assumed of £1.4 million. *Refer to the Report of the Audit and Risk Committee (page 47); accounting policies (page 82 and 83); and notes 7, 13, 14, 15 of the Consolidated Financial Statements (pages 94 to 95).* On 4 July 2018 the Group acquired the trade and assets of a portfolio of 13 gyms operated by easyGym. Management have concluded that the acquisitions of the gyms from easyGym should be accounted for as business combinations under IFRS 3 'Business Combinations' ('IFRS 3'). As required by IFRS 3, management have assessed the recognition and measurement of the identifiable assets acquired and liabilities assumed in both acquisitions. Management have also considered the measurement and accounting of a number of other elements of these acquisitions, including the consideration paid or payable, and the cost of each acquisition. We focussed on this area due to the significance of the fair value of both the consideration transferred and assets acquired, and the inherent uncertainty involved in identifying and measuring the assets acquired and liabilities assumed. In particular, we focussed on significant judgements and estimations required by management regarding the identification of intangible assets acquired, the future cash flows and discount rates related to those intangible assets (in particular in relation to members lists), and the valuation of leasehold improvements and gym equipment assets acquired. Such judgements and estimates could be influenced by management bias. This is a new risk in the current year due to the acquisition which has taken place.	We obtained management's written assessment of the accounting treatment of this transaction and reviewed this, together with the underlying transaction documentation, in light of the requirements of IFRS 3 to assess the appropriateness of management's concluded accounting treatment. We ensured that the accounting treatment of this transaction adopted in the 2018 annual accounts was in accordance with IFRS 3 (and any other relevant standards) and the transaction documents. We considered the reasonableness of management's assessment of the recognition and measurement of the assets acquired and any liabilities assumed (including assessing the work of any specialists used by management as part of their assessment) in view of the requirements of IFRS 3 and IFRS 13 'Fair value measurement' ('IFRS 13'). We involved EY valuation specialists to assist us in this regard. We tested the reasonableness of the measurement of the consideration transferred to the vendor by comparing to the underlying transaction documents and payment records. Our work included considering the appropriateness of management's recognition and measurement of the contingent consideration obligations arising from the acquisition. In respect of the acquisition costs of £0.6 million, we tested a sample of these costs to supporting documentation to ensure their inclusion as acquisition costs was appropriate and that these costs were correctly measured. We considered the adequacy and appropriateness of the disclosures included in the 2018 annual accounts in respect of this transaction against the disclosure requirements of IFRS 3 and also IFRS 13 in respect of the contingent consideration arrangements. The Group audit team performed full and specific scope audit procedures over this risk area in all locations, which covered 100% of the risk amount.	Based on our procedures we did not identify any material errors in relation to the accounting for the acquisition of the 13 gyms from easyGym in the year ended 31 December 2018, or related disclosures.

An overview of the scope of our audit

Tailoring the scope

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

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

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

The reporting components where we performed audit procedures accounted for 100% (2017: 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:

	2018			2017		
	Full scope	Specific scope	Remaining components	Full scope	Specific scope	Remaining components
Number of components	2	3	2	2	3	2
Revenue	97.3%	2.7%	–	98.9%	1.1%	–
Profit/(loss) before tax and exceptional items	116.4%	(16.4%)	–	104.6%	(4.6%)	–
Profit/(loss) before tax	120.3%	(20.3%)	–	105.7%	(5.7%)	–
Total assets	98.5%	1.5%	–	98.1%	1.9%	–

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

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

Changes from the prior year

Our 2018 audit scope is consistent with our 2017 audit scope.

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 £616,000 (2017: £542.750), which is 5% (2017: 5%) of profit before tax and exceptional items. We believe that profit before tax and exceptional items provides a consistent measure of underlying performance as it excludes non-recurring exceptional items. This adjusted measure is used by the market and analysts as a key metric and therefore is a focus for shareholders. The Group's profit before tax and exceptional items in the current year of £12,310,000 (2017: £10,855,000) has been arrived at by adding back £2,343,000 (2017: £1,664,000) of exceptional items (as disclosed in note 7 to the Consolidated Financial Statements) to the Group's profit before tax of £9,967,000 (2017: £9,191,000).

During the course of our audit, we reassessed our initial assessment of materiality from an amount of £665,000 based on pre year end forecasts, to the amount indicated above once actual results were available.

We determined materiality for the Parent Company to be £1,943,720 (2017: £1,615,200), which is 1% (2017: 1%) of total assets. Given the nature of the Parent Company's activities we believe total assets is a key metric of the shareholders. While materiality for the Parent Company exceeds that of the Group, as noted below our performance materiality for the Parent Company's audit was based upon an allocation of the performance materiality used in the audit of the Group's Financial Statements.

Performance materiality

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

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was 75% (2017: 75%) of our materiality, namely £462,000 (2017: £407,000). 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.

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 £92,400 to £462,000 (2017: £81,400 to £407,000).

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

We determined performance materiality for the Parent Company's own financial statements to be £462,000 (2017: £407,000) reflecting the performance materiality allocated to that full scope component as part of our audit of the Group's financial statements.

Reporting threshold

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

We agreed with the Audit and Risk Committee that we would report to them all uncorrected audit differences in excess of £33,000 (2017: £27,000), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. The increased amount from the prior year reflects the increase in materiality indicated above.

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

Other information

The other information comprises the information included in the Annual Report set out on pages 1 to 69, other than the Financial Statements and our auditor's report thereon. The Directors are responsible for the other information.

Our opinion on the Financial Statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Financial Statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Financial Statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Financial Statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

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

- **Fair, balanced and understandable set out on page 47** – the statement given by the Directors that they consider the Annual Report and Financial Statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- **Audit Committee reporting set out on page 46** – the section describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee; or
- **Directors' statement of compliance with the UK Corporate Governance Code set out on page 40** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

Opinions on other matters prescribed by the Companies Act 2006

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

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

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

Matters on which we are required to report by exception

- In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Directors' Report.
- We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit

Responsibilities of Directors

As explained more fully in the Directors' Responsibility Statement set out on page 70, the Directors are responsible for the preparation of the Financial Statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the Financial Statements

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

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

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

Our approach was as follows:

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

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

Other matters we are required to address

- We were appointed by the Company on 28 July 2015 to audit the Financial Statements for the year ending 31 December 2015 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is four years, covering the years ending 31 December 2015 to 31 December 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company and we remain independent of the Group and the Parent Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

Use of our report

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

Michael Kidd (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast
19 March 2019

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Revenue	5	**123,884**	91,377
Cost of sales		**(1,007)**	(982)
Gross profit		**122,877**	90,395
Administration expenses		**(111,180)**	(80,453)
Operating profit	6	**11,697**	9,942
Being:			
– Group Adjusted EBITDA[1]		**36,813**	27,963
– Depreciation	14	**(19,710)**	(14,408)
– Amortisation	15	**(2,051)**	(1,175)
– Exceptional items	7	**(2,343)**	(1,664)
– Long term employee incentive costs	26	**(1,012)**	(774)
Finance income	10	**22**	12
Finance costs	11	**(1,752)**	(763)
Profit before tax		**9,967**	9,191
Tax charge	12	**(2,761)**	(2,020)
Profit for the year attributable to equity shareholders		**7,206**	7,171
Other comprehensive income for the year			
Items that may be reclassified to profit or loss			
Changes in the fair value of derivative financial instruments	24	**(11)**	–
Items that will not be reclassified to profit or loss			
Changes in the fair value of financial assets at fair value through other comprehensive income	16	**(463)**	–
Total comprehensive income attributable to equity shareholders		**6,732**	7,171
Earnings per share	8	**pence**	pence
Basic		**5.4**	5.6
Diluted		**5.3**	5.6

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

The notes on pages 82 to 103 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 Restated[1] £'000
Non-current assets			
Property, plant and equipment	14	**164,505**	133,356
Intangible assets	15	**76,080**	62,536
Trade and other receivables	18	**–**	515
Financial assets at fair value through other comprehensive income	16	**285**	–
Derivative financial instruments	23	**169**	–
Available-for-sale financial assets	16	**–**	316
Total non-current assets		**241,039**	196,723
Current assets			
Inventories	17	**379**	197
Trade and other receivables	18	**11,912**	9,037
Cash and cash equivalents	19	**3,027**	457
Total current assets		**15,318**	9,691
Total assets		**256,357**	206,414
Current liabilities			
Trade and other payables	20	**48,983**	43,662
Other financial liabilities	13	**3,002**	–
Borrowings	21	**3,000**	–
Provisions	22	**679**	917
Income taxes payable		**1,293**	822
Total current liabilities		**56,957**	45,401
Non-current liabilities			
Borrowings	21	**45,165**	37,113
Other financial liabilities	13	**–**	184
Provisions	22	**1,145**	740
Deferred tax liabilities	12	**3,248**	2,092
Total non-current liabilities		**49,558**	40,129
Total liabilities		**106,515**	85,530
Net assets		**149,842**	120,884
Capital and reserves			
Issued capital	25	**14**	12
Own shares held	25	**48**	48
Capital redemption reserve	25	**4**	4
Share premium	25	**159,474**	136,280
Hedging reserve	25	**(11)**	–
Retained deficit	25	**(9,687)**	(15,460)
Total equity shareholders' funds		**149,842**	120,884

1 See note 13 for details regarding the restatement as a result of fair value adjustments.

The notes on pages 82 to 103 form an integral part of the Financial Statements.

These Financial Statements were approved by the Board of Directors on 19 March 2019.

Signed on behalf of the Board of Directors

Richard Darwin
Chief Executive Officer

Mark George
Chief Financial Officer

Company Registration Number 08528493

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Note	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Hedging reserve £'000	Retained deficit £'000	Total £'000
At 1 January 2017		12	48	4	136,280	–	(22,054)	114,290
Profit for the year and total comprehensive income		–	–	–	–	–	7,171	7,171
Share based payments		–	–	–	–	–	655	655
Deferred tax on share based payments		–	–	–	–	–	115	115
Dividends paid		–	–	–	–	–	(1,347)	(1,347)
At 31 December 2017		12	48	4	136,280	–	(15,460)	120,884
Adjustment from adoption of IFRS 15		–	–	–	–	–	(263)	(263)
Profit for the year		–	–	–	–	–	7,206	7,206
Share based payments	26	–	–	–	–	–	797	797
Deferred tax on share based payments	12	–	–	–	–	–	133	133
Issue of Ordinary share capital		2	–	–	23,998	–	–	24,000
Costs associated with the issue of share capital		–	–	–	(804)	–	–	(804)
Dividends paid	29	–	–	–	–	–	(1,637)	(1,637)
Changes in the fair value of derivative financial instruments		–	–	–	–	(11)	–	(11)
Changes in the fair value of financial assets at fair value through other comprehensive income		–	–	–	–	–	(463)	(463)
At 31 December 2018		**14**	**48**	**4**	**159,474**	**(11)**	**(9,687)**	**149,842**

The notes on pages 82 to 103 form an integral part of the Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Cash flows from operating activities			
Operating profit		**11,697**	9,942
Adjustments for:			
Exceptional items	7	**2,343**	1,664
Depreciation of property, plant and equipment	14	**19,710**	14,408
Amortisation of intangible assets	15	**2,051**	1,175
Long term employee incentive costs	26	**1,012**	774
Loss / (profit) on disposal of property, plant and equipment		**72**	(5)
Increase in inventories		**(182)**	(38)
Increase in trade and other receivables		**(1,940)**	(3,334)
Increase in trade and other payables		**7,527**	6,358
Cash generated from operations		**42,290**	30,944
Tax paid		**(2,009)**	(1,050)
Interest paid		**(1,371)**	(771)
Net cash flows from operating activities before exceptional items		**38,910**	29,123
Exceptional items		**(2,105)**	(1,147)
Net cash flow from operating activities		**36,805**	27,976
Cash flows from investing activities			
Payment for financial assets at fair value through other comprehensive income (2017: Available-for-sale financial assets)		**(432)**	(316)
Business combinations		**(18,600)**	(21,300)
Purchase of property, plant and equipment		**(42,341)**	(35,411)
Purchase of intangible assets		**(4,928)**	(1,693)
Interest received		**22**	12
Net cash flows used in investing activities		**(66,279)**	(58,708)
Cash flows from financing activities			
Dividends paid		**(1,637)**	(1,347)
Drawdown of bank loans		**12,500**	28,000
Repayments of bank loans		**(1,500)**	–
Proceeds of issue of Ordinary shares		**24,000**	–
Costs associated with share issue		**(804)**	–
Payment of financing fees		**(302)**	(286)
Payment for derivative financial instruments		**(213)**	–
Net cash flows from financing activities		**32,044**	26,367
Net increase / (decrease) in cash and cash equivalents		**2,570**	(4,365)
Cash and cash equivalents at 1 January		**457**	4,822
Cash and cash equivalents at 31 December		**3,027**	457

The notes on pages 82 to 103 form an integral part of the Financial Statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. General information

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

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

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

2. Summary of significant accounting policies

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

Statement of compliance

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

Basis of preparation

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

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

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

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of Directors. The Group's activities consist solely of the provision of high quality health and fitness facilities within the United Kingdom, presently traded through 155 sites operating under and being converted to The Gym brand and three sites operating under the easyGym brand, with each considered as a separate operating segment under IFRS 8 'Operating Segments' ('IFRS 8'). However, the Directors have determined that both operating segments have similar economic characteristics, services, customer types, methods and regulatory environments. Consequently, as allowed by IFRS 8, both operating segments have been combined into one single reportable operating segment.

2. Summary of significant accounting policies continued

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

Revenue

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

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

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

Other income is recognised at the point of sale as this reflects the fulfilment of all performance obligations.

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

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

Cost of sales

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

Exceptional items

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

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

Property, plant and equipment

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

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

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

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

Intangible assets

Goodwill

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

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; and the premium paid to acquire certain concession arrangements. These assets have been amortised on a straight-line basis over the useful lives of the individual contracts, ranging from three to 27 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Summary of significant accounting policies continued

Technology related

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

Computer software

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

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

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

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

Impairment of non-financial assets

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

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the CGUs to which the asset belongs. For property, plant and equipment and intangible assets the allocation is made to those CGUs 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 (excluding derivative financial instruments)

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

The Group measures its trade and other receivables and cash and cash equivalents at amortised cost. Subsequent to initial recognition these assets are carried at amortised cost using the effective interest method. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

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

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

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

Financial liabilities (excluding derivative financial instruments)

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

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

2. Summary of significant accounting policies continued

Borrowing costs

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

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

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

Derivative financial instruments and hedging activities

The Group's activities expose it to financial risks associated with movements in interest rates. The Group uses interest rate hedging contracts to hedge its interest rate exposure. The use of financial derivatives is approved by the Board.

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

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

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

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

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

Pensions

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

Leases

Operating leases

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

Lease incentives

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

Share based payments

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

Inventories

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

Trade and other receivables

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

Cash and cash equivalents

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

2. Summary of significant accounting policies continued

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.

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

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

Business combinations

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

3. Significant accounting judgements, estimates and assumptions continued

Source of estimation uncertainty

Depreciation and amortisation

The Group reviews the estimated useful lives and residual values of property, plant and equipment and intangible assets annually. The assets are depreciated or amortised over their estimated useful lives to their residual values. Given the significance of the carrying values of property, plant and equipment to the Group's financial position, relatively small changes in estimated useful lives could have a material effect on the Consolidated Financial Statements. Details of the useful lives assigned to the Group's property, plant and equipment and intangible assets is included in note 2. The carrying values of such assets are included in notes 14 and 15.

Goodwill impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its CGUs. The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information, including key assumptions and carrying values, is included in note 15. While the Directors have currently assessed that reasonably possible changes in key assumptions are unlikely to cause an impairment in the carrying value of goodwill, estimates of future cash flows and the determination of discount rates applied to those cash flows could change in the longer term such that an impairment arises.

Provisions

Provisions are made for dilapidations in respect of leased premises. The recognition and measurement of these provisions require estimates to be made in respect of uncertain events and amounts, with the key sources of estimation uncertainty relating to whether a restoration obligation will arise, the amount and timing of future cash flows required to settle any restoration obligation assessed as arising, and to a lesser extent the discount rate of 2% applied to those estimated cash flows. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made. Management has determined that the likelihood of a liability arising is remote in relation to 135 of the Group's 158 gym sites as the Group enjoys security of tenure as tenant and therefore is unlikely to give up a site where it is trading profitably. If circumstances indicate otherwise the Group will recognise an appropriate provision. If the future cost of restoration for those sites where a provision is currently recognised was to increase by 10% across these sites, the provision at 31 December 2018 would increase by £113,000. If a provision was required for a site where the Group does benefit from security of tenure, the provision at 31 December 2018 would increase by £50,000 to £150,000, depending on the site concerned. A 10 basis points change in the discount rate would increase / decrease the provision recognised at 31 December 2018 by £12,000.

Details of dilapidation provisions recognised are set out in note 22.

4. New standards adopted and standards issued not yet effective

New standards adopted

New standards impacting the Group for the year ended 31 December 2018, and which have given rise to changes in the Group's accounting policies are:

- IFRS 9 'Financial Instruments'; and
- IFRS 15 'Revenue from Contracts with Customers.'

IFRS 9 'Financial Instruments'

IFRS 9 'Financial Instruments' ('IFRS 9') replaces IAS 39 'Financial Instruments: Recognition and Measurement' ('IAS 39') for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting. The adoption of IFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognised in the Financial Statements. The new accounting policies are set out below. In accordance with the transitional provisions in IFRS 9 (7.2.15) and (7.2.26), comparative figures have not been restated.

Classification and measurement: on 1 January 2018 (the date of initial application of IFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate IFRS 9 categories. The significant effect on the Group is as follows:

Equity investments classified as available-for-sale financial assets under IAS 39 have been classified as held at fair value through other comprehensive income under IFRS 9, because these investments are held as long term strategic investments that are not expected to be sold in the short to medium term. As a result, assets with a fair value of £316,000 were reclassified from available-for-sale financial assets to financial assets at fair value through other comprehensive income. All fair value movements in respect of those assets are recognised in other comprehensive income and accumulated in retained earnings, and these are not recycled to profit or loss. Previously, under IAS 39, impairments of such assets were recognised in profit or loss, and gains and losses accumulated in reserves were recycled to profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

4. New standards adopted and standards issued not yet effective continued

IFRS 15 'Revenue from Contracts with Customers'

IFRS 15 'Revenue from Contracts with Customers' ('IFRS 15') supersedes IAS 11 'Construction Contracts', IAS 18 'Revenue' and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The standard requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

The Group has applied IFRS 15 using the modified retrospective method – i.e. by recognising the cumulative effect of initially applying IFRS 15 as an adjustment to the opening balance of equity at 1 January 2018. Therefore, the comparative information has not been restated and continues to be reported under IAS 18 and IAS 11. The details of the significant changes and quantitative impact of the changes are set out below:

Upfront non-cancellable joining fees for which revenue was recognised previously at a point in time when a customer signed up for the contract under previous policies are now recognised over time under IFRS 15.

Had the Group continued to report in accordance with IAS 18 'Revenue' for the year ended 31 December 2018, it would have reported the following amounts in these Financial Statements:

	As reported £'000	Effect £'000	Balances without adoption of IFRS 15 £'000
Revenue	123,884	(263)	123,621
Profit for the period	7,206	(263)	6,943
Total equity	149,842	(263)	149,579

The impact is driven by the upfront non-cancellable joining fees being considered to be an advance payment for future goods and services (i.e. membership subscription) and therefore forms part of the overall transaction price of the membership contract. The revenue previously recognised at the point in time in the previous year is now recognised over time and performance obligation of such contracts has been satisfied as at 31 December 2018.

There is no material impact on the statement of cash flows.

Standards issued not yet effective

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

- IFRS 16 'Leases' (effective 1 January 2019)

IFRS 16 'Leases' ('IFRS 16') specifies the recognition, measurement, presentation and disclosure of leases and will be applied for the first time in the Consolidated Financial Statements for the year ended 31 December 2019. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases unless the lease term is 12 months or fewer or the underlying asset has a low value. Given the significant leasing arrangements within the Group, the adoption of this standard will have a material impact on the Consolidated Financial Statements.

The Group will apply IFRS 16 using the full retrospective application method.

It is anticipated that on restatement of the results for the year ended 31 December 2018, the reported results will change as follows:

- the present value of the Group's operating lease commitments will be recognised on the balance sheet as a right-of-use asset (presented in property, plant and equipment) together with a corresponding finance lease liability;
- the application of the full retrospective method will result in the restatement of goodwill and intangible assets arising from historic business combinations (included in intangible assets);
- operating lease rentals currently included within administration expenses are expected to decrease to a negligible amount;
- depreciation included within administration expenses will increase in respect of the depreciation of the right-of-use assets over the term of the leases;
- finance costs will increase as a result of the discount applied to the finance lease liability; and
- tax relief will be obtained on the interest and depreciation expenses.

4. New standards adopted and standards issued not yet effective continued

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

	As reported £'000	Effect £'000	Restatement under IFRS 16 £'000
Property, plant and equipment	164,505	202,442	366,947
Intangible assets	76,080	10,538	86,618
Current assets	15,318	(3,427)	11,891
Current liabilities	(56,957)	22,607	(34,350)
Finance lease liabilities	–	(243,184)	(243,184)
Deferred tax liabilities	(3,248)	3,605	357
Administration expenses	(111,180)	6,962	(104,218)
Finance costs	(1,752)	(10,929)	(12,681)
Tax charge	(2,761)	688	(2,073)

The effect on adjusted profit before tax and adjusted earnings is as follows:

	As reported £'000	Effect £'000	Restatement under IFRS 16 £'000
Group Adjusted EBITDA	**36,813**	**21,685**	**58,498**
Long term employee incentive costs	(1,012)	–	(1,012)
Depreciation of property, plant and equipment	(19,710)	(14,801)	(34,511)
Finance income	22	–	22
Finance costs	(1,752)	(10,929)	(12,681)
Adjusted profit before tax	**14,361**	**(4,045)**	**10,316**
Tax charge	(2,761)	688	(2,073)
Tax effect of above items	(370)	–	(370)
Adjusted Earnings	**11,230**	**(3,357)**	**7,873**

5. Revenue

The main revenue streams are those described in the last annual Financial Statements: membership income and other income. The rental income revenue stream has grown during the year ended 31 December 2018 and consequently has been disaggregated from other income. The majority of revenue is derived from contracts with customers.

Disaggregation of revenue

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

	2018 £'000	2017 £'000
Major products/service lines		
Membership income	**121,515**	90,358
Rental income	**875**	141
Other income	**1,494**	878
	123,884	91,377
Timing of revenue recognition		
Products transferred at a point in time	**2,062**	1,755
Products and services transferred over time	**121,822**	89,622
	123,884	91,377
Assets and liabilities relating to contracts with customers		
Contract assets	**1,477**	925
Contract liabilities	**(7,112)**	(5,277)
Revenue recognised that was included in contract liabilities in the prior year		
Membership income	**5,211**	3,775
Other income	**66**	–
	5,277	3,775

Contract liabilities relate to membership fees received at the start of a contract, where the Group has the obligation to provide a gym membership over a period of time. The contract liability balance increases as the Group's membership numbers increase, and therefore has increased between 2017 and 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

6. Operating profit

Operating profit is stated after charging/(crediting):

	2018 £'000	2017 £'000
Depreciation of property, plant and equipment	**19,710**	14,408
Amortisation of intangible assets (included in administration expenses)	**2,051**	1,175
Operating lease rentals	**22,963**	17,251
Loss/(profit) on disposal of property, plant and equipment	**72**	(5)
Cost of inventory recognised as an expense	**46**	43
Auditors' remuneration		
Fees payable for the audit of the Company's annual accounts	**102**	85
Audit of the Company's subsidiaries pursuant to legislation	**64**	55
Audit related assurance services	**3**	2
Corporate finance services	**55**	45
	224	187

7. Exceptional items

	2018 £'000	2017 £'000
Acquisition costs	**644**	548
Integration costs	**460**	525
Restructuring costs	**1,239**	543
Costs associated with head office relocation	**–**	48
	2,343	1,664

Acquisition and integration costs relate to the acquisition of the trade and assets from Lifestyle Fitness and easyGym (note 13). Restructuring costs relate to the cost associated with changing the operating model in relation to the use of Personal Trainers within the business.

8. Earnings per share

Basic earnings per share is calculated by dividing the profit or loss attributable to equity shareholders by the weighted average number of Ordinary shares outstanding during the year, excluding unvested shares held pursuant to The Gym Group plc Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan and The Gym Group plc Long Service Award Plan (see note 26).

Diluted earnings per share is calculated by adjusting the weighted average number of Ordinary shares outstanding to assume conversion of all dilutive potential Ordinary shares. During the year ended 31 December 2018, the Group had potentially dilutive shares in the form of share options and unvested shares issued pursuant to The Gym Group plc Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan and The Gym Group plc Long Service Award Plan (see note 26).

	2018	2017
Basic weighted average number of shares	**133,301,917**	128,105,275
Adjustment for share awards	**1,569,233**	416,773
Diluted weighted average number of shares	**134,871,150**	128,522,048
Basic earnings per share (p)	**5.4**	5.6
Diluted earnings per share (p)	**5.3**	5.6

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

	2018 £'000	2017 £'000
Profit for the year	**7,206**	7,171
Amortisation of intangible assets	**2,051**	1,175
Exceptional administration expenses	**2,343**	1,664
Tax effect of above items	**(370)**	(483)
Adjusted earnings	**11,230**	9,527
Basic Adjusted Earnings per Share (p)	**8.4**	7.4
Diluted Adjusted Earnings per Share (p)	**8.3**	7.4

9. Employee information

	2018 £'000	2017 £'000
Wages and salaries	**14,844**	11,674
Social security costs	**1,560**	1,165
Employers' pension costs	**380**	314
Long term employee incentive costs (note 26)	**1,012**	774
	17,796	13,927

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

	2018 Number	2017 Number
Operational	**343**	213
Administration	**95**	69
	438	282

10. Finance income

	2018 £'000	2017 £'000
Bank interest receivable	**22**	12
	22	12

11. Finance costs

	2018 £'000	2017 £'000
Bank loans and overdrafts	**1,483**	705
Unwinding of discount	**30**	12
Movement in fair value of derivative financial instruments	**33**	–
Amortisation of financing fees	**369**	221
	1,915	938
Capitalised interest	**(163)**	(175)
	1,752	763

The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year of 3.1% (2017: 2.9%).

12. Taxation

Tax on profit

	2018 £'000	2017 £'000
Current income tax		
Current tax on profits for the year	**2,458**	1,712
Adjustments in respect of prior years	**22**	24
Total current income tax	**2,480**	1,736
Deferred tax		
Origination and reversal of temporary differences	**69**	534
Change in tax rates	**(28)**	(78)
Adjustments in respect of prior years	**240**	(172)
Total deferred tax	**281**	284
Tax charge in the Consolidated Statement of Comprehensive Income	**2,761**	2,020

Reconciliation of tax charge

	2018 £'000	2017 £'000
Profit before tax	**9,967**	9,191
Tax calculation at standard rate of corporation tax of 19.0% (2017: 19.25%)	**1,894**	1,769
Expenses not deductible for tax purposes	**415**	329
Exceptional costs not deductible	**218**	148
Change in tax rates	**(28)**	(78)
Adjustments in respect of prior years	**262**	(148)
	2,761	2,020

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For the year ended 31 December 2018

12. Taxation continued

Deferred tax

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Share schemes £'000	Total £'000
At 1 January 2017	(475)	160	(393)	25	(683)
Prior year adjustment	171	–	–	1	172
Acquired in business combination	(921)	–	(319)	–	(1,240)
Recognised in equity	–	–	–	115	115
Recognised in income statement	(777)	(20)	137	126	(534)
Change in deferred tax rate	123	(15)	25	(55)	78
At 31 December 2017	(1,879)	125	(550)	212	(2,092)
Prior year adjustment	(240)	–	–	–	(240)
Acquired in business combination	(878)	–	(130)	–	(1,008)
Recognised in equity	–	–	–	133	133
Recognised in income statement	(412)	(18)	192	169	(69)
Change in deferred tax rate	40	–	(12)	–	28
At 31 December 2018	**(3,369)**	**107**	**(500)**	**514**	**(3,248)**

Unrecognised tax losses

The Group has tax losses of £nil (2017: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Change in tax rate

The Finance Act 2015 maintained the main rate of corporation tax at 20% for the financial year commencing on 1 April 2016 and confirmed a future rate reduction to 19% commencing on 1 April 2017. The 2016 Finance Bill announced a further rate reduction to 17% from 1 April 2020. Therefore, a blended tax rate of 19.0% (2017: 19.25%) 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.

Uncertain tax positions

The Group had no material uncertain tax provisions as at 31 December 2018 (2017: £nil).

13. Business combinations

easyGym portfolio

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

The undiscounted settlement value of the contingent consideration could be between £nil and £4.1 million. The contingent consideration has been recognised at its fair value of £0.9 million using an expected value methodology. This is a Level 3 valuation under the fair value hierarchy. No gains or losses were recognised in profit and loss during the year in relation to the liability. The valuation of the liability will vary between the potential settlement amounts dependent on the likelihood of the contingent consideration becoming payable. In measuring the estimated contingent consideration payable a range of nil to 50% probability of the relevant leases being extended has been assumed. The estimated liability has not been discounted due to the short time frame of any possible pay out.

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

13. Business combinations continued

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

	Fair value £'000
Net assets acquired:	
Intangible assets	768
Property, plant and equipment	11,705
Provisions	(360)
Deferred tax	(1,008)
Net assets	11,105
Goodwill	10,397
Total consideration	**21,502**
Satisfied by:	
Cash consideration	14,500
Deferred and contingent consideration	7,002
Total consideration	**21,502**
Net cash outflow arising on acquisition:	
Cash and deferred consideration	18,500
Net cash outflow	**18,500**

The fair values of assets acquired are provisional and will be finalised within 12 months of the acquisition date.

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

The business contributed revenues of £5.7 million and net profit of £0.7 million to the Group for the period from 4 July 2018 to 31 December 2018. The revenues and net profit associated with the Group had the business been acquired on 1 January 2018 have not been disclosed as the relevant information is not available.

Acquisition-related costs of £0.6 million were incurred in respect of the easyGym acquisition and have been included in exceptional items in note 7.

Lifestyle Fitness portfolio and Aylesbury site

On 29 September 2017, the Group acquired the trade and assets of a portfolio of 18 gyms trading under the Lifestyle Fitness brand. The property lease agreements in respect of ten of these gyms were transferred to the Group which were rebranded to operate under The Gym brand. In respect of the eight other gyms, the property leases were not immediately transferred to the Group and these gyms were operated using the Lifestyle Fitness brand under a concession agreement with the vendor whereby the Group would pay a royalty based upon a percentage of revenue together with a recharge equal to the vendor's lease rentals. The concession agreement also included an option fee totalling £1.25 million for the Group to terminate the concession agreement in respect of each gym and transfer the leasehold. During 2018 the concession agreement was terminated and the eight gyms were converted to The Gym brand. The £1.25 million option fee paid by the Group has been recognised as a contract intangible asset.

On 24 November 2017, the Group acquired the trade and assets of a single gym based in Aylesbury. The consideration for the Aylesbury acquisition included an element of contingent consideration which was payable upon the number of members at the site reaching a predetermined level. This was recognised at fair value on initial recognition using discounted cash flow ('DCF') techniques. The inputs into the DCF valuation were the undiscounted deferred consideration (£0.2 million), the discount rate (5.4%) and the payment date derived from an estimation of the date on which the membership target for the gym was achievable. During 2018 the consideration was renegotiated: £0.1 million was paid in cash and the remaining liability was released to profit and loss.

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For the year ended 31 December 2018

13. Business combinations continued

During the year ended 31 December 2018, the Group finalised the fair values of the assets and liabilities of these business combinations and has restated the 2017 amounts as shown below. The adjustments made in finalising fair values primarily relate to the recognition of provisions at acquisition.

	Lifestyle Fitness as previously reported £'000	Adjustments £'000	Aylesbury £'000	Total £'000
Net assets acquired:				
Intangible assets	1,880	–	72	1,952
Property, plant and equipment	10,283	–	476	10,759
Provisions	(295)	(470)	–	(765)
Deferred tax	(1,242)	–	–	(1,242)
Net assets	10,626	(470)	548	10,704
Goodwill	9,874	470	436	10,780
Total consideration	**20,500**	**–**	**984**	**21,484**
Satisfied by:				
Cash consideration	20,500	–	800	21,300
Contingent consideration	–	–	184	184
Total consideration	**20,500**	**–**	**984**	**21,484**
Net cash outflow arising on acquisition:				
Cash consideration	20,500	–	800	21,300
Net cash outflow	**20,500**	**–**	**800**	**21,300**

The goodwill is attributable to the workforce and the profitability of the acquired businesses where relevant. It will not be deductible for tax purposes.

14. Property, plant and equipment

	Assets under construction £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Gym and other equipment £'000	Computer equipment £'000	Total £'000
Cost						
At 1 January 2017	–	90,656	6,747	42,800	1,305	141,508
Additions	2,368	21,875	2,505	10,608	647	38,003
Business combinations	–	5,724	208	4,827	–	10,759
Disposals	–	(180)	(8)	(522)	(2)	(712)
At 31 December 2017	2,368	118,075	9,452	57,713	1,950	189,558
Transfers	(23,412)	16,403	247	6,465	297	–
Additions	23,409	10,403	827	4,143	519	39,301
Business combinations	–	9,165	183	2,357	–	11,705
Disposals	–	(191)	–	(987)	–	(1,178)
At 31 December 2018	**2,365**	**153,855**	**10,709**	**69,691**	**2,766**	**239,386**
Accumulated depreciation						
At 1 January 2017	–	18,683	3,133	19,909	746	42,471
Charge for the year	–	7,429	1,034	5,575	370	14,408
Disposals	–	(168)	(4)	(503)	(2)	(677)
At 31 December 2017	–	25,944	4,163	24,981	1,114	56,202
Charge for the year	–	9,868	1,310	8,021	511	19,710
Disposals	–	(139)	–	(892)	–	(1,031)
At 31 December 2018	**–**	**35,673**	**5,473**	**32,110**	**1,625**	**74,881**
Net book value						
At 31 December 2017	2,368	92,131	5,289	32,732	836	133,356
At 31 December 2018	**2,365**	**118,182**	**5,236**	**37,581**	**1,141**	**164,505**

15. Intangible assets

	Goodwill £'000	Brand £'000	Customer list £'000	Technology £'000	Contract £'000	Computer software £'000	Total £'000
Cost							
At 1 January 2017	45,188	2,219	3,550	776	1,709	2,472	55,914
Additions	–	–	–	–	–	2,262	2,262
Business combinations (restated)	10,780	–	1,952	–	–	–	12,732
At 31 December 2017	55,968	2,219	5,502	776	1,709	4,734	70,908
Additions	–	–	–	–	1,249	3,181	4,430
Business combinations	10,397	–	768	–	–	–	11,165
At 31 December 2018	**66,365**	**2,219**	**6,270**	**776**	**2,958**	**7,915**	**86,503**
Accumulated amortisation							
At 1 January 2017	–	1,584	3,547	776	276	1,014	7,197
Charge for the year	–	448	161	–	78	488	1,175
At 31 December 2017	–	2,032	3,708	776	354	1,502	8,372
Charge for the year	–	185	713	–	140	1,013	2,051
At 31 December 2018	–	2,217	4,421	776	494	2,515	10,423
Net book value							
At 31 December 2017	55,968	187	1,794	–	1,355	3,232	62,536
At 31 December 2018	**66,365**	**2**	**1,849**	**–**	**2,464**	**5,400**	**76,080**

Impairment test for goodwill

Each of the Group's individual gyms has been identified as a CGU. However, for the purposes of impairment testing, goodwill has been allocated to the chain of gyms or group of CGUs expected to benefit from the business combination in which the goodwill arose. In the prior year the Group was operating two chains of gyms: The Gym and Lifestyle Fitness. During 2018 all of the gyms in the Lifestyle Fitness chain were converted to The Gym brand and the Group now operates only one chain of gym.

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

	2018 £'000	2017 £'000
The Gym chain of gyms (restated)	**66,365**	55,125
Lifestyle Fitness chain of gyms	**–**	843
	66,365	55,968

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:

	2018		2017	
	Discount rate	**Growth rate**	Discount rate	Growth rate
The Gym	**9.6%**	**3.0%**	10.3%	3.0%
Lifestyle Fitness	**n/a**	**n/a**	9.8%	3.0%

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

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

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

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For the year ended 31 December 2018

16. Financial assets at fair value through other comprehensive income

	2018 £'000	2017 £'000
Unlisted securities		
Equity securities	**285**	–
	285	–

On 6 November 2017, the Group acquired an unlisted equity investment in an operating company. In the prior year the investment was reported as an available-for-sale financial asset with a carrying value of £316,000 at 31 December 2017. During 2018 a further investment of £432,000 was made. The fair value was subsequently reduced by £463,000.

This is a level 3 valuation under the fair value hierarchy and was determined based on an enterprise value calculation. This valuation assumes growth of 3.0% per annum up to year 5, with cash flows beyond that assumed to grow at 1% per annum into perpetuity. All cash flows were discounted using a post tax discount rate of 10.0%. The range of sensitivity in the valuation at 31 December 2018 to reasonably possible changes in the assumptions used is not considered to be material.

The Directors have determined that the Group's unlisted equity investment should not be accounted for as an associate. Although the Group holds a 21.6% shareholding in the investee, financial and operating policy decisions are governed by a shareholder agreement that provides voting rights based on the number of shareholders rather than the number of shares held. On the basis the Group is one of 12 shareholders, the Directors consider that the Group does not have significant influence over the investee.

17. Inventories

	2018 £'000	2017 £'000
Goods for resale	**379**	197
	379	197

18. Trade and other receivables

	2018 £'000	2017 £'000
Other receivables	**1,652**	1,642
Prepayments and accrued income	**10,260**	7,910
	11,912	9,552
Due in less than one year	**11,912**	9,037
Due in more than one year	**–**	515
	11,912	9,552

19. Cash and cash equivalents

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

20. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	**8,038**	6,845
Social security and other taxes	**390**	426
Lease incentives and rental increases	**22,607**	19,589
Accruals	**10,836**	11,525
Contract liabilities	**7,112**	5,277
	48,983	43,662

21. Borrowings

	2018 £'000	2017 £'000
Non-current		
Facility A	**10,000**	10,000
Facility B	**36,000**	28,000
Loan arrangement fees	**(835)**	(887)
	45,165	37,113
Current		
Revolving credit facility	**3,000**	–

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

21. Borrowings continued

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 currently comprises a £10.0 million term loan ('facility A') for the purposes of refinancing the Group's previous finance leases, a £40.0 million term loan ('facility B') to fund acquisitions and capital expenditure, and a £10.0 million revolving credit facility. Interest is charged at LIBOR plus a 2.5% margin.

During 2017, the Group entered into an amendment to increase the facility B commitment from £25.0 million to £35.0 million to fund the acquisition of the Lifestyle Fitness portfolio of gyms.

During the year, the Group entered into an amendment to the facility to increase the facility B commitment from £35.0 million to £40.0 million, and the revolving credit facility commitment from £5.0 million to £10.0 million.

Covenants

The Group is subject to financial covenants in relation to facility A, facility B and the revolving credit facility. The covenants relate to leverage and interest cover. The Group has been in compliance with all of the covenants during the periods under review. Breach of the covenants following a cure period would render any outstanding borrowings subject to immediate settlement.

Available facilities

The total borrowing facilities available to the Group are:

	2018 £'000	2017 £'000
Facility A	**10,000**	10,000
Facility B	**40,000**	35,000
Revolving credit facility	**10,000**	5,000
	60,000	50,000

Facilities undrawn and available are:

	2018 £'000	2017 £'000
Facility B	**4,000**	7,000
Revolving credit facility	**7,000**	5,000
	11,000	12,000

The loan maturity is as follows:

	2018 £'000	2017 £'000
Within one year	**3,000**	–
Between two and five years	**46,000**	38,000
	49,000	38,000

22. Provisions

	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2017	544	–	544
Business combinations (restated)	95	670	765
New provisions	89	247	336
Unwinding of discount	12	–	12
At 31 December 2017 (restated)	740	917	1,657
Business combinations	143	217	360
New provisions	242	462	704
Utilisation of provisions	–	(917)	(917)
Unwinding of discount	20	–	20
At 31 December 2018	**1,145**	**679**	**1,824**
Due in less than one year (restated)	–	917	917
Due in more than one year (restated)	740	–	740
At 31 December 2017 (restated)	740	917	1,657
Due in less than one year	–	679	679
Due in more than one year	1,145	–	1,145
At 31 December 2018	**1,145**	**679**	**1,824**

During the year ended 31 December 2018, the Group finalised the fair values of the assets and liabilities of business combinations as detailed in note 13. The adjustments made in finalising fair values primarily relate to the recognition of provisions at acquisition and are restated above.

Other provisions comprise estimated costs arising from the restructuring activities associated with changing the Personal Trainer operating model within the business and for remedial works associated with the removal of asbestos at acquired sites.

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For the year ended 31 December 2018

23. Financial instruments

Fair value hierarchy

IFRS 7 requires fair value measurements to be recognised using a fair value hierarchy that reflects the significance of the inputs used in the value measurements:
Level 1: inputs are quoted prices in active markets
Level 2: a valuation that uses observable inputs for the asset or liability other than quoted prices in active markets
Level 3: a valuation using unobservable inputs i.e. a valuation technique

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

Fair values

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

	2018		2017	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Held at amortised cost				
Trade and other receivables	1,652	1,652	1,642	1,642
Cash and cash equivalents	3,027	3,027	457	457
Trade and other payables	(18,874)	(18,874)	(18,370)	(18,370)
Borrowings	(49,000)	(49,000)	(38,000)	(38,000)
Held at fair value				
Financial assets at fair value through other comprehensive income	285	285	–	–
Derivative financial instruments	169	169	–	–
Other financial liabilities	(3,002)	(3,002)	(184)	(184)

The fair value of available-for-sale assets at 31 December 2017 has not been disclosed as it could not be reliably measured since the investment is unquoted and relates to a business in the early stages of its operations. Further details of the measurement of the fair value of other financial liabilities, being contingent consideration, are given in note 13.

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:

	2018 £'000	2017 £'000
Total borrowings	49,000	38,000
Less: cash and cash equivalents	(3,027)	(457)
Net debt	45,973	37,543
Total equity	159,488	136,292
Total capital	205,461	173,835
Gearing ratio	22%	22%

Financial risk management

The Group has exposure to the following risks from its use of financial instruments:
- Market risk
- Liquidity risk
- Credit risk

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

23. Financial instruments continued

Market risk

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

The sensitivity analysis in the following sections relates to the position as at 31 December 2018 and 2017. The analysis has been prepared on the basis that the amount of net debt and the ratio of fixed to floating interest rates of the debt and derivatives are all constant.

Interest rate risk

Interest rate risk is the risk that the fair value of 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 2018 and 2017 all of the Group's borrowings were at floating rates of interest.

On 9 November 2018 the Group entered into an interest rate cap with a notional amount of £27.2 million, a term of four years and a strike rate of 1.75% with reference to three month GBP LIBOR. Therefore 56% of the Group's borrowings were hedged against interest rate fluctuations as at 31 December 2018 (2017: nil%).

The Group is not expecting any reduction in interest rates over the next 12 months.

The reduction in profit before tax of a reasonably possible increase in LIBOR is as follows:

	2018 £'000	2017 £'000
Change in interest rates of 0.5%	**245**	190

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:

	2018				
	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	**18,874**	**–**	**–**	**–**	**18,874**
Borrowings	**4,663**	**47,524**	**–**	**–**	**52,187**
Other financial liabilities	**3,002**	**–**	**–**	**–**	**3,002**
	26,539	**47,524**	**–**	**–**	**74,063**

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

Credit risk

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

24. Derivatives and hedge accounting

On 9 November 2018 the Group entered into an interest rate cap with a notional amount of £27.2 million and a strike rate of 1.75% with reference to three month GBP LIBOR.

Derivatives are only used for economic hedging purposes and not as speculative investments.

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 23.

The fair value loss during the year was £44,000. £33,000 has been recognised within finance costs and £11,000 has been recognised directly in equity in the hedging reserve.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group's interest rate cap has similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans, therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the cap.

Hedge ineffectiveness will arise from changes in probability of the hedged transactions occurring, or if there are changes in the credit risk of the derivative counterparty.

25. Issued share capital and reserves

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.0001 each	**14**	12
Own shares held		
Deferred Ordinary shares of £1 each	**48**	48

On 13 June 2018, a total of 9,677,420 new Ordinary shares of 0.01 pence each were placed by Numis Securities Limited at a price of 248 pence per share, raising gross proceeds of approximately £24.0 million (before expenses).

The number of Ordinary shares in issue is as follows:

	2018	2017
Ordinary shares of £0.0001 each	**137,782,695**	128,105,275
Deferred Ordinary shares of £1 each	**48,050**	48,050

In addition, 178,170 Ordinary shares of £0.0001 each are held by an employee benefit trust (2017: 151,667).

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

Own shares held and capital redemption reserve

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

Share premium

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

Hedging reserve

The fair value movements on the effective portion of hedging instruments.

Retained earnings/deficit

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

26. Share based payments

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

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

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 £797,000 (2017: £655,000) in respect of the Group's share based payment arrangements and related employer's national insurance of £215,000 (2017: £119,000).

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

Scheme name	Outstanding at 1 January 2018	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	**Outstanding at 31 December 2018**	**Exercisable at 31 December 2018**
Performance Share Plan	1,351,735	823,573	(195,368)	–	**1,979,940**	**134,297**
Share Incentive Plan – Free shares	61,722	–	(11,049)	–	**50,673**	**–**
Share Incentive Plan – Matching shares	69,844	32,013	(3,741)	–	**98,116**	**–**
Restricted Stock Plan	179,291	254,444	(44,096)	–	**389,639**	**–**
	1,662,592	1,110,030	(254,254)	–	**2,518,368**	**134,297**

The exercise price of all options under the schemes held during the year is £0.01. 134,297 options were exercisable under the PSP scheme as at 31 December 2018 (2017: 134,297). No other options were exercisable as at 31 December 2018.

(a) Performance Share Plan

The outstanding awards as at 31 December 2018 will all vest within three years, subject to continued employment and the achievement of earnings per share ('EPS') and total shareholder return ('TSR') targets, with each target contributing to 50% of the vesting conditions. The vesting conditions of the Performance Share Plan awards are set out in part B of the Report to the Remuneration Committee. The maximum term of these awards is three years and settlement is in the form of shares. The fair value of the EPS element was determined using the share price at the date of grant. The fair value of the TSR element of the award was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share price performance.

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

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

	2018	2017
Weighted average share price at date of grant	**£2.33**	£1.85
Exercise price	**£0.01**	£0.01
Expected volatility	**31.4%**	29.0%
Expected term until exercised	**3 years**	3 years
Expected dividend yield	**0%**	0%
Risk-free interest rate	**0.87%**	0.11%

The weighted average fair value of each award issued under this scheme during the year was £1.92 (2017: £1.41). The weighted average remaining contractual life was 1.4 years (2017: 1.8 years) at 31 December 2018.

(b) Share Incentive Plan – Free shares

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

The options vest in full at the end of the three year period. No awards were issued in the current or prior year. The weighted average remaining contractual life was 0.3 years (2017: 1.3 years) at 31 December 2018.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

26. Share based payments continued

(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 £2.66 (2017: £1.98) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.4 years (2017: 2.1 years) at 31 December 2018.

(d) Restricted Stock Plan

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 £2.30 (2017: £1.85) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.8 years (2017: 2.3 years) at 31 December 2018.

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

(e) Long Service Award Plan

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

The options vest in full at the end of the three year period. The weighted average fair value of each award issued under this scheme during the year was £2.64 (2017: £1.85) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.8 years (2017: 2.3 years) at 31 December 2018.

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

27. Commitments and contingencies

Operating lease commitments

The Group has entered into leases on commercial real estate. These leases have an average outstanding life of 12.7 years (2017: 14.1 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:

	2018 £'000	2017 £'000
Within one year	**24,546**	18,634
Between one and two years	**25,345**	20,225
Between two and five years	**103,676**	62,296
Greater than five years	**186,240**	191,906
	339,807	293,061

Capital commitments

	2018 £'000	2017 £'000
Contracted for but not provided	**1,041**	4,205

28. Related party transactions

Identification of related parties

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

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

The subsidiaries of the Group are as follows:

Company	Principal activity	Country of incorporation	Holding
The Gym Group Midco1 Limited	Holding company	United Kingdom	100%
The Gym Group Midco2 Limited	Holding company	United Kingdom	100%
The Gym Group Operations Limited	Holding company	United Kingdom	100%
The Gym Limited	Fitness operator	United Kingdom	100%
Derwent Fitness NW Limited	Fitness operator	United Kingdom	100%
Derwent Fitness GS Limited	Fitness operator	United Kingdom	100%

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

28. Related party transactions continued

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

	2018 £'000	2017 £'000
Closewall Limited	**98**	36
	98	36
Opening balance	**36**	2
Purchases	**2,405**	3,748
Repayments	**(2,343)**	(3,714)
	98	36
Representing:		
Trade and other payables	**98**	36

All purchases in the period are in relation to Closewall Limited.

At the AGM of the Company's shareholders held on 4 June 2018, a special resolution was passed to authorise the appropriation of distributable profits to the payment of various historic dividends, to waive any rights of the Company to pursue shareholders who received the distributions or past, present or future Directors in respect of payment of the distributions and to approve entering into deeds of release in favour of such shareholders and Directors. Entry into the deeds of release constitutes a smaller related party transaction under Listing Rule 11.1.10 and a related party transaction under IAS 24 'Related Party Disclosures'.

Terms and conditions of transactions with related parties

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

Compensation of key management personnel

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

	2018 £'000	2017 £'000
Remuneration	**1,890**	2,267
Company contributions to defined contribution pension scheme	**124**	106
Share based payment charge	**890**	403
	2,904	2,776

At the year end, £2,000 (2017: £nil) was owed by key management personnel in respect of season ticket loans. At the year end, £178,000 (2017: £599,000) 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.

29. Dividends made and proposed

	2018 £'000	2017 £'000
Interim dividend of 0.35p per Ordinary share paid and declared (2017: 0.30p)	**483**	385
Final dividend of 0.95p per Ordinary share proposed (2017: 0.90p)	**1,311**	1,154
	1,794	1,539

The Board recommends a final dividend of 0.95p per share in respect of the financial year ending 31 December 2018. Shareholders will be asked to approve the dividend at the AGM on 4 June 2019, for payment on 14 June 2019 to shareholders whose names are on the register on 24 May 2019.

30. Liabilities arising from financing activities

	Borrowings £'000	Derivative financial instruments £'000
At 1 January 2017	(9,178)	–
Cash flows	(27,714)	–
Other non-cash movements	(221)	–
At 31 December 2017	(37,113)	–
Cash flows	(10,683)	213
Other non-cash movements	(369)	–
Changes in fair values	–	(44)
At 31 December 2018	**(48,165)**	**169**

COMPANY STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31 December 2018 £'000	31 December 2017 £'000
Non-current assets			
Investments in subsidiaries	4	**191,137**	161,450
Derivative financial instruments	8	**169**	–
Trade and other receivables	5	**17,000**	14,793
Total non-current assets		**208,306**	176,243
Current assets			
Trade and other receivables	5	**4,438**	70
Cash and cash equivalents		**3,001**	1
Total current assets		**7,439**	71
Total assets		**215,745**	176,314
Current liabilities			
Trade and other payables	6	**432**	427
Borrowings	7	**3,000**	–
Total current liabilities		**3,432**	427
Non-current liabilities			
Borrowings	7	**45,165**	37,113
Total liabilities		**48,597**	37,540
Net assets		**167,148**	138,774
Capital and reserves			
Issued capital	9	**14**	12
Own shares held	9	**48**	48
Capital redemption reserve	9	**4**	4
Share premium	9	**159,474**	136,280
Hedging reserve	9	**(11)**	–
Retained earnings	9	**7,619**	2,430
Total equity shareholders' funds		**167,148**	138,774

The notes on pages 106 to 109 form an integral part of the Financial Statements.

As permitted by s408 of the Companies Act 2006, the Company's profit and loss account is not presented as part of these accounts. The Company's profit for the year amounted to £6,029,000 (2017: £1,548,000).

These Financial Statements were approved by the Board of Directors on 19 March 2019.

Signed on behalf of the Board of Directors

Richard Darwin
Chief Executive Officer

Mark George
Chief Financial Officer

Company Registration Number 08528493

COMPANY STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Hedging reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2017	12	48	4	136,280	–	1,574	137,918
Profit for the year and total comprehensive income	–	–	–	–	–	1,548	1,548
Capital contributions to subsidiaries	–	–	–	–	–	655	655
Dividends paid	–	–	–	–	–	(1,347)	(1,347)
At 31 December 2017	12	48	4	136,280	–	2,430	138,774
Profit for the year and total comprehensive income	–	–	–	–	–	6,029	6,029
Capital contributions to subsidiaries	–	–	–	–	–	797	797
Issue of Ordinary share capital	2	–	–	23,998	–	–	24,000
Costs associated with the issue of share capital	–	–	–	(804)	–	–	(804)
Dividends paid	–	–	–	–	–	(1,637)	(1,637)
Changes in the fair value of derivative financial instruments	–	–	–	–	(11)	–	(11)
At 31 December 2018	**14**	**48**	**4**	**159,474**	**(11)**	**7,619**	**167,148**

The notes on pages 106 to 109 form an integral part of the Financial Statements.

Retained earnings include distributable reserves of £4,683,000 (2017: £291,000).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. General information

The Gym Group plc ('the Company') is incorporated and domiciled in the United Kingdom with company number 08528493. The registered address of the Company is 5th Floor, OneCroydon, 12-16 Addiscombe Road, Croydon, United Kingdom, CR0 0XT.

2. Summary of significant accounting policies

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

Statement of compliance and basis of preparation

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

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

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

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

New standards adopted

New standards impacting the Company for the year ending 31 December 2018 are:

- IFRS 9 'Financial Instruments; and
- IFRS 15 'Revenue from Contracts with Customers'.

Neither of these standards resulted in changes to the Company's financial results.

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 (excluding derivative financial instruments)

The Company classifies its financial assets as those to be measured at amortised cost.

The Company measures its trade and other receivables and cash and cash equivalents at amortised cost. Subsequent to initial recognition these assets are carried at amortised cost using the effective interest method net of expected credit losses. Income from these financial assets is calculated on an effective yield basis and is recognised in the income statement.

Financial liabilities (excluding derivative financial instruments)

The Company initially recognises its financial liabilities at fair value and subsequently they are measured at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities

The Company's activities expose it to financial risks associated with movements in interest rates. The Company uses interest rate hedging contracts to hedge its interest rate exposure. The use of financial derivatives is governed by the Company's treasury policies, as approved by the Board.

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

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

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

2. Summary of significant accounting policies continued

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

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

Current taxation

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

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

Deferred taxation

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

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

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

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

3. Significant accounting judgements, estimates and assumptions

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

There are no critical accounting judgements or estimates within these Financial Statements.

4. Investments in subsidiaries

	£'000
At 1 January 2017	132,795
Capitalisation of intercompany loans	28,000
Capital contribution to subsidiaries	655
At 31 December 2017	161,450
Capitalisation of intercompany loans	28,890
Capital contribution to subsidiaries	797
At 31 December 2018	**191,137**

On 17 December 2018 and 21 December 2017, The Gym Group Midco1 Limited issued share capital to the Company in consideration for the extinguishing of intercompany debt.

During the current and prior year, share options in the Company's shares were granted to employees of The Gym Group Operations Limited and The Gym Limited. Corresponding capital contributions have been recognised within investments in subsidiaries. Details of the Company's share based payment arrangements are shown in note 26 to the Consolidated Financial Statements.

The Company's subsidiary undertakings are shown in note 28 to the Consolidated Financial Statements.

NOTES TO THE COMPANY FINANCIAL STATEMENTS CONTINUED

For the year ended 31 December 2018

5. Trade and other receivables

	2018 £'000	2017 £'000
Prepayments and accrued income	**60**	37
Social security and other taxes	**5**	33
Amounts owed by Group undertakings	**21,373**	14,793
	21,438	14,863
Due in less than one year	**4,438**	70
Due in more than one year	**17,000**	14,793
	21,438	14,863

6. Trade and other payables

	2018 £'000	2017 £'000
Trade payables	**–**	80
Accruals	**432**	347
	432	427

7. Borrowings

	2018 £'000	2017 £'000
Non-current		
Bank facility A	**10,000**	10,000
Bank facility B	**36,000**	28,000
Loan arrangement fees	**(835)**	(887)
	45,165	37,113
Current		
Revolving credit facility	**3,000**	–

8. Derivatives and hedge accounting

On 9 November 2018 the Group entered into an interest rate cap with a notional amount of £27.2 million and a strike rate of 1.75% with reference to three month GBP LIBOR.

Derivatives are only used for economic hedging purposes and not as speculative investments.

For information about the methods and assumptions used in determining the fair value of derivatives, refer to note 23 to the Consolidated Financial Statements.

The fair value loss during the year was £44,000. £33,000 has been recognised within finance costs and £11,000 has been recognised directly in equity in the hedging reserve.

9. Issued capital and reserves

	2018 £'000	2017 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.0001 each	**14**	12
Own shares held		
Deferred Ordinary shares of £1 each	**48**	48

The number of Ordinary shares in issue is as follows:

	2018	2017
Ordinary shares of £0.0001 each	**137,782,695**	128,105,275
Deferred Ordinary shares of £1 each	**48,050**	48,050

Refer to note 25 of the Consolidated Financial Statements for details of movements in share capital.

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

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

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

Hedging reserve
The fair value movements on the effective portion of hedging instruments.

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

FIVE YEAR RECORD

For the year ended 31 December 2018

For definitions of these Key Performance Indicators refer to page 28. The following table sets out a summary of selected key financial information and Key Performance Indicators for the business.

	2018 £'000	2017 £'000	2016 £'000	2015 £'000	2014 £'000
Revenue	**123,884**	91,377	73,539	59,979	45,480
Group Adjusted EBITDA	**36,813**	27,963	22,691	17,016	14,688
Group Adjusted EBITDA before Pre-Opening Costs	**39,305**	30,598	24,888	19,681	16,668
Group Operating Cash Flow	**33,972**	24,677	24,944	18,616	16,514
Operating Cash Flow Conversion	**92.3%**	88.2%	109.9%	109.4%	112.4%
Expansionary Capital Expenditure	**57,551**	52,453	20,922	28,230	20,335
Net Debt	**45,973**	37,543	5,178	7,140	49,205
Net Debt to Group Adjusted EBITDA	**1.25x**	1.34x	0.23x	0.42x	3.35x
Adjusted Earnings	**11,230**	9,527	7,153	(1,107)	(4,452)
Basic Adjusted Earnings per Share (p)	**8.4**	7.4	5.6	(1.8)	(9.1)
Total Number of Gyms (number)	**158**	128	89	74	55
Total Number of Members ('000)	**724**	607	448	376	293
Average Revenue per Member per Month (£)	**14.89**	14.41	14.31	14.08	13.98
Number of Mature Gyms in Operation (number)	**89**	74	55	40	32
Mature Gym Site EBITDA	**39,181**	34,082	26,161	18,828	16,244

CORPORATE INFORMATION

For the year ended 31 December 2018

Company Secretary
Mark George

Company number
08528493

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Website
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Corporate Advisers

Bankers
HSBC Bank plc

Solicitors
Allen & Overy LLP

Auditor
Ernst & Young LLP

Broker
Numis Securities Limited

Registrar
Link Market Services Limited

NOTES

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