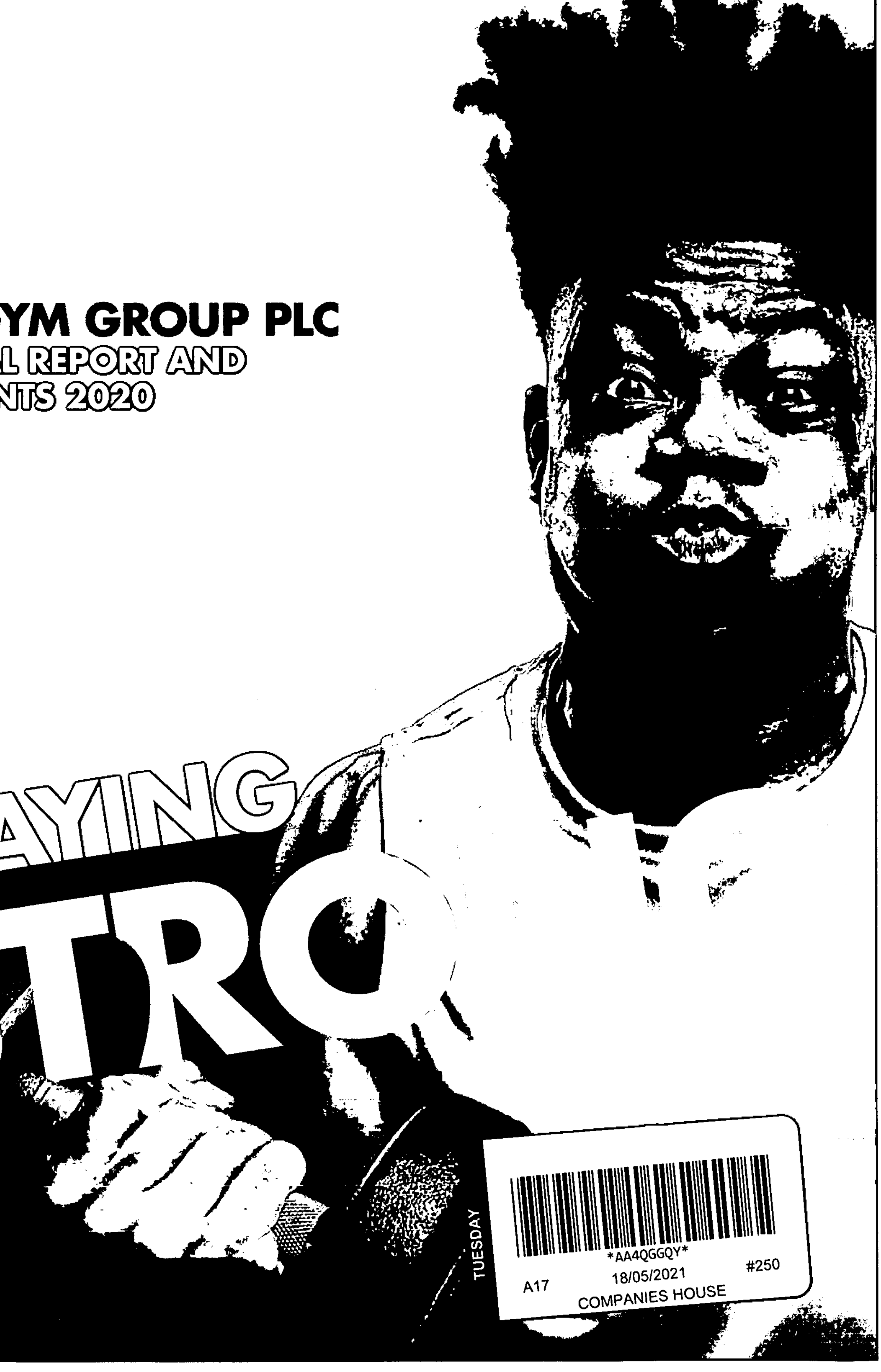
THE GYM GROUP PLC
ANNUAL REPORT AND ACCOUNTS 2020



STAYING
STRO

OVERVIEW

2020 HIGHLIGHTS

REVENUE

£80.5m

2019: £153.1m

GROUP ADJUSTED EBITDA LESS NORMALISED RENT

£(10.2)m

2019: £48.5m

STATUTORY (LOSS)/PROFIT BEFORE TAX

£(47.2)m

2019: PROFIT OF £6.2m

NON-PROPERTY NET DEBT

£(47.3)m

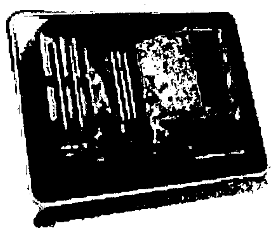
2019: £(47.4)m

STRATEGIC

- 45% of trading days lost due to COVID-19
- 8 new sites opened in the year
- Ended 2020 with £52.7m of liquidity

OPERATIONAL

- COVID protocols introduced in gyms
- Strong staff retention and engagement



MAINTAINING FOCUS

NUMBER OF GYMS

183

TOTAL NUMBER OF MEMBERS

578,000

IN 2020 WE DEMONSTRATED THE RESILIENCE OF OUR BUSINESS AND CULTURE IN THE MOST CHALLENGING OF TIMES. WE ARE READY TO RECOVER AND GROW AGAIN, BREAKING DOWN BARRIERS TO FITNESS, WHEN EXERCISE AND GOOD HEALTH HAVE NEVER BEEN MORE IMPORTANT.

CONTENTS

OVERVIEW

COMPANY OVERVIEW

OUR MOTIVATION

OUR PURPOSE

THE GYM BREAKS DOWN BARRIERS TO FITNESS FOR ALL.

OUR CULTURE AND VALUES

The unique principles and behaviours that help us achieve our purpose.

THE FIRST STEP

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

REALNESS

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

FRIENDLINESS

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

CHALLENGING YOUR LIMITS

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

OUR BUSINESS MODEL

FIT FOR THE FUTURE

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

See pages 16 and 17

OUR KEY STAKEHOLDERS

The COVID-19 pandemic has required us to work more closely than ever with our stakeholders. Our detailed report on Working with our Stakeholders is on pages 26 to 29.

	WHY THEY MATTER	HOW WE ENGAGE
EMPLOYEES	Our employees are the driving force behind our purpose and growth.	• Employee engagement surveys • Intranet and communications platform CORE with rich content for employees, and a training platform to support e-learning and knowledge sharing • Employee Assistance Programme • Launching and regularly updating employee wellbeing resources • Taking actions in the pandemic to support our people including topping up furlough payments • Regular gym visits by ExCo and Board members
MEMBERS	Happy members are what makes our gyms successful, and they inspire us every day with their achievements. They are the best indicator that we are delivering fitness for all.	• Satisfaction surveys • COVID-secure operating protocols • Health and wellness online resources • Free fitness classes in lockdown and access to online classes through our digital fitness partner Fiit
COMMUNITIES	Being a valuable part of the communities in which we operate is hugely important to us; a strong relationship between our gyms and our communities is mutually beneficial.	• Working with 4Global to calculate the social value of The Gym • Developing COVID-secure operating protocols and working with local authorities for inspections • Charity partnerships, e.g. the Movember Foundation • Diversity & Inclusion Manifesto • Signatories of the Race at Work Charter
SHAREHOLDERS	Our investors provide capital for growth, whilst providing challenge and feedback on our business model and plans for the future.	• Programme of investor relations including trading updates and results announcements twice each year, as well as additional progress updates throughout the COVID-19 pandemic • Investor engagement through one-to-one meetings and investor conferences throughout the year
SUPPLIERS	Our partnerships with suppliers ensure we source the best value goods and services for the benefit of our members.	• Engaging proactively and responsibly with landlords • Being responsible tenants • Key supplier relationship management
LENDING BANKS	Our lending banks provide funds for growth and day-to-day working capital to enable us to operate and grow our business to its full potential.	• Regular updates on Company performance • Reporting on performance versus agreed debt covenants • Completed refinancing exercises in April and December 2020 • Proactive engagement through lockdowns
ENVIRONMENT	We continually seek out opportunities to improve our environmental performance including reducing our carbon emissions; sustainability is at the core of our business.	• Alignment of our activities with UN Sustainable Development Goals ('UN SDGs') • Further developed our sustainability reporting in 2020; report available on page 30 • Implemented requirements of the Streamlined Energy and Carbon Reporting scheme

OVERVIEW

AT A GLANCE

COMPELLING OFFER

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

NUMBER OF GYMS

183

NUMBER OF MEMBERS

578,000

We are the 5th largest gym operator in Europe in terms of number of members.

STRONG GYM NETWORK

We now operate 183 sites across all regions of the UK. There remains a significant opportunity for future growth and in 2021 we plan to expand this network further, taking advantage of the fallout from COVID-19 and our position as the best capitalised gym business in the UK.

MEMBER PROPOSITION

- Market leading low-price membership
- High quality gym equipment and exercise facilities
- Convenient locations
- 24/7 access and unlimited training
- No contract
- Friendly, helpful staff and access to personal trainers
- Free group exercise classes
- Free app
- Multi-gym access, fitness tracking, on-demand fitness classes and refillable Yanga sports water all available for an added charge

INVESTMENT CASE

A GROWING MARKET FOR LOW COST GYMS

The UK health and fitness market grew significantly with 15.6% of the UK population having been a member of a gym prior to COVID. This growth was led by the low cost gym sector which was introducing new people to gym memberships for the first time every year. Whilst having a short term impact on the health and fitness sector, COVID-19 is likely to increase gym usage and headroom for significant growth remains with the number of low cost gyms in the UK forecast to almost double by 2026.

PROVEN BUSINESS MODEL ENABLED BY TECHNOLOGY AND ECONOMIES OF SCALE

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

STRONG RETURN ON CAPITAL

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

STRATEGIC REPORT

CHAIRWOMAN'S STATEMENT

PRESSING AHEAD

A CHALLENGING YEAR

For the first two months of 2020 the business traded well, achieving strong membership gains. But as is well documented, on 20 March all gyms were closed in the first lockdown period of the coronavirus pandemic.

Since then, our gyms have periodically been open and closed again according to the government rules of each of England, Scotland and Wales.

Across the estate, we have been open for members for only 55% of the trading days of the year. To manage through this crisis, fast and appropriate actions were taken to protect colleagues and members, strengthen our balance sheet, reduce our costs and other commitments and utilise government support schemes. Our primary aim has been to put our business in the best possible position to recover, be able to restart growth and be the best gym operator for accessing affordable fitness. This has been shown to be more relevant than ever within this health crisis. Whilst our gyms remain closed and with the vaccine programme providing confidence that the end of the crisis is in sight, we are prepared and ready for the recovery journey with appropriate financial and colleague resources and a determination to thrive.

Our 2020 results

Our financial results for the year have been severely impacted by the 45% loss in trading days from regional and national lockdowns, with revenue down 47.4% from £153.1 million to £80.5 million.

> "OUR PRIMARY AIM HAS BEEN TO PUT OUR BUSINESS IN THE BEST POSSIBLE POSITION TO RECOVER."
>
> PENNY HUGHES CBE, CHAIRWOMAN

As a result of significant cost saving measures, plus valuable Government support in the form of business rates relief and furlough grants, the impact on profits was mitigated as far as possible but nonetheless Group Adjusted EBITDA Less Normalised Rent fell to a loss of £10.2 million in 2020 from a profit of £48.5 million in 2019. The management team has focused on preserving cash and liquidity to maintain balance sheet strength through the crisis; tight cash management, a well-supported equity raise and an increase in our debt facilities enabled us to end the year with net debt of £47.3 million vs total borrowing facilities of £100.0 million.

Managing through the pandemic for our stakeholders

In this report we provide more detail of the progress we made in 2020 in terms of sustainability, which has always been at the root of our business. Our purpose is well aligned with Promoting Health and Wellbeing, one of the 17 UN Sustainability Goals, and our values and strong focus on business ethics are part of our DNA. This was evident in our work to engage with and support all stakeholders throughout the pandemic crisis, in the ultimate belief that this is central to the sustainable success of our business. We are excited to publish in this report the social value our business creates every year, a measure that is perfectly aligned with our business purpose and highlights the significant positive impact we have on the communities we serve.

We have sought to manage through the pandemic for our stakeholders, providing a safer environment for our members to work out, clear communication for our people, working with our suppliers and landlords and engaging with our shareholders and lending banks.

We have had first class communication with members and froze membership so they need never worry that we would charge them when our gyms were closed and supported them during lockdown with free online classes. When we reopened our member satisfaction reached new highs as members appreciated the physical and mental wellbeing benefits of being back in the gym with high confidence in the safety procedures we put in place. We have developed our COVID-secure operating protocols to give our members confidence to return to gym settings, and have been pleased to see very low incidence of COVID-19 cases attributed to the UK fitness and leisure sector since first reopening in July, as reported by ukactive in December 2020.

We have kept colleagues engaged, even when so many have been furloughed for large periods of the year, and been open in our communication through some difficult but necessary restructuring. With our 'People First' mindset we rolled out training programmes for all employees focusing on their health and wellbeing. We also have maintained our important work on Diversity & Inclusion, signed up to Business in the Community's ('BITC') Race at Work Charter and launched our Diversity & Inclusion Manifesto. We have worked with suppliers and landlords to negotiate agreed outcomes through these extraordinary and changing events. Our lending banks have shown support and flexibility in providing financial capacity and our shareholders readily supported an equity raise.

We are looking forward to continuing our engagement with our stakeholders in 2021 to further inform them of our sustainability strategy and to build together on the foundations laid.

Our shareholders

Like most businesses severely affected by the pandemic, given macro uncertainty we did not pay a final dividend in relation to 2020. We have made strong efforts to be transparent and timely in our reporting to keep our stakeholders informed of our robust position and actions in the face of the pandemic. Our Executive Directors lead shareholder dialogue, but given all circumstances, I proactively communicated with our top shareholders towards year end to check in for feedback. They were unanimous in their satisfaction with the way decisions had been taken and events managed and I held a number of follow-up conversations which were supportive and focused on the fundamentals of our business to recover and indeed to be even more competitive in tougher economic times. Whilst our share price, along with most hospitality, leisure and travel companies, was impacted by wider pandemic related concerns through the year, some recovery is evident as newsflow has improved with the progress on vaccinations. We remain focused on delivering for shareholders and pleased that more colleagues participated in the Savings-Related Share Option Scheme ('Sharesave') than in 2019, aligning colleagues and shareholder interests even more closely.

Our work as a Board

Katy Tucker joined our business as Company Secretary in January and has served a more than busy period as the Board in the initial crisis period met weekly and has maintained more frequent communication and decision making as required throughout the year. I am grateful to Board colleagues who also readily gave up their Directors' fees in Q2 to show leadership and support in a financially stressed year. For much of the year, in addition to achieving financial resilience, our work focused on taking the right actions to reopen gyms safely and welcome back members and colleagues. Our work later in the year has focused on the judgements to restart growth and prepare for regaining members in large numbers.

We have also worked on Board composition. The report of the Nomination Committee provides a fuller description of our decisions. The business has benefited from continuity at Board level since IPO five years ago but we agreed it was time to start rotation and to attract new skills and experiences to our team. I am delighted that Rio Ferdinand and Wais Shaifta have joined the Board and I am excited by the different perspectives they bring as we rethink how we can be more relevant in our pursuit of affordable fitness for all. At the same time I am enormously grateful for the support Paul Gilbert has shown to me and to the business in the nine years he has served, first as Chair during private equity ownership and then as the Senior Independent Director since IPO. He has done more than most in shaping this business from near start up to the enterprise it is today. He retires at our AGM in May with our best wishes and thanks. I am pleased that Emma Woods & David Kelly have readily taken on significant responsibilities to Chair the Remuneration & Audit committees respectively and Emma as Senior Independent Director.

Strategic confidence

Whilst our financial condition has been impacted by the pandemic – with higher levels of debt and lower membership than planned – we remain as confident as ever in our proposition. Providing affordable fitness for all through gym membership is even more relevant as society is encouraged to improve health through physical and wellbeing activity and looks for great value for money in harder economic times. We are sufficiently confident that we have prudently maintained our pipeline growth and have the experience and plans to address the challenge of recovering membership levels. Whilst it will take time to recover from the impact of COVID-related closures, our longer term strategic outlook and opportunity is as strong as ever.

We recognise that the COVID-19 pandemic has caused considerable hardship and strain for many people, and it has affected our stakeholders in different and often difficult ways. On behalf of the Board and everyone at The Gym I would like to extend our sympathies to all of our people, stakeholders and supporters who have been impacted by this crisis.

Finally, congratulations and thanks to our leadership team, led by CEO Richard Darwin, who managed calmly through unprecedented circumstances. On behalf of the Board our thanks to them and to all colleagues, members, suppliers and landlords, banks and shareholders for your support, flexibility and encouragement through 2020 and the year ahead.

Penny Hughes
Chairwoman
18 March 2021

STRATEGIC REPORT

CHIEF EXECUTIVE'S REVIEW

LOOKING FORWARD

2020 was the most challenging year for our business in its 12-year history.

We entered the year in a strong position with 794,000 members and low gearing of less than 1.0x EBITDA. Our approach throughout the year has been to ensure that our business exits the crisis in a strong position, well-placed to welcome our members back to their gyms and to take advantage of an altered competitive landscape. Decisions taken have been for the long-term benefit of the business.

Our February 2021 membership is 547,000 and with a reopening date of 12 April announced, we are confident that these actions have given us as strong a base as possible from which to rebuild our membership. Our gearing remains manageable and having successfully refinanced during the year we have the flexibility to deliver on our plans. This health crisis has demonstrated the importance of physical activity for all of the UK population. As a result, we are confident about future demand for our low-cost product as part of the ongoing trend for people to lead healthier lifestyles.

The COVID-19 pandemic meant 45% of our trading days in 2020 were lost to closures from government restrictions; 2021 has started with a further national lockdown once again closing the entire estate.

"OUR APPROACH HAS BEEN TO ENSURE THAT OUR BUSINESS EXITS THE CRISIS IN AS STRONG A POSITION AS POSSIBLE."

RICHARD DARWIN, CEO

For a low cost gym business such as ours, periods of closure mean virtually no membership acquisition and increased attrition immediately after the closure announcement (although this has lessened with the later lockdowns as we reach a core level of loyal members). As we have seen from previous reopenings, the benefit of a subscription business such as ours is the ability to restart member payments from the day of opening.

There are three groups of stakeholders that deserve particular thanks for helping us to manage through this crisis. First, our team responded with speed and agility to adapt to the initial crisis and to get us ready for the post-COVID operating environment. This included locking down the estate to reduce cash burn when it first closed in March and then, prior to reopening, adapting our model to make the estate COVID-secure for our members. Second, our thanks also go to our major suppliers, including our cleaning firms, equipment suppliers, contact centre operators and vending suppliers who all furloughed staff to ensure that contractual costs were minimised. Third, and by no means least, we are grateful for the decisive actions taken by the UK Government to support our sector through 2020 and into the new year – without the immediate relief from furlough, rates relief and VAT deferral, businesses such as ourselves would have been in a very different financial situation. At the peak of the closure we have had over 95% of our workforce in the gyms and central support on furlough. Along with rates relief government support in 2020 has been worth £16.0 million.

Our financing partners have also been supportive through the crisis. In April we boosted our liquidity with an equity placing supported by our shareholders raising net proceeds of £39.9 million – this was an important part of our COVID recovery plan. At the same time our syndicate of three leading banks agreed an additional £30 million of debt facility which has now been extended to a two-year term. This increased total available bank facilities to £100 million and along with the equity raise gave us good levels of liquidity to see us through the crisis and for us to be able to continue with a limited amount of expansionary capital spend. At the end of 2020 our Net Debt was £47.3 million – the same level as the beginning of 2020 – enabling us to enter this latest national lockdown in 2021 with a good level of liquidity. Again, we are thankful for the support of our investors and banks. As part of our measures to preserve cash, we have halted dividend payments.

Through the crisis, the business has demonstrated its agility in being able to adapt its ways of working to deal with the COVID restrictions placed on our business. We were assisted in this by working with the Advanced Wellbeing Research Centre at Sheffield Hallam University who performed a review of our COVID procedures. These measures included the purchase of screens placed in front of banks of cardio equipment to reduce the spread of aerosols and specialised cleaning equipment to make the cleaning of equipment more efficient. The government guidelines limit capacity to 100 sq. ft. per member and we are able to accommodate this through limiting entry where necessary using the existing technology embedded in the gyms' entrance portals. The guidelines have also required social distancing which has been possible through markings on the floor and the goodwill of our members. Our large well-ventilated facilities with an average size of 16,500 sq. ft. mean that we have been able to keep to original 2 m social distancing guidelines. Our procedures have demonstrated to our members the important steps we have taken to make our gyms a safe place to work out and are an important way of giving them confidence to continue with their routine of coming to the gym.

The measures we have put in place have been welcomed by our members and in the period of opening we have seen member satisfaction scores around 10% higher than pre-COVID. As a sign that member confidence is growing, visits per member also increased during August and September to a point where members were using the gym on average 1.2 times per week, a level higher than the previous year. Independent surveys also recognise that there is a group of ex-members who intend to return but will only do so once the risk from COVID-19 is reduced and the vaccine is rolled out. Given the progress the UK government is making on the vaccine rollout, this gives us confidence about our ability to recover previous levels of membership once we are open.

NUMBER OF GYMS

183

NUMBER OF MEMBERS

578,000

The financial results in 2020 were substantially impacted by the periods of closures, which reduced trading days by 45%. Revenue was £80.5 million (2019: £153.1 million) down 47% vs 2019 and our Group Adjusted EBITDA Less Normalised Rent was £(10.2) million down from £48.5 million in 2019. There was a statutory loss of £36.4 million (2019: profit of £3.6 million). These results show the significant operational gearing within our business mitigated in the year only by the government assistance and the substantial cost saving measures implemented. We have slowed down our rollout as a result of the pandemic, preserving liquidity to cope with a rapidly changing crisis. During the year we opened eight sites, with four opened prior to start of the pandemic and four in August once contractors were able to resume on sites. This brought our portfolio up to 183 sites at year end. In addition, we completed significant refurbishments of two of the former easyGym sites in London at Fulham and Oxford Street. Oxford Street in particular will be a real flagship for our business; it includes all the latest equipment and showcases our new virtual group exercise concept. In 2021 we will have three new gyms opening in April and one further gym in May, with four additional locations going on-site shortly.

STRATEGIC REPORT

CHIEF EXECUTIVE'S REVIEW

CONTINUED

"AT AN EARLY STAGE IN THE CRISIS, WE DECIDED WE WOULD PUT SUPPORT OF OUR TEAMS AT THE CENTRE OF OUR ACTIONS, TO ENSURE WE EMERGE FROM THE PANDEMIC IN A STRONG POSITION"

RICHARD DARWIN, CEO

REVENUE

£80.5m

GROUP ADJUSTED EBITDA LESS NORMALISED RENT

£(10.2)m

We remain very confident about our long term positioning in the market. We are the only listed health and fitness operator and with low levels of gearing we present a strong covenant for landlords. Our immediate priority is to secure high quality opportunities in locations that have traditionally been difficult for us to find affordable sites and we are increasingly being offered these excellent sites by landlords on attractive terms. In addition, we expect to attract displaced members from other gyms that have closed as a result of the pandemic. The landscape has changed significantly with around 20% of local authority sites not reopening and further difficulties for mid-market and premium operators. The size of the low cost sector has been stable in 2020 with 735 sites in total (2019: 728 sites) but as the impact of the pandemic recedes, we believe that the high quality low cost operators have strong opportunities for growth and the market will return to expansion once again.

Strategic priorities

As we enter a recovery period, our strategic priorities are based around two key initiatives:

i) Rebuilding our membership
ii) Securing a high quality new site pipeline

i) Rebuilding our membership

Key to our recovery will be a strong uplift in membership numbers, recovering the many thousands who have left over the past year. We are very experienced in executing plans to grow membership numbers both in our normal seasonal trading and when opening new sites, and we will use this experience over the months to come. The pandemic has reduced our site membership on average to the levels that sites would have reached a few months after opening. Sites typically have a two-year maturation profile so we now expect that as part of the recovery, sites will need to go through a maturation phase once more and our success recovering from the pandemic will be reflected in how far we can shorten this maturation profile. Our average price point is now £18.81 which makes us very competitive within the low cost market and we anticipate that this attractive price point will underpin the recovery in membership levels in a difficult economic environment. All sites that were open at the start of 2020 have lower membership levels today than before the pandemic although not all sites have been impacted equally; some of the city centre sites have experienced higher levels of membership loss and the start of their sustained recovery period will depend on the return to offices in the city centres.

As part of our preparations for rebuilding our membership, we have continued throughout this period to invest in and enhance our technology capability and improve our central infrastructure – this is a fundamental requirement for operating a strong low cost business at scale. The key development for 2021 is to build a new website which we plan to launch in the autumn. A new website will give us a number of advantages enabling improved web merchandising, the ability to create new products as well as improved upsell and SEO capability. In 2020 we concentrated the technology advances around supporting the COVID operating experience for members. Contactless entry through the use of QR codes on our app was introduced upon reopening – member acceptance of this development has been very strong. Our app has also been enhanced to include a busyness tracker that enables members to see how busy the gyms are at any point in time.

I am very confident that the strength of our technology team and their innovation will continue to drive competitive advantage in this area over the coming years.

We have also taken the opportunity to review our member value proposition to ensure that our future product is even more relevant to our members in the post-COVID world. As we approach 200 sites we will maximise the benefits of product consistency across the whole estate. Part of the work includes the relaunch of our group exercise offer, where a common range of classes will enable consistent quality of delivery across the business. We have also launched a new virtual group exercise product in two sites, Oxford Street and Tottenham White Hart Lane, using online classes provided by our partner, Fiit. The virtual content supplied by Fiit is part of a wide ranging partnership that also includes discounted Fiit membership to our members available through our website. We intend to offer a combination of virtual and in-person content in more sites as we extend this trial further across the estate.

ii) Securing a high quality new site pipeline

We believe there is a compelling opportunity for our business as the nation emerges from the pandemic and as a result, we have been building our pipeline even during the periods of closure. As a result of retail closures, we are seeing the availability of more high quality sites at good levels of rent. Some of the planned sites in 2021 are locations where we have traditionally struggled to find sites but in the current situation are now available to us on attractive terms, including Oxford, Cambridge and York. Small box sites – sites of c.8,000 sq. ft. – are also a good opportunity to accelerate our growth; we currently have three small box sites open with further sites planned this year. In the future our plan is to have formats that cover a range of sizes from large box at 16,000 sq. ft. and above to small box of 7,000-8,000 sq. ft. This flexible approach combined with the improving property market will enable us to cover large parts of the country and extend our offer of affordable fitness to as much of the UK population as possible.

"WE'RE DELIGHTED THE GYM HAVE ADOPTED THE SOCIAL VALUE CALCULATOR, WHICH USES 5 YEARS OF RESEARCH FROM SHEFFIELD HALLAM UNIVERSITY TO MEASURE THE INDIVIDUAL AND SOCIETAL BENEFITS RESULTING FROM PHYSICAL ACTIVITY."

DR CAROLINE DALTON, THEME LEAD FOR LIVING WELL WITH CHRONIC DISEASE, SHEFFIELD HALLAM UNIVERSITY

As the pandemic struck, we were beginning to realise some of the benefits of the New Gym Team model that was rolled out in 2019, where Fitness Trainers work for us in a part-time capacity 12 hours per week. The model showed its worth in an additional way during the crisis enabling us to place all these part-time employees on furlough. This proved to be an important source of financial support for our team – which would not have been available to them under the old model – at a time when it was not possible for them to train their clients in the gyms. As a result, we are likely to have better retention of these key team members as we reopen the estate. As we move out of the crisis, we are confident that the New Gym Team model will continue to give us benefits in improved member service, staff training, engagement and levels of compliance.

The support of our teams across our estate and in our central support has been the highlight for me of a difficult year and demonstrates the strength of the culture throughout the business. It is the main reason, along with the scale of the market opportunity, that I am so upbeat about our future potential. At an early stage in the crisis, we decided that we would put support of our teams at the centre of the actions to ensure we emerge from the pandemic in a strong position. We gave financial assistance where necessary for those on furlough but also gave clear and honest communication about the strength of our business and its future prospects. We have been rewarded by good levels of retention in the reopening period after the first lockdown, across gym managers, Fitness Trainers and central staff. And when difficult decisions were necessary, such as aligning our levels of central support to lower levels of revenue, we have been open in explaining our decision-making.

"WE PUBLISHED OUR FIRST EVER DIVERSITY & INCLUSION MANIFESTO SETTING OUR GOALS IN THIS AREA."

RICHARD DARWIN, CEO

Many of our team signalled their own belief in the prospects of the business by investing into the employee sharesave scheme. I am confident that the strength of the team and the culture of the business will help to facilitate a strong level of membership recovery once we get the green light to reopen.

I am delighted that we have recently welcomed to the Board Wais Shaifta and Rio Ferdinand as Non-Executive Directors, increasing our range of skills and experience and bringing different perspectives. Their appointments are indicative of our desire to think beyond the pandemic to create a relevant and fast growing health and fitness brand. Their appointment will, of course, also give a real boost to the work that we are doing in technology, engagement and diversity both within the business and for our members across the UK.

ESG principles have always been at the very heart of our strategy and development since we started. The first site in Hounslow was located in an area with a low income demographic and a number of the subsequent sites showed the same characteristics, bringing affordable fitness to these areas for the first time. During the last year we have pulled together all the work we are already doing across the business on ESG and formulated even stronger plans for the future. Part of this has been calculating the social value of our business – we worked with 4Global and Sheffield Hallam University to assess the social value in our last uninterrupted year of 2019. This work shows we were creating social value of over £0.5 billion per year from improved health and wellbeing and fewer demands on the NHS as a result of the workouts in our gyms. This reinforces the importance of gyms within the fabric of our society – particularly in the current situation – and the need for government to promote an active lifestyle. We also continue to make good progress in our four priority United Nations Sustainability Development Goals:

i) Promoting good health and wellbeing – we intend to publicise the social value that our gyms bring on a regular basis to inform the debate on the benefits of gyms (as set out above);
ii) Good jobs, quality education and life-long learning – this was enhanced by the launch of a new communication and learning platform for our employees in the year (CORE);
iii) Diversity and Inclusion – in 2020 we publicised our first ever D&I manifesto setting our goals in this area; and
iv) Responsibility to the environment – we completed our roll-out of LED lighting and our governance arrangements were tightened with the launch of the Health and Safety and Wellbeing Committee which I chair.

This is considerable progress given the year of disruption we have experienced and in the coming months we will invest further in this area as well as continue to articulate the benefits we continue to bring to members, colleagues and the wider community.

Our business has demonstrated its strength and resilience through the past year and continues to do so. The vaccine rollout is well under way and we now expect gyms to reopen in mid-April. By concentrating through this current lockdown on the two strategic priorities we enter this new year more confident and forward-looking in our approach as opposed to just managing the crisis. The Gym Group has a high quality offer in great locations at an affordable price and is well positioned to prosper in the coming years. The benefits to the whole nation of increased health and fitness both in terms of physical and mental wellbeing have been made all too obvious by COVID-19 and our business is ready to play a central role in helping the UK deliver on providing that at scale.

Richard Darwin
Chief Executive Officer
18 March 2021

STRATEGIC REPORT

KEY PERFORMANCE INDICATORS

REMAINING RESOLUTE

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

+4.6%

2020	183
2019	175
2018	158
2017	128

2020 performance
The total number of sites grew by 4.6% during 2020 with eight organic site openings, one of which was a small box gym.

NUMBER OF MATURE GYMS

+42.2%

2020	155
2019	109
2018	89
2017	74

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

2020 performance
The Group's progressive rollout strategy means that gyms opened in 2018, along with gyms acquired from Lifestyle in 2017 and easyGym in 2018, are considered to be mature in 2020.

TOTAL NUMBER OF MEMBERS '000

-27.2%

2020	578
2019	794
2018	724
2017	607

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

2020 performance
Total Number of Members has decreased from 794,000 at 31 December 2019 to 578,000 in 2020, despite the opening of eight sites, as a consequence of the closures and restrictions arising due to COVID-19.

AVERAGE REVENUE PER MEMBER PER MONTH £

7.4%

2020	17.20*
2019	16.02
2018	14.89
2017	14.41

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.

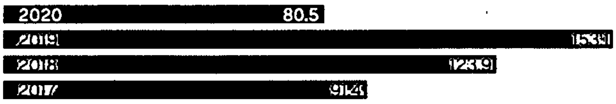
2020 performance
Average Revenue per Member per Month has increased by 7.4%, driven by a £0.36 increase in average headline price and the take-up of our premium product, LIVE IT, increasing to 22.5% (2019: 18.9%).

* Note that in order to provide better year-on-year comparability for yield, the value presented for 2020 is calculated on a site-by-site basis and excludes days where the site was required to be closed due to government restrictions. If closed days were not excluded, the Average Revenue per Member per Month presented would be £9.46.

FINANCIAL

REVENUE £m

-47.4%



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

2020 performance
Revenue for the year decreased by 47.4% due to lower member numbers and periods of enforced closure as a consequence of the COVID-19 pandemic.

EXPANSIONARY CAPITAL EXPENDITURE £m

-29.4%

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

2020 performance
Expansionary Capital Expenditure was 29.4% lower, mainly due to fewer new site openings, partially offset by the timing of supplier payments.

GROUP ADJUSTED EBITDA LESS NORMALISED RENT £m

-121.0%

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

This is an important measure used to assess performance of sites which is a proxy for cash profit and is a measure used internally and externally by investors.

Note that this measure has been revised since 2019. See footnote 1 on page 144 for further details.

2020 performance
Group Adjusted EBITDA less Normalised Rent has fallen 121.0% as a result of the significant reduction in revenue, partially offset by cost saving measures and government support.

MATURE GYM SITE EBITDA £m

-91.9%

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

2020 performance
Mature Gym Site EBITDA has decreased by 91.9% as a result of the significant reduction in revenue, partially offset by cost saving measures and government support.

GROUP OPERATING CASH FLOW £m

-141.6%

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

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

2020 performance
Group Operating Cash Flow has decreased by 141.6% as a result of the decrease in profitability.

RETURN ON INVESTED CAPITAL OF MATURE SITES %

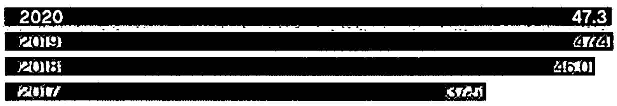
2%

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

2020 performance
Return on Invested Capital has fallen to 2% as a result of the decrease in profitability.

NON-PROPERTY NET DEBT £m

-0.2%

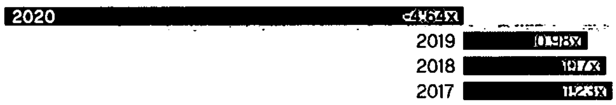


Definition
Non-Property Net Debt is defined as borrowings from bank facilities less cash and cash equivalents.

2020 performance
Non-Property Net Debt was broadly unchanged, the cash outflows from operations and capital expenditure being offset by net proceeds of £39.9m from an equity placing.

NON-PROPERTY NET DEBT TO GROUP ADJUSTED EBITDA

-4.64x



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

2020 performance
Non-Property Net Debt to Group Adjusted EBITDA has fallen despite a stable Non-Property Net Debt as a result of the decrease in profitability.

STRATEGIC REPORT

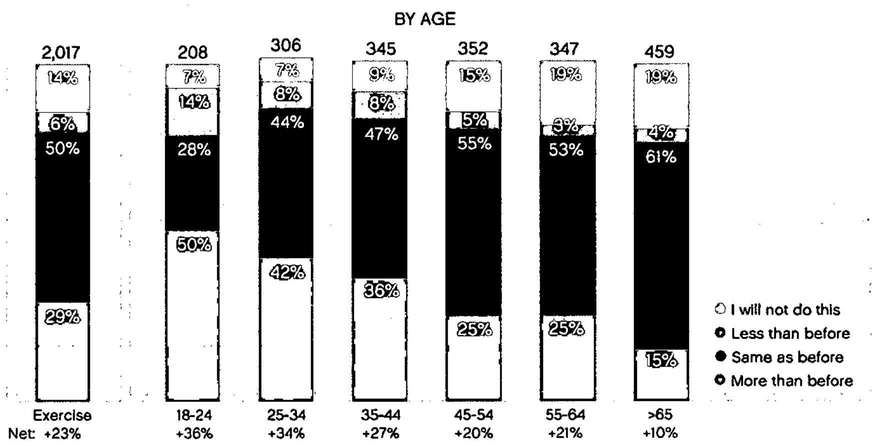
MARKET OPPORTUNITY

SEIZING THE OPPORTUNITY IN THE LOW COST GYM MARKET

The UK health and fitness industry is subject to rapid transformation accelerated by the COVID-19 pandemic. As the best capitalised national operator in the most resilient segment of the market – low cost – The Gym Group is well positioned to take advantage of growth opportunities that lie ahead.

In November 2020, the Chief Medical Officer, Professor Chris Whitty, outlined the lead role the physical activity sector will play in supporting the nation's recovery from COVID-19 at the ukactive National Summit. The Government has recognised that as a result of the impact of COVID-19 it will have to intensify its efforts in getting the nation active and launched the 'Better Health Campaign' in July 2020 when gyms were first allowed to reopen in England, focusing initially on weight loss, nutrition and activity with a view to widening the scope in future.

Anticipated change in level of exercise after COVID-19 outbreak (% of respondents)



Outlook for fitness market Strategy&

Notes: Nationally representative panel was asked *Compared to BEFORE COVID-19 restrictions, how do you anticipate your participation in the following activities will change once things return to normal?* Net calculated as proportion of respondents who selected more minus proportion who selected less. Some numbers may not sum due to rounding.
Source: Strategy & Consumer Survey

Consumer demand

The Gym Group was founded amidst the 2008 financial crisis when our low cost gyms started to offer consumers a value-for-money alternative to traditional fitness and leisure centres without having to commit to long term contracts during a time of financial uncertainty. Since then the low cost segment of the market has been driving the growth of the industry, making safe, well equipped and maintained fitness clubs available to all.

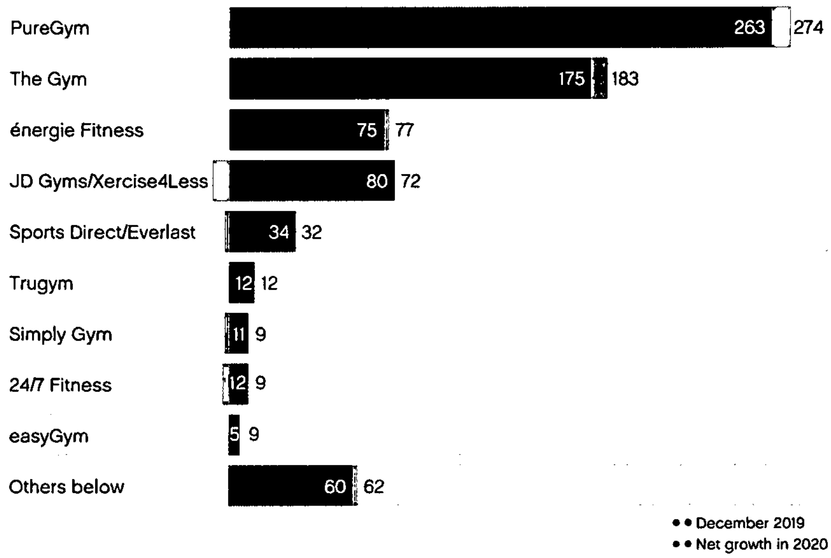
It is anticipated that whilst having a short term impact on the health and fitness sector, COVID-19 will increase gym usage in the medium and longer term as awareness of the positive impact exercise has on the immune system and general wellbeing increases. In an October 2020 PwC survey, it was found that 29% of all UK consumers said they would exercise more in the future than pre COVID-19 compared to only 6% saying they would exercise less. This number was significantly higher in the 18–24 and 25–34 age groups with 50% and 42% respectively. These age groups combined represent 65% of our membership.

As a national market leader offering a high-quality gym experience in well-invested facilities at a low price we are well placed to capture a substantial share of the demand in the UK market, supporting our recovery in 2021.

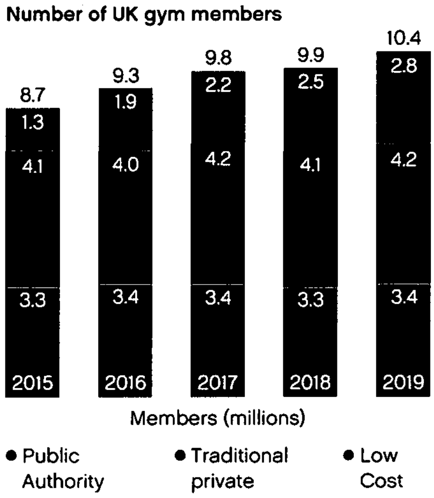
Industry supply

The extended periods of closure in 2020 took their toll on businesses that were struggling prior to the pandemic and it is evident from high-profile administrations and closures in the sector that the number of gyms in the UK, especially in the mid-market and public sector, is declining. DW Fitness sold assets of 46 sites out of administration to Everlast Fitness/Sports Direct and closed 27 facilities in the summer. Everlast continues to operate these gyms at mid-market headline rates. Xercise4Less, with 50 sites, fell into administration and was sold to JD Gyms which closed eight sites. The threat that publicly funded leisure centres are facing has been widely reported in the press with one in three at risk of closing without further financial support by the Government. Against this backdrop we have continued to expand with a further eight sites opened in 2020.

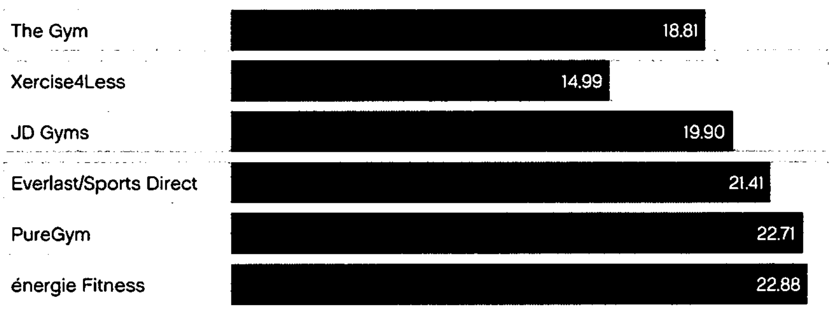
Number of low cost gyms (December 2020)



Number of UK gym members



Average headline rate (December 2020)



Note: Xercise4Less and JD Gyms are predominantly located in the north of the UK; in these regions The Gym Group's gyms are priced substantially lower than its £18.81 national average, ensuring we are highly competitive in every local market.

24.9%

MARKET SHARE

Growth potential

The stores-based retail sector had been under pressure for some time with the growth in online shopping, but the pandemic has accelerated the downturn and many once-thriving retailers have started to close stores and have been placed in administration. This often leaves landlords of retail parks and shopping centres with voids to fill and has given us access to premium sites that are now affordable within our business model. Our strong covenant and 12-year track record make us a preferred choice of tenant to many landlords.

A PwC study published in February 2019 into the total market potential for low cost gyms estimates the overall opportunity for low cost gyms to be between 1,200 and 1,400 gyms by 2026. As of December 2020 we estimate the total number of low cost gyms to be 735, resulting in additional growth potential in the market of 460–660 gyms.

Approximately 50% of the growth potential identified by PwC is in markets with a population size of 25,000–60,000 within a 10 to 15 minute drivetime which we started to target in late 2019 and early 2020 with our openings in Newark, Beverley and Lowestoft. We are planning to continue to add to these small catchment gyms in selected markets as part of our 2021 opening programme.

> **"DESPITE THE DISRUPTIONS CAUSED BY THE MULTIPLE GOVERNMENT CLOSURES, WE ADDED EIGHT NEW SITES IN 2020, GROWING OUR MARKET SHARE IN THE LOW COST SECTOR TO 24.9% AND WE ARE CONTINUING TO BUILD OUR DEVELOPMENT PIPELINE FOR 2021-22."**

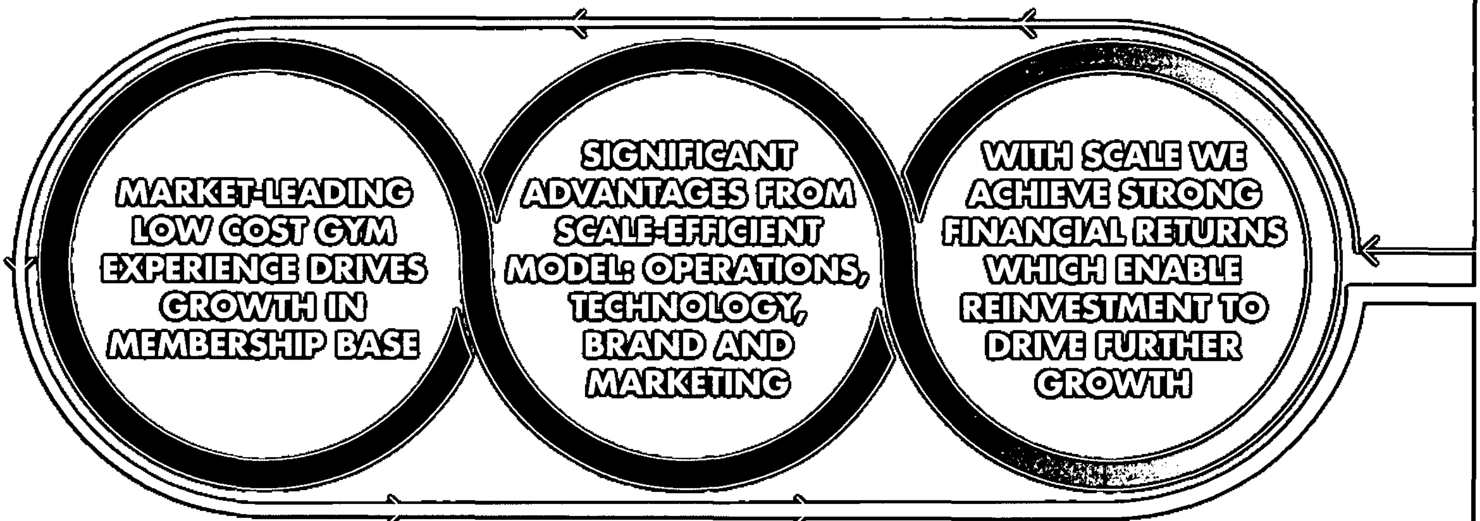
STRATEGIC REPORT

BUSINESS MODEL AND STRATEGY

FIT FOR THE FUTURE

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

WHAT WE DO



HOW WE DO IT

INITIATIVES | PROGRESS IN 2020 | RISK | PERFORMANCE MEASURES

HIGH QUALITY ESTATE

Despite the challenges of the COVID-19 pandemic we have continued to deliver growth in our gym estate, adding eight new sites, including one small box gym.

In addition, we have responded to the pandemic quickly and effectively, upgrading our entire estate to be safe, compliant and able to deliver a fantastic gym experience.

Our strong covenant has helped us further capitalise on the current distress in the property market, enabling us to secure a good pipeline of high quality sites to open in 2021.

- Organic rollout
- Operational gearing
- Regulatory

TOTAL NUMBER OF GYMS

+4.6%

2020 183
2019 175

See pages 18 and 19 for Strategy in Action

COMPELLING MEMBER EXPERIENCE

In a year defined by COVID-19, our key achievement has been successfully innovating our member experience to deliver improved levels of member satisfaction despite the need to enforce new restrictions.

LIVE IT penetration has continued to rise, with 22.5% of members subscribing to the premium product at the end of 2020.

We also launched a strategic partnership with the #1 rated fitness app, Fiit, providing on-demand workouts to our members at a 60% discount.

- Member experience

88%

satisfaction with measures we have put in place to deal with COVID-19

See pages 20 and 21 for Strategy in Action

INNOVATIVE TECHNOLOGY AND MARKETING

Continued investment into our digital experience has resulted in member app adoption and usage growing significantly. Key new features in our app include contactless entry to our gyms as well as the ability to check how busy the gym is before attending.

Timely, open and honest communication has been incredibly important throughout 2020, and our efforts have been embraced by members. Our innovative 'So I can' campaign has continued to flourish, adapting to changing circumstances and delivering topical messaging that achieves cut-through.

- IT dependency
- Data protection
- Brand reputation

400K+

active app users across Q3 and Q4

See pages 22 and 23 for Strategy in Action

UNIQUE TEAM AND CULTURE

2020 has presented a great opportunity for us to re-enforce the unique values of our business, supporting our employees through a difficult year and multiple periods of gym closure.

We have invested in two new systems; a colleague engagement platform, CORF, and a learning management tool to support our employees in developing themselves further.

Our progress is demonstrated through our reassuringly strong employee engagement measures and our Investors in People ('IIP') Gold Award.

- Attraction and retention of talent

87%

employees agree that they would recommend us as a great place to work

INVESTORS IN PEOPLE | Gold

See pages 24 and 25 for Strategy in Action

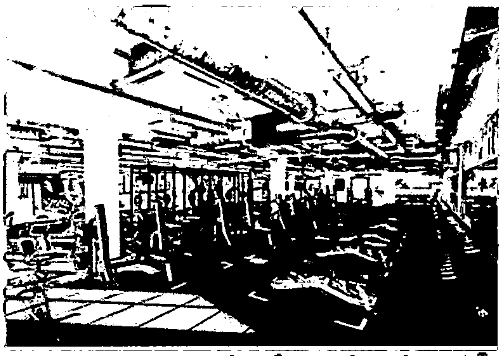
STRATEGIC REPORT

STRATEGY IN ACTION

HIGH QUALITY ESTATE

We have continued to grow our gym network in a disciplined fashion, whilst investing in our existing estate to deliver the highest standards of COVID safety and ensure a fantastic gym experience for our members.

New COVID signage



New floor markings for socially distanced equipment

New cleaning stations

COVID-SECURE GYM ENVIRONMENT

Our response to COVID-19 has been highly regarded by our members, rolling out changes to our facilities that ensure a safe and secure training environment for all. This has been vital in successfully reassuring members to return to the gym whilst ensuring we remain compliant and open.

STAYING SAFE

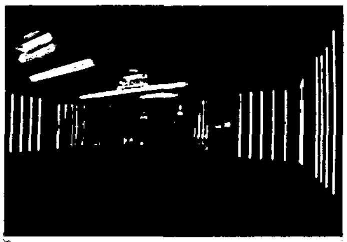
TOP-NOTCH FACILITIES AND EQUIPMENT

We pride ourselves on always delivering the highest standards of gyms, offering a wide range of top-quality equipment. We are constantly looking to enhance our blueprint, reviewing member feedback and the latest trends to ensure we deliver the best offering for our members. Our rigorous maintenance regime keeps our high quality kit in top shape for our members whilst maximising its life.

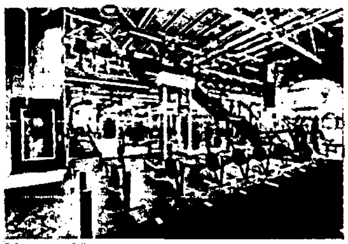
GREAT LOCATIONS

Our strong covenant continues to be highly attractive to landlords, giving us access to the best sites available in the market when very few other companies are looking to acquire new sites. Our disciplined approach to new site selection ensures we always pick prime locations, whilst remaining flexible on the space. With the distress in the commercial property market as a result of COVID-19 we have been able to build a good pipeline of high quality sites to open in 2021.

LONDON OXFORD STREET GYM:
new functional training area



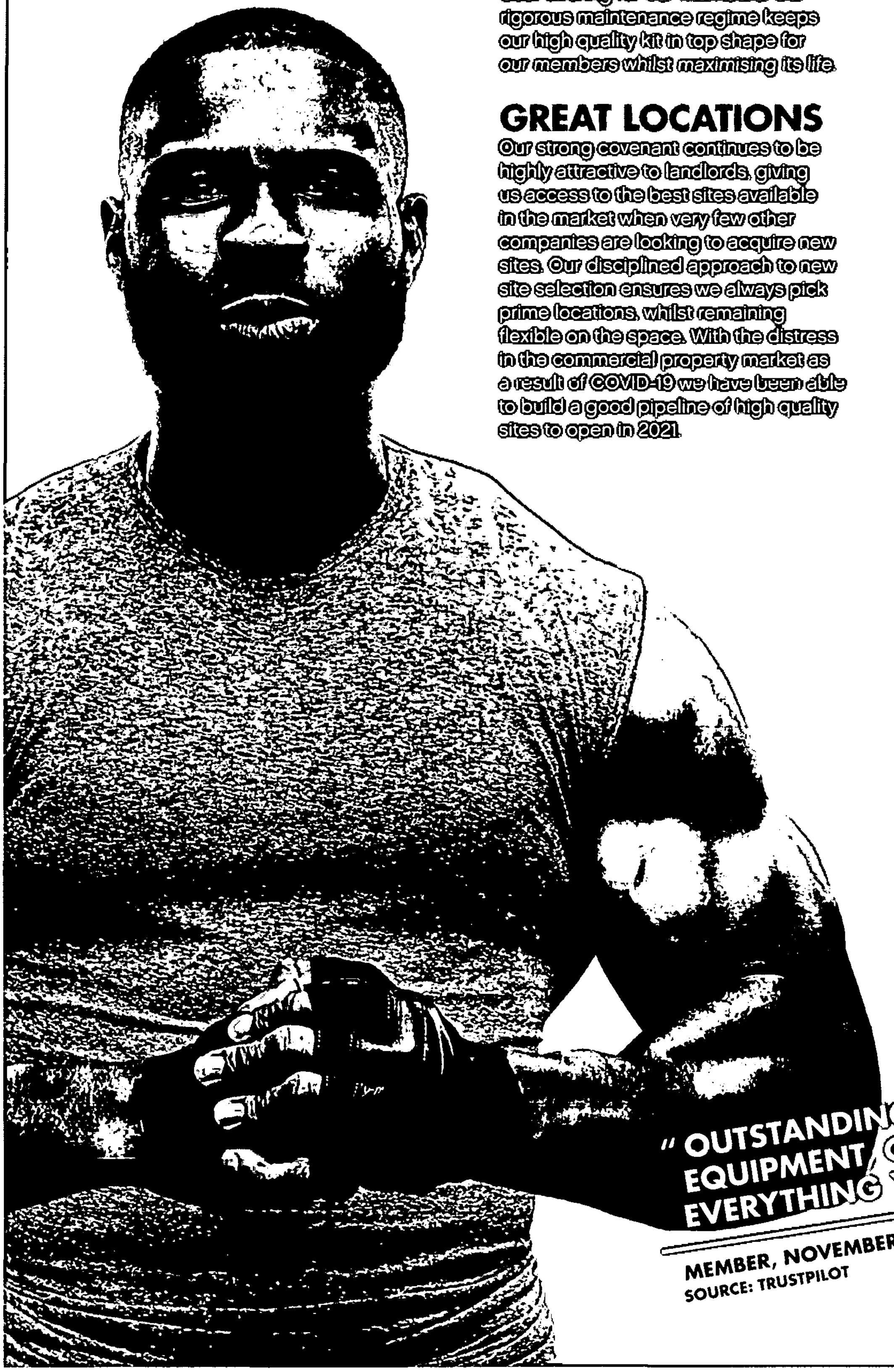
LONDON OXFORD STREET GYM:
new studio including Fiit virtual content



CATFORD:
former Carpetright – retail park

NUMBER OF GYMS

183



"OUTSTANDING GYM, AMAZING EQUIPMENT, CLEAN, MODERN, EVERYTHING YOU NEED."

MEMBER, NOVEMBER 2020
SOURCE: TRUSTPILOT

STRATEGIC REPORT

STRATEGY IN ACTION

CONTINUED

COMPELLING MEMBER EXPERIENCE

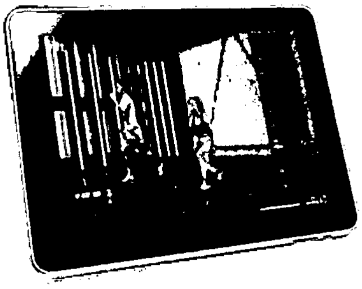
Despite a turbulent year, our low cost, 24/7, no contract proposition delivered within our friendly and inclusive gyms, continues to break down barriers to fitness for our members, whatever their age, income or goal.

MEMBER SAFETY & SATISFACTION

We track member satisfaction across each of our sites to ensure we consistently exceed expectations. The additional COVID measures we have introduced, along with our relentless focus on cleaning and safety, has seen member satisfaction increase since reopening after lockdown. 9/10 members are satisfied with the measures we have put in place to prevent the spread of COVID-19.

COVID-safe training

STAYING AHEAD



INNOVATING THE MEMBER EXPERIENCE

In addition to our compelling proposition of low cost, 24/7, no contract gyms, we are constantly looking to evolve our member experience. In March we launched a strategic partnership with digital fitness brand, Fiit, providing our members with discounted access to their #1 rated fitness app and access to over 600 high quality, interactive workouts on-demand.

INCREASED LIVE IT PENETRATION

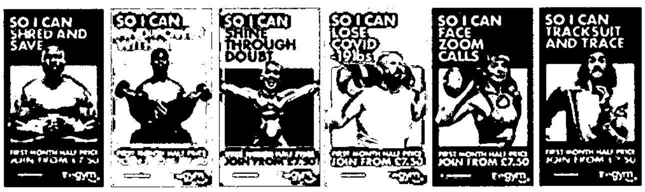
LIVE IT continues to grow in popularity with members, particularly as many people start to work more flexibly and require a gym near both home and work. In 2020 the percentage of members subscribing to LIVE IT increased to 22.5%.

MEMBERS SUBSCRIBING TO LIVE IT INCREASED TO

22.5%

IMPACT OF COVID ON THE HEALTH OF THE NATION

2020 has been a tough year for everyone, and to help people to take the first step and kick-start their journey to feeling better both physically and mentally, we offered a free two-week, off-peak gym pass to everyone in the UK with the Me-Set Campaign in December. The campaign was aligned with the UK Government's goal to make the nation more active and has been well received by the communities around our gyms.



"THE WAY IN WHICH THE GYM HAS ADAPTED AND REACTED TO GOVERNMENT RESTRICTIONS, DOING RIGHT BY THEIR CUSTOMERS AND MAKING THEIR GYMS COVID-SAFE IS INCREDIBLE."

MEMBER, NOVEMBER 2020
SOURCE: TRUSTPILOT

STRATEGIC REPORT

STRATEGY IN ACTION

CONTINUED

INNOVATIVE TECHNOLOGY AND MARKETING

Enhancements to our digital experience have resulted in a significant rise in adoption of our digital services. Our innovative and values-driven approach to marketing has been integral in supporting our members throughout a difficult year and continues to underpin rebuilding our membership numbers.

STAND-OUT, HIGH PERFORMANCE MARKETING

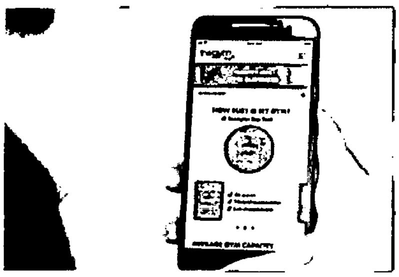
Our SO I CAN campaign continues to generate cut-through in the market while demonstrating our values, purpose and diversity. The agile nature of our marketing allows us to constantly adapt our messaging to be topical and relevant.

In a year where communication with our members has never been more important, our in-house CRM team has played a vital role in managing the closure and reopening of gyms; mitigating churn to maintain high membership numbers. Their laser focus on data gives us significant opportunity to win back lapsed members.

STAYING CONNE

ACTIVE APP USERS IN BOTH Q3 AND Q4.

400K+



ENHANCED DIGITAL EXPERIENCE:
'How busy is my gym?' feature

ENHANCED DIGITAL EXPERIENCE

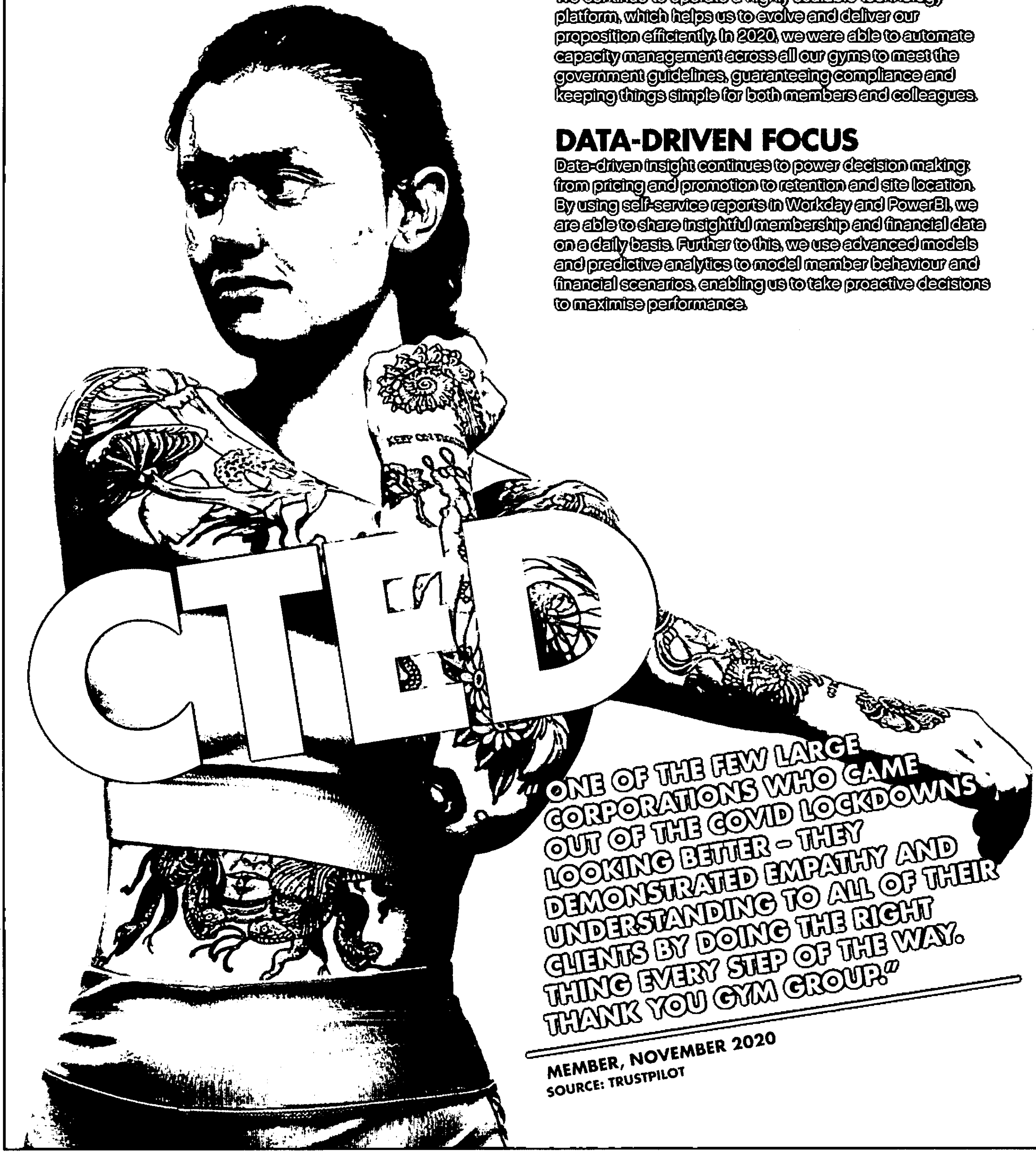
2020 has seen an increased focus and investment into our digital capability, introducing some key new roles in our team. New app features launched as part of our response to COVID-19, such as contactless gym entry and a 'gym busyness' tracker, have resulted in over 400,000 active app users in both Q3 and Q4.

TECHNOLOGY AT SCALE

We continue to operate a highly scalable technology platform, which helps us to evolve and deliver our proposition efficiently. In 2020, we were able to automate capacity management across all our gyms to meet the government guidelines, guaranteeing compliance and keeping things simple for both members and colleagues.

DATA-DRIVEN FOCUS

Data-driven insight continues to power decision making: from pricing and promotion to retention and site location. By using self-service reports in Workday and PowerBI, we are able to share insightful membership and financial data on a daily basis. Further to this, we use advanced models and predictive analytics to model member behaviour and financial scenarios, enabling us to take proactive decisions to maximise performance.



"ONE OF THE FEW LARGE CORPORATIONS WHO CAME OUT OF THE COVID LOCKDOWNS LOOKING BETTER – THEY DEMONSTRATED EMPATHY AND UNDERSTANDING TO ALL OF THEIR CLIENTS BY DOING THE RIGHT THING EVERY STEP OF THE WAY. THANK YOU GYM GROUP."

MEMBER, NOVEMBER 2020
SOURCE: TRUSTPILOT

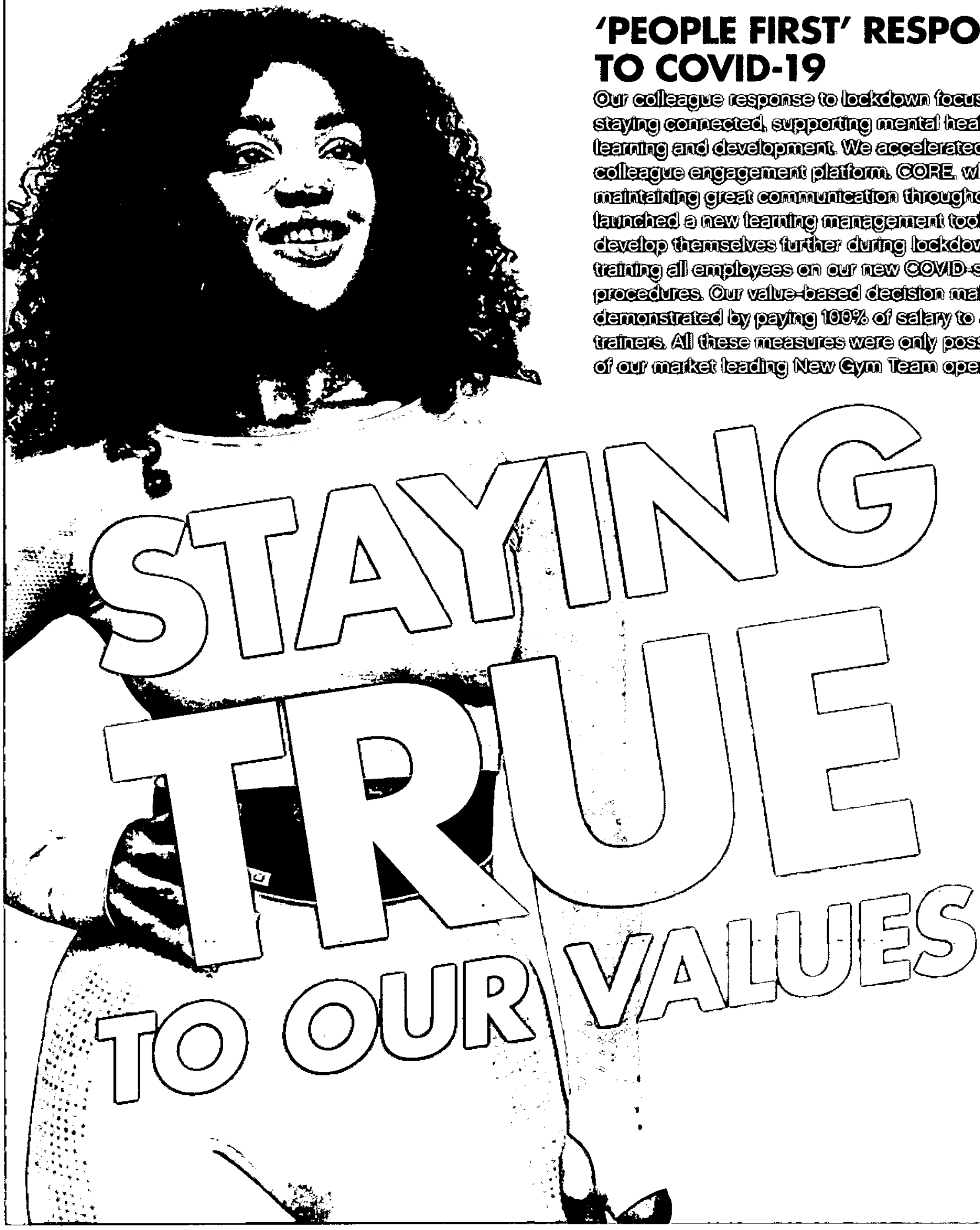
STRATEGIC REPORT
STRATEGY IN ACTION
CONTINUED

UNIQUE TEAM AND CULTURE

Our friendly, inclusive and 'people centred' culture continues to be a key part of our success and across 2020 it has been particularly important to put our unique set of values at the centre of decision making. The way in which we have supported our colleagues through lockdown, embraced new flexible ways of working and improved our focus on D&I, all demonstrates why we have retained our IIP Gold award.

'PEOPLE FIRST' RESPONSE TO COVID-19

Our colleague response to lockdown focused around three key pillars: staying connected, supporting mental health and encouraging learning and development. We accelerated the launch of a new colleague engagement platform, CORE, which was critical in maintaining great communication throughout the period. We also launched a new learning management tool, helping colleagues develop themselves further during lockdown and subsequently training all employees on our new COVID-safe policies and procedures. Our value-based decision making was further demonstrated by paying 100% of salary to all furloughed fitness trainers. All these measures were only possible due to the rollout of our market leading New Gym Team operating model.



KICKSTART

In December 2020 we launched our involvement in the government Kickstart scheme, providing opportunities for 16-24-year olds on Universal Credit to gain employment and train as qualified personal trainers. We have 30 placements under way and are looking to grow this significantly in 2021. Not only does our scheme support young people in 'taking their first step' into a fitness career, it also provides a great opportunity to sustainably source new talent into the business.

DIVERSITY & INCLUSION

Diversity & Inclusion are central to our brand purpose of breaking down barriers to fitness for all. This year we proudly launched our D&I manifesto, formalising and bringing to life our commitment as a business. The D&I manifesto was developed by a steering group of colleagues across all functions and levels of the business and has Board-level sponsorship from our Chairwoman, Penny Hughes, to ensure it continues to be a central focus in decision making.

EMPLOYEE ENGAGEMENT

In our quest to remain a people centred organisation, it is paramount that we continually ask for feedback from our employees. We have now formalised this feedback-loop, launching our employee engagement survey in September. The engagement score combines five critical measures including job satisfaction, likelihood to remain at TGG and likelihood to recommend us as a place to work. While the focus will be on continually improving these scores over time, our first result has set a fantastic baseline, outperforming the benchmark set by similar companies in our sector.

INVESTORS IN PEOPLE | Gold

RETAINED IIP GOLD AWARD

We are proud to be a people centred organisation, putting members and colleagues at the heart of what we do and why we do it. The strategic initiatives detailed in this section, along with our unique culture, have helped us to retain our Investors In People Gold Award in 2020.

"GAVE ME AN OPPORTUNITY TO GROW AND PROGRESS MY CAREER. GREAT PEOPLE AND GREAT CULTURE. ONE OF THE BEST COMPANY ENVIRONMENTS WHERE THEY ACTUALLY KNOW WHAT FLEXIBLE WORKING IS AND TRUSTED EMPLOYEES TO NOT ABUSE IT."

EX-COLLEAGUE, NOVEMBER 2020
SOURCE: GLASSDOOR

STRATEGIC REPORT

SECTION 172 STATEMENT

STAYING ENGAGED

WORKING WITH OUR STAKEHOLDERS

Board decision making

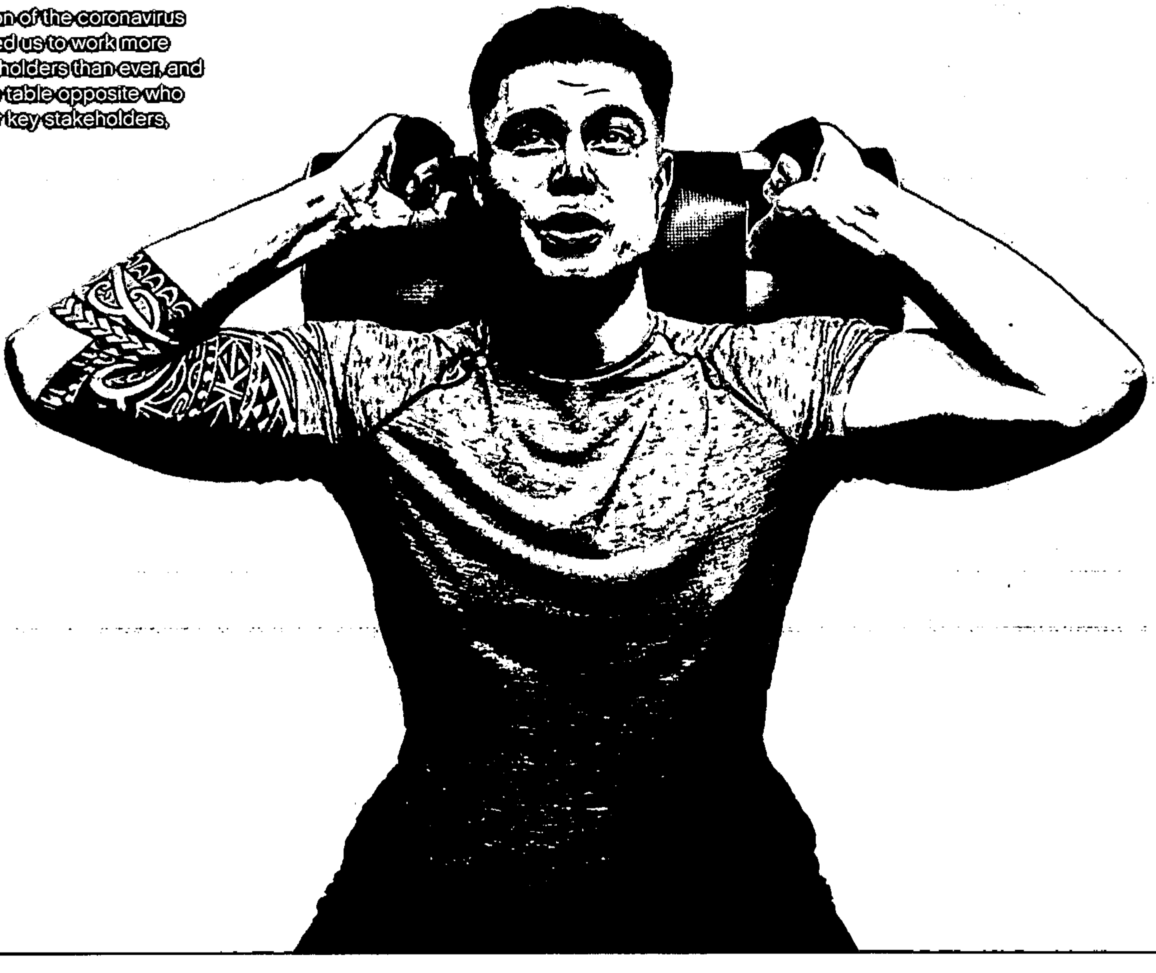
Section 172 of the Companies Act 2006 ('s.172') imposes a general duty on directors to act in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its stakeholders. Our goal is to drive value for members, colleagues and shareholders alike. The Board believes that balancing the interests of stakeholders with our corporate purpose and the desire to maintain high standards of ethical conduct is embedded in the way we do business.

The ongoing disruption of the coronavirus pandemic has required us to work more closely with our stakeholders than ever, and we have set out in the table opposite who we consider to be our key stakeholders, some key engagement areas in 2020, the outcomes of that engagement, and examples of how our stakeholders' interests influence the way we do business. In addition to our engagement processes, we also receive and respond to feedback on an ongoing basis regarding issues relevant to stakeholders, and consider how we can ensure they are kept updated on issues that are relevant to them. Where appropriate, we use this feedback to inform content of the annual report.

The Board has reserved certain matters for its own decision and these can be found on page 60. For more information on Board decision making, see page 61.

How we consider our stakeholders

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



WHO THEY ARE AND WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGED DURING 2020	OUTCOMES OF THAT ENGAGEMENT	HOW THE BOARD CONSIDERS THE INTERESTS OF OUR STAKEHOLDERS
SHAREHOLDERS **Our investors provide capital for growth, whilst providing challenge and feedback on our business model and plans for the future.**	• Timely and relevant information on performance, and measures taken to mitigate the financial impact of COVID-19 • Opportunities for engagement with management • Remuneration Policy • Information on ESG performance	Our Executive Directors maintain an investor relations annual plan, consisting of: • Meetings with our current and prospective shareholders; • Presentations given to shareholders upon the release of annual or interim results; • Feedback from our joint brokers following investor engagement, and reports from brokers on market trends; • Reporting to the Board as a whole on investor matters; • Preparation of investor materials. In 2020, the Chairwoman met with many of our top investors to discuss their views. In addition, the Company's brokers held meetings with investors and provided feedback to the Board.	We provided information and regular updates on our response to COVID-19 to our shareholders throughout the year, issuing market updates and press releases in addition to the normal results cycle updates. Our shareholders supported us in the equity placing in April 2020 in which we issued a further 28 million shares. Our Board members, including Executive Directors, also participated in the placing. The Board did not recommend a dividend for financial year 2019 and does not recommend a final dividend for financial year 2020 as a cash preservation measure during COVID-19. We took swift action on remuneration, including salary and fee reductions, delaying 2020 long term incentive grants (with no change to in-flight PSP awards) and bonus deferral. We have made further progress in ESG reporting by producing a Sustainability Report to GRI Standards, which is available on page 30.	The Board is kept informed of all responses received as part of shareholder consultations by management and the brokers. The Board's dividend policy can be found on page 45. The Board welcomes questions from our shareholders at our AGM. The arrangements for our 2021 AGM will be confirmed in the 2021 Notice of Meeting. As it relates to Remuneration, we will continue to consult shareholders on any future major changes to Policy. The Remuneration Report is on pages 71-89. The Board has committed to ongoing improvements in sustainability reporting and our Sustainability Report can be found on pages 30-41 and on our website, www.tggplc.com
EMPLOYEES **Our employees are the driving force behind our purpose and growth. We run a People First business and consider our unique team and culture to be a vital part of our strategy.**	• Regular, relevant, clear information • Opportunities to provide feedback • Opportunities to develop careers and skills • Engagement with management • Attractive salary and benefits, including participation in share schemes	As many of our colleagues were furloughed or changed their ways of working, we brought forward the launch of our communications platform CORE, which enabled us to share regular information and gather feedback. We launched Workday Learning to promote continued training and provide resources for our colleagues. In addition to communications tools, our Executive Committee regularly visited our sites (when open) to update our employees on key changes, and to support reopening plans and see the COVID-secure protocols in action. We have implemented employee engagement and pulse surveys, results of which were fed back to the Board and action plans instigated. In December 2020 we welcomed the first 30 recruits onto our Kickstart programme; a scheme supported by the UK Government to encourage 16-24 year-olds into new employment opportunities and training.	Our market leading NGT model enabled us to furlough our Fitness Trainers when the CJRS was in place, providing stability for our teams. Core has enabled us to launch wellbeing initiatives to support our teams affected by lockdowns. We have also trained 30 employees to become Wellbeing champions to provide additional support to colleagues. Workday Learning enables us to provide e-learning content and important messages to all employees whether furloughed or working. The outputs of the employee engagement surveys were considered by the Board and ExCo and actions identified. We launched a further invitation to join our Sharesave in 2020. We were delighted that more employees took part in the 2020 Sharesave, showing support for the Company. We intend to develop our Kickstart programme to welcome more colleagues and offer young people opportunities for development.	The Board has met regularly to consider, oversee and review progress of People related actions, which are set out on pages 34-35. All Directors visit several of our sites each year and did so once sites were permitted to reopen within COVID-secure protocols to support our teams. We were unable to hold our annual employee conference, but Directors have remained in contact virtually using our communications platforms. The Board appoints one of its members as the Non-Executive Director who is responsible for people engagement. David Kelly carried out this role in 2020 and Emma Woods takes over this responsibility in 2021, and you can find out more about our activities in the Directors' Report on page 91.

STRATEGIC REPORT

SECTION 172 STATEMENT

CONTINUED

WHO THEY ARE AND WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGED DURING 2020	OUTCOMES OF THAT ENGAGEMENT	HOW THE BOARD CONSIDERS THE INTERESTS OF OUR STAKEHOLDERS
MEMBERS **Happy members are what makes our gyms successful, and they inspire us every day with their achievements. They are the best indicator that we are delivering fitness for all.**	• A great value experience • Excellent service and equipment • Accessibility and inclusivity • Demonstration of our values • A COVID-safe environment in which to work out	We kept our members updated through clear communications in closure periods and we offered 'free freeze' on memberships so they didn't pay while gyms were closed. It is a key part of our strategy and business model to use technology to improve the member experience, with 2020 updates highlighted on page 20. In 2020 we launched new functionality in our app, including contactless entry to all sites, to continue to deliver a high quality and great value member experience. We clearly communicate our COVID-secure protocols on our website and in the gyms. Promoting wellbeing is also a key part of our sustainability strategy as on page 32.	We saw improved member satisfaction scores when we were open after national lockdowns. We provided free online classes to members and discounted access to FiiT during lockdown. Our COVID-secure protocols were developed in consultation with the Advanced Wellbeing Research Centre at Sheffield Hallam University and rolled out to all our sites.	We regularly review our member satisfaction scores at Board meetings. Member satisfaction forms part of our bonus targets for Executive Directors. Directors use member feedback to identify ways in which our member journey can be improved or enhanced. The Board has overseen the technology developments, receiving reports on progress of initiatives, and considers technology a strategic priority for 2021 alongside rebuilding membership, developing our member value proposition, and securing a high quality pipeline of great sites for members.
SUPPLIERS **We believe our partnerships ensure we source the best value goods and services for the benefit of our members.** **High standards of ethics and business conduct is an important part of being a responsible part of the communities in which we operate.**	• High levels of business conduct and integrity in dealing with suppliers and carrying out our property management commitments • Strong listed company covenant • Responsible tenants • Open and clear communication	We commenced close engagement with landlords to discuss revisions to terms and payment schedules at the time of national lockdowns. Our strong, listed company covenant continues to be highly attractive to landlords. We actively manage our supplier relationships and have worked with our major suppliers through the pandemic to minimise costs and disruption. The Company has in place whistleblowing arrangements which enable employees to raise concerns should they suspect wrongdoing or unethical conduct. We publish our Payment Practices Report twice a year at Companies House.	We have received positive feedback for our practices in engagement with our landlords in COVID-19 disruption – we conducted clear and timely discussions and demonstrated flexibility in our approach. We maintained helpful and positive relationships with major suppliers, including our cleaning firms, equipment suppliers, contact centre operators and vending suppliers who all furloughed staff to ensure that contractual costs were minimised. We maintain our properties to a high standard, maintaining good relationships with property management companies and act as responsible tenants.	The Board is committed to high standards of ethical business conduct. The policies and procedures relevant to business conduct are available to all employees. Executive Directors, on behalf of the Board, have also held discussions directly with our lender banks and have worked with key suppliers to develop joint plans for the crisis. The Board takes a zero-tolerance approach to bribery and corruption. It also reviews the Company's Modern Slavery Act Statement annually.
COMMUNITIES **Being a valuable part of the communities in which we operate is hugely important to us; a strong relationship between our gyms and our communities is mutually beneficial.**	• Be a responsible corporate citizen • Contribute positively to the local community • Be inclusive and accessible • Support local and national charities	Our low price model enables fitness to be affordable for all, and supports those accessing a gym for the first time. We have strengthened our diversity and inclusion actions at all levels. In 2020 we raised over £32,000 for Movember and over £23,000 through the online membership join journey. We have worked closely with local authorities to support the safe inspection of our gyms.	Our COVID-secure protocols were developed in consultation with Sheffield Hallam University Advanced Wellbeing Centre. Widened our gym network to afford access to 49.6% of the UK population (up from 46% in 2019). Published our Diversity & Inclusion Manifesto and made progress with diversity initiatives such as improving data collection to support equalities monitoring, and actions in recruitment and training practices.	The Board recognises the importance of contributing to wider society and considers it a vital part of achieving our purpose. The Board considers the long-term impact of its operations as part of its Sustainability strategy. The Board's policy on diversity is set out on page 67. The Board considers diversity to be a focus for succession planning. In 2020, we commissioned 4Global to calculate the Social Value created by The Gym Group, results of which can be seen on page 32.

WHO THEY ARE AND WHY THEY MATTER	WHAT MATTERS TO THEM	HOW WE ENGAGED DURING 2020	OUTCOMES OF THAT ENGAGEMENT	HOW THE BOARD CONSIDERS THE INTERESTS OF OUR STAKEHOLDERS
ENVIRONMENT **We continually seek out opportunities to improve our environmental performance and to contribute to the wellbeing and sustainability of the communities in which we operate.**	• Minimise the impact of the Company's operations on the environment • Energy efficiency and sustainable working practices	During the year we have expanded the remit of our Sustainability Working Group and continued to enhance reporting. We continue to make energy saving improvements in our sites, such as further rollout of LED lighting. Our Sustainability Report details our environmental strategy, activity and initiatives. This can be found on pages 30-41.	We implemented requirements of the Streamlined Energy and Carbon Reporting scheme. We launched electronic solution to replace paper-based process in gyms. We purchased 100% of energy in 2020 from renewable sources. Completed work on a further 23 sites to upgrade lighting systems. 93% of our estate now operates with full LED lighting.	The Board is conscious of the Company's impact on the environment and aims to take progressive steps to continually improve the energy efficiency of our gyms. For more on our responsibility for the environment, please see pages 30-41.
LENDING BANKS **Our lending banks provide funds for growth and day-to-day working capital to enable us to operate and grow our business to its full potential.**	• Regular and clear reporting that demonstrates company performance is meeting agreed covenant targets • Regular engagement with management to understand business strategy and risks	During the year we provided regular updates on company performance and reported on performance versus agreed debt covenants. In June 2020, as the COVID-19 pandemic developed, we agreed an amendment to the Group's existing £70 million Revolving Credit Facility ('RCF') with our three lending banks: NatWest, HSBC and Banco de Sabadell, which extended the RCF by incremental commitments totalling £30 million.	During the year we worked with the Company's banks on debt refinancing and maintained open communication throughout the crisis and provided information on performance and debt covenants. In December 2020, to adapt to site closures related to further COVID-19 restrictions, we agreed an amendment to the terms of the RCF, extending terms and allowing flexibility in covenant tests. In February 2021, the Banks agreed a waiver of the March 2021 covenant test in light of the ongoing national lockdown.	Management holds regular meetings/calls with lending banks during the year to enable them to be updated on the progress and performance in the business. Representatives from the lending banks are invited to our half-year and full-year results presentations. In financial plans discussed at the Board, analysis is presented on how plans would impact debt covenants to ensure the interests of the lending banks are protected. The Board's annual going concern and viability assessment is performed with specific reference to the level of borrowings required under different scenarios and the impact of such scenarios on debt covenants.

SUSTAINABILITY AT THE GYM

SUSTAINABILITY REPORT

I am pleased to present our Sustainability Report for 2020. While this has been a year of significant disruption for our business, our purpose and our passion have not changed. Sustainability has always been at the core of The Gym Group, and these pages set out our approach to and actions on sustainability through 2020 and as we move into 2021. Our strategy and activities are aligned with the United Nations SDGs in several areas, as set out in the table opposite and described through this report.

Our purpose is to 'Break Down Barriers to Fitness for All'. and fitness has a vital role to play in the UK's recovery from COVID-19. The social value generated through exercise now sits at the heart of the Government's investments into sport and physical activity. Improving people's physical and mental health are the most established reasons for this focus, but engaging in regular exercise can also help individuals steer clear from crime and improve educational attainment. Our purpose naturally aligns us with SDG 3 – ensuring healthy lives and promoting wellbeing for all. For the first time, the social value generated by The Gym Group over the past five years has been analysed; this is explored further on page 32.

Good jobs, quality education and life-long learning for the benefit and development of our people remain central to The Gym Group and, throughout the pandemic, we have maintained our commitment to supporting our people. For example, we launched our communications platform, CORE, to ensure our employees – whether working or furloughed – remained connected, and that they understood what and how the business was doing. We are glad to report on our efforts in this area on page 34.

Although our Gender Pay Gap has increased slightly, our gap is still low in comparison to the national average of 15.5% in 2020 (from Office of National Statistics), which is detailed on page 37 and in our Gender Pay Gap Report, available on our website: www.tggplc.com. We continue to take action through improvements in recruitment and training, and through our focus on diversity and inclusion. We have made progress in this area by launching The Gym's Diversity and Inclusion Manifesto, which sets out our commitment to celebrating diversity and making our gyms more inclusive, accessible places to be. Our members, as well as our people, are key to ensuring this, and our manifesto has been shared on our website. You can read more about our work on diversity and equal opportunity on page 36.

We also acknowledge and commit to understanding and addressing the immediate and longer term challenges to our business and public health posed by climate change. We are committed to further improving our environmental performance and promoting the good health of our communities through sustainable practices. and we discuss this in detail on page 38.

In the area of charitable contributions, we continued to partner with Movember, this year supported by our digital fitness partner, Fiit. Despite the restrictions of national lockdown in Q4 2020, we raised £32,500. Separately, over £23,000 was also donated by members to various causes during the joining process.

As CEO of The Gym Group, I have ultimate responsibility for sustainability performance, and we have strengthened our governance arrangements with the introduction of the new Health & Safety and Wellbeing Board Committee, which I chair. ESG matters are regularly discussed by the Board and its Committees (for example, diversity matters are considered at the Nomination Committee). More information on our sustainability governance is on page 36 and in our Corporate Governance Report on page 59. This is our first full sustainability report to be prepared to the GRI Standards – the global standards for sustainability reporting. Last year, we reported our commitment to continually improve our sustainability reporting, and we are pleased to build on that with this significant step to ensure our reporting is clear, accessible to our stakeholders, and reflects our commitment to sustainable business.
As we continue to develop our reporting, we welcome feedback on this report and our sustainability performance, and are happy to continue to engage with our stakeholders and interested parties.

Richard Darwin
Chief Executive Officer
18 March 2021

OUR PURPOSE: TO BREAK DOWN BARRIERS TO FITNESS FOR ALL.

	GOOD HEALTH AND WELLBEING	GOOD JOBS, QUALITY EDUCATION AND LIFELONG LEARNING	DIVERSITY AND EQUAL OPPORTUNITY	RESPONSIBILITY TO THE ENVIRONMENT
	MEMBERS AND EMPLOYEES	EMPLOYEES	COMMUNITY, MEMBERS AND EMPLOYEES	SHAREHOLDERS, ENVIRONMENT AND COMMUNITY
	We break down barriers to fitness, which contributes to promotion of good physical and mental health and wellbeing. The safety of our members is of paramount importance. We operate according to our COVID-secure operating protocols in all our sites.	The wellbeing of our people is vital for success and is at the heart of our decisions. We invest in our people, with increased employee engagement through new forums and an online communication platform for both furloughed and working teams, and schemes such as Kickstart to support young people in their fitness careers.	We make a positive contribution to our community by being a fair and inclusive space. Our Diversity & Inclusion Manifesto sets out our commitments to listen, commit and act.	We continually seek out opportunities to improve our environmental performance and to contribute to the wellbeing and sustainability of the communities in which we operate.

To expand our reporting for 2020, we have detailed our key focus areas in the table above. This explains why we consider these goals to be of material importance to The Gym Group and how we work to promote them within the business. We have also included the stakeholder groups most significantly impacted – though naturally many of the issues are key to several stakeholder groups.

The table also shows how our goals align with the UN Sustainable Development Goals ('SDGs'). These 17 goals and related targets to achieve by 2030 aim to address the challenges we face as a global society – related to health, education, climate, environmental degradation, poverty, and peace and justice. Throughout this report, we show the actions we are taking to advance societal goals, with key SDGs and underlying targets highlighted where relevant.

Engaging with our stakeholders

Our stakeholders are key to the success of our business, and we engage with both internal and external stakeholders, around our goals, progress and performance, to improve our reporting. We use a range of methods to gather information about stakeholder expectations and feedback. See page 3 for a summary of our key stakeholder groups and engagement methods, and the 'Working with our Stakeholders' spread on pages 26-29.

We also explore how the Board considers the interests of stakeholder groups in decision making and promotes the success of the Company, with particular regard to the COVID-19 pandemic, on pages 26-29.

Sustainability governance

We continued to hold our Sustainability Working Group ('SWG') during 2020, adding new members and expanding its remit to include employee volunteering. The Committee is chaired by Cornelia Woschek, our Head of Sustainability and Business Development, and includes representation from the Executive Committee, through David Melhuish, our Development Director. The SWG draws its members from a number of business functions to lead the management of sustainability within the business and with our stakeholders. The SWG reports to the Executive Committee which is chaired by the CEO, ensuring that it has a Board-level reporting line.

The PLC Board shares The Gym Group's passion for a sustainable business and the delivery of affordable fitness for all. It regularly and formally discusses sustainability and ESG matters – as our product evolves, as the rollout of sites progresses and as our employee numbers expand. In 2020, the Board established a Health, Safety and Wellbeing ('HSW') Committee with direct oversight of relevant policies and procedures.

The HSW Committee is chaired by the CEO, and its activities, including frequency of meetings, are set out in the Corporate Governance Report on page 64.

Specific sustainability issues such as health, safety and employee engagement are also managed and overseen by issue-specific Committees reporting into the Board or Executive Committee as appropriate.

Reporting for the 2020 financial year

As part of our work to continually improve our reporting, in 2019 we began the process of adopting the Global Reporting Initiative ('GRI') Standards on sustainability reporting.

This report has been prepared in accordance with the GRI Standards: Core option. In aligning with these global standards, we ensure that we continue to provide our varied stakeholders with clear, concise information that demonstrates how we are progressing with our material topics. The GRI content index can be found on our website, www.tggplc.com.

All data included in this section was subject to internal validation and was prepared with support from specialist consultancy Simply Sustainable. All references to 'this year' in this chapter refer to The Gym Group's 2020 financial year from 1 January to 31 December 2020, unless otherwise stated.

SUSTAINABILITY AT THE GYM
CONTINUED

GOOD HEALTH & WELLBEING

Our strategic approach

Regular physical activity benefits both the body and mind. According to the World Health Organization, it can reduce high blood pressure, help manage weight and reduce the risk of heart disease, stroke, type 2 diabetes and various cancers, and increase mental wellbeing.

Our purpose at The Gym Group is to 'Break Down Barriers to Fitness for All'. Through the provision of affordable, high quality, well-equipped 24/7 facilities and a wide-ranging and growing gym network, we are breaking down those barriers to fitness. In doing so, we are supporting the Government's vision to get the nation active. We are also directly contributing to target 3.4 of SDG 3 – Good Health and Wellbeing: to reduce premature mortality and promote mental health and wellbeing.

The outbreak of COVID-19, the link between obesity and severity of the effects of the virus, and the importance of mental wellbeing throughout lockdown have further highlighted the crucial importance of physical exercise.

Inactivity is a threat to the UK's health with 63% of adults overweight or living with obesity[1].

The social impact of The Gym

In 2020, we commissioned 4Global, a UK-based data analysis company, to determine the social impact of our business over the last five years[2,3].

Using the Social Value Model created by Sheffield Hallam University, 4Global developed a Social Value Calculator including demographic data from Experian. The model determines the social value of regular exercise on communities, through reduced risk of non-communicable diseases; increased wellbeing; increased educational attainment; and reduced crime. This methodology is used extensively by Sport England, local authorities and Government.

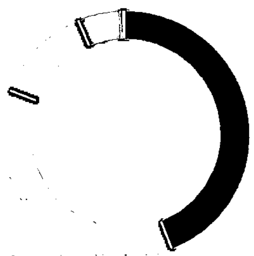
The analysis shows that the social value we delivered increased from £246 million in 2016 to £553 million in 2019. Our number of gyms almost doubled during this period, but this was not the only driver for the increased value; over the same period, the average value returned by each gym increased from £2.8 million to £3.1 million as participation levels grew. By 2019, over 1 million individuals were completing enough activity to elicit health and wellbeing improvements in our gyms, generating an average value of £490 per person.

One of the major factors in social value generation is the socio-economic status of our members. Those from more deprived communities are more likely to suffer from chronic conditions, and therefore the social benefit to keeping these members active will be higher than one from a less deprived community. 32% of The Gym Group's estate is located in the 20% most deprived areas in the UK – reinforcing our commitment to tackling inactivity in underrepresented and disadvantaged communities.

Prevention of non-communicable diseases through exercise is one of the contributors to social value as it significantly reduces treatment cost and GP visits. The positive, immediate impact exercise has on mental health is well documented and the fact that almost 45% of the cases we help to prevent every year are linked to depression confirms the importance of making gyms accessible and affordable.

The COVID-19 pandemic has unfortunately greatly impacted participation levels across the physical sector and fitness industry. Government-enforced closures and restrictions on capacities and activities have affected opportunities for members to access facilities and as a result, the social value we generated in 2020 dropped by 48%, to £287 million.

PERCENTAGE OF CASES PREVENTED



- **DEPRESSION 44.8%**
- **CORONARY HEART DISEASE & STROKE 35.7%**
- **TYPE 2 DIABETES 13.5%**
- **DEMENTIA 5.5%**
- **COLON CANCER 0.3%**
- **BREAST CANCER – FEMALES 0.2%**

49%

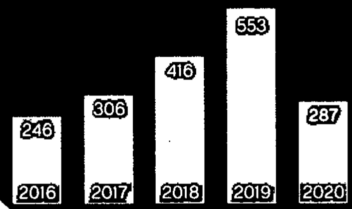
Our network of 183 operating sites in the UK affords access to over 49% of the population

£3.1m

Average social value per gym pre-COVID

SOCIAL VALUE GENERATED BY THE GYM GROUP IN THE PAST FIVE YEARS (£M)

£1.8bn



THE SOCIAL VALUE CALCULATOR MODEL

Volume of Participants, Frequency of Activity, Demographics and Socio-economic Profile

↓

HEALTH
Reduction in likelihood of developing:
Heart Disease
Breast Cancer
Colon Cancer
Type 2 Diabetes
Dementia
Depression

SUBJECTIVE WELLBEING
Increased Life Satisfaction and Happiness

EDUCATION
Increased educational attainment and improved starting salaries

CRIME
Crime reduction for young men

↓

Social Value Generated

Factors driving social value aligned with commercial value: expansion, membership levels, visit frequency and tenure

INTERVIEW WITH RACHEL, MEMBER OF THE GYM STOURBRIDGE

This is a stock image as we were unable to photograph the member due to COVID-19 restrictions

How have the pandemic and lockdowns affected you over the past year?
From being an incredibly active person with a demanding job and a great social life, I went to being stuck on my own in the house. Being at home all day, working long hours and not seeing people really got me down, impacted my confidence and my mental wellbeing.

What motivated you to join The Gym Stourbridge?
When The Gym opened in August 2020 after the first lockdown, I was so excited to join. I found a new and exciting community led by incredibly friendly and caring staff. Knowing I can go to The Gym makes me excited in anticipation. It lifts my mood when I go and the feeling of happiness is on an upward trajectory throughout my workout. When I leave The Gym I feel relaxed and nothing seems as big a problem for me any more.

How did you cope without The Gym during the closure periods in 2020?
When it was announced that gyms were closing again, I actually had a little cry. We all need our routine and I thrive on certainty and just as I found happiness and confidence again, it seemed like it was going to be taken away.

However, whilst it is harder not to have the safe environment of The Gym in the Winter when it's cold and dark outside, I have been coping a bit better this time as I turned to your free online workouts. I usually arrange with some other members that I met at The Gym to join the same classes and we have a bit of a banter afterwards online. I even got my parents who are in their 70s to join in sometimes and they love it – it makes us all happy!

What role does The Gym play in your general wellbeing?
Going to The Gym is not just about having access to great equipment for my fitness routine, it is about having a safe and friendly place that I go to where I am with like-minded people. Becoming part of that community and doing online workouts with live instructors when gyms were closed is essential to my health and mental wellbeing and saved me from having to seek professional help to get me through these incredibly tough times.

Access to the gym
Making gyms accessible is central to our purpose at The Gym Group. Our network of 183 operating sites in the UK affords access to over 49% of the population[4] (up from 46% in 2019). These sites have been specifically selected to be easily accessible, close to public transport, with free car parking where necessary. Our 24/7 operation allows members to use the gym when it suits their lifestyle.

The average monthly headline rate of £18.81 makes The Gym Group the best value, high quality proposition in the market, and with our 'no contract' model, members need only pay for the months they intend to use the gym, further increasing accessibility.

During national and local lockdowns in 2020, we automatically froze membership payments. Also, to ensure our members could continue to do regular physical activity, we provided a large number of free online exercise classes as well as discounted memberships to Fiit, our digital fitness partner.

Safety at the gym
The safety of our members and staff is at the heart of our operation and as the business has grown, we have continued to evolve our health and safety management system. A clear understanding and continuous review of our risk profile ensures our processes are compliant and mitigate risk, while remaining functional and fit for purpose. Our external health and safety auditors deliver a consistent and transparent review of performance at site level, including the physical safety of equipment and the building facilities together with audits of our wider safety and building maintenance systems. We have recently launched our digital health, safety and compliance portal, which provides central visibility of compliance as well as advanced reporting and management data to support us in quickly identifying and responding to key health and safety trends.

This year, the pandemic has brought additional safety challenges. In response, we have implemented COVID-secure protocols to enable our gyms to operate safely throughout the pandemic. We have consulted scientists from the Advanced Wellbeing Research Centre at Sheffield Hallam University to support our in-depth work on preparing these protocols to keep our members and communities safer in our gyms.

1 Public Health England, Better Health Campaign 2020.
2 The Gym Group – Social Value 2016–2020 by 4Global.
3 Datahubclub – Physical Activity A Social Solution 2017.
4 % of adult population living within 15 minutes drive time of a The Gym Group site.

STRATEGIC REPORT

SUSTAINABILITY AT THE GYM

CONTINUED

GOOD JOBS, QUALITY EDUCATION

"IT'S THE MOST COMPLETE BUSINESS TRAINING FOR PERSONAL TRAINERS I HAVE SEEN IN THE LAST 12 YEARS... THANK YOU FOR PUTTING THIS TOGETHER, IT HAS THE POTENTIAL TO HELP EVERY PERSONAL TRAINER TO SUCCEED!"

FITNESS TRAINER

Our strategic approach

Our people are our biggest asset, and we are committed to providing a workplace where they can thrive personally and grow professionally. Throughout 2019, we successfully launched and rolled out the New Gym Team employment model, embedded our values across the business, and established our employer brand. As part of this programme, several initiatives were planned for 2020 but early on it became clear that the year would take us on a very different course.

From late March, approximately 95% of our colleagues were furloughed as gyms were required to close in line with government policy. Throughout this challenging period, our priority has been supporting the wellbeing of our people, and our People First campaign was launched to ensure our employees had support where and when they needed it. The strength of our values and culture has enabled us to support our people effectively throughout this time.

We believe it is vital to provide regular opportunities for our people to share their experiences, ideas and feedback. In September 2020, we ran our first ever engagement survey to gain thoughts on energy levels, recognition and our COVID-19 response. The overall engagement across the business was 51% (SMG benchmark across health and fitness industries across Europe, America and Australia is 44%), and a major positive takeaway from the survey was the trust in the leadership and management in dealing with COVID-19 and ensuring people felt safe to return to work. The main area of focus following the survey is the motivation levels of our teams that have been affected by furlough and the general COVID-19 environment. A positive work-life balance and emphasis on recognition are key areas being implemented to support this. Keeping Connected guidelines were introduced in June 2020 for head office employees to ensure that our teams could keep connected whilst working from home. Guidelines were introduced to support the health, safety and wellbeing of our teams working from home and allowances for required furniture and technology to ensure our teams could work from home comfortably were provided.

Our focus on people aligns with and contributes to the SDGs as we strive for Quality Education (SDG 4) and Good Jobs and Economic Growth (SDG 8), directly in our organisation and, more widely, through our members.

Employment

To support our employees who were furloughed, as well as those working from home, in March 2020 we launched a new communications and engagement platform – CORE – two months earlier than initially planned. This formed part of our People First plan, as we sought to support the mental health and wellbeing of our teams through increased communication. New employee forums have also been established to ensure employees have a vehicle to express their thoughts, ideas and opinions about the current situation, and all business decisions have been made with the aim of keeping as many people employed as possible.

During our closure period, and due to a lack of new gym openings and a need to consider the sustainability of our operations, there were a small number of redundancies in The Gym Group's head office, in roles related to business growth. Through the employee assistance programme and by assessing what roles were needed for the future, half of the roles at risk were able to be fully mitigated by moving the employees to other vacant roles. Sadly, 15 people in full-time roles were made redundant. For the impacted group of employees, an employee assistance programme was established to provide people with support for their health and wellbeing during this time, and also to assist with practical skills such as CV writing, interview workshops and job search support.

Training and development

To support our employees while gyms were closed, we launched an e-learning platform. The platform was integrated into our core HR system, Workday, and meant that all our employees could undertake online learning from wherever they were and via any device. Through this, we were able to train all our employees on the new COVID-secure measures to ensure we could keep our teams and our members safe when we reopened.

As well as mandatory compliance and safety e-learning modules, we also launched a new 'Set for Success' Personal Trainer programme. This is designed to support our Fitness Trainers so they can build effective businesses and increase their client base. So far, 34% of our Fitness Trainers have completed the programme and feedback has been very positive. We are continuing to expand this and are collecting thoughts on further areas of improvement.

Reward and recognition

As part of CORE, a reward and recognition scheme ('Your Personal Bests') was launched in July 2020. This allows for peer-to-peer e-card recognition. Since the launch in July, 1,600 peer-to-peer e-cards have been sent, with 80% of all employees receiving a recognition moment from their peers. We also introduced Spotlight awards, given by the Executive Committee team to reward exceptional performance, which have a monetary value attached. Both initiatives have been extremely popular with our employees.

Throughout 2021, we will refocus on our Coaching for Performance programme, which supports transparency in progression paths, promotions and pay reviews.

Human rights, anti-bribery and anti-corruption

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

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. We have an Anti-Bribery Policy, which is available to all employees via our intranet. We do not consider bribery and corruption to be a principal risk to our Company because we only operate within the UK and have a low level of discretionary spend due to our fixed cost base.

We are not aware of any business relationships in place which are likely to have an adverse impact on human rights, anti-bribery or anti-corruption matters. No such matters have been identified under the Anti-Bribery Policy to date.

Case study

KICKSTART SCHEME

KICKSTART
SCHEME

As soon as gyms reopened, we applied to the Government's Kickstart scheme to recruit 30 new Kickstart Fitness Trainee roles. The scheme provides funding to employers to create job placements for 16–24-year-olds on Universal Credit who are at risk of long term unemployment.

For the initial cohort of 30, we received around 900 referrals, and following a video screening and interview stage, we offered 30 roles to begin in December 2020, with a further 11 on hold until more roles are approved by the Government. We have recently had our application approved for a further 120 Kickstart Fitness Trainees for 2021, which we will introduce in a further three cohorts.

We are also taking our commitment one step further than required by the scheme, and reinvesting the government grant into each individual to ensure they are all Level 2 and Level 3 Personal Trainer qualified, First Aid trained, and have full Personal Trainer insurance – so that they are set up to succeed in their own business on completion of the scheme. At the end of the six-month placement, we envisage these young people will transition into an employed Fitness Trainer role with The Gym Group.

JOANNA GOODHEAD, KICKSTART FITNESS TRAINEE, TELLS US WHY SHE APPLIED FOR THE SCHEME AND WHAT ADVICE SHE HAS FOR OTHER KICKSTART COHORTS

Having completed my coaching qualification and a coaching placement at University I always knew that some form of coaching was what I wanted to do in the future, and I love the satisfaction you get when others achieve their goals. Fitness has always played a big role in my life and I have always taken a lot of time in my activities.

So I started to look into getting my Personal Trainer qualification. I found lots of companies that offered it but due to the pandemic, it was all online with very few practical elements. So when my work coach from Universal Credit suggested I look at The Gym Group Kickstart Fitness Trainee role and what The Gym were offering, it seemed very attractive as it included both the theory and practical elements of being a Personal Trainer. As soon as I had finished reading the job description, I knew that it was a role I wanted to apply for and had everything crossed I would be successful!

To anyone thinking of joining Future Cohorts – I would say JUST GO FOR IT! However, be prepared to work hard – 'you get out what you put in'. If you throw yourself into the working environment and ask lots of questions, not only will you enjoy your experience better but you will be a more attractive employee. Even if Personal Training isn't your chosen career, the six months will provide you with invaluable skills and experiences that are transferrable to your dream career.

"TO ANYONE THINKING OF JOINING FUTURE COHORTS – I WOULD SAY JUST GO FOR IT!"

JOANNA GOODHEAD

STRATEGIC REPORT

SUSTAINABILITY AT THE GYM

CONTINUED

DIVERSITY & EQUAL OPPORTUNITY

Our strategic approach

Diversity and inclusion are crucial to our culture, our values and our behaviours. As our business continues to grow, we are committed to nurturing a diverse and inclusive culture, both for our members and our employees. This commitment is fundamental to achieving our purpose of 'Breaking Down Barriers to Fitness for All' and ensuring that The Gym Group is a place for everyone.

Throughout 2020, and led by our Diversity & Inclusion Strategy, we have focused our actions on three core pillars:

Through this strategy, we seek to align and contribute to the SDGs, particularly by promoting SDG 5 – Gender Equality, and SDG 10 – Reduced Inequalities.

We recognise the importance of collaboration and we remain active members of Women in Hospitality, Travel and Leisure, regularly contributing to cross-industry discussions and initiatives. In July 2020, we also became proud signatories of the Business in the Community Race at Work Charter, committing to its five calls-to-action for businesses to prioritise action on race and improve equality of opportunity in the workplace.

INSIGHTS – to understand our workforce demographic.

TALENT – to ensure we attract, develop and retain a diverse workforce.

CULTURE – to embed our diversity, equality and inclusion initiatives.

This year, our Chairwoman Penny Hughes was identified as an Advocate for Change within Women in Hospitality, Travel and Leisure, as an acknowledgment of her commitment to driving change and promoting equality, inclusion and diversity.

Inclusion at The Gym Group

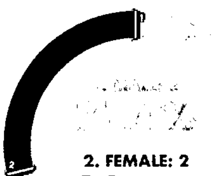
A key focus in 2020 has been improving the quality of our data insights to better understand our workforce demographic, in line with the first pillar of our Diversity and Inclusion Strategy. Through a data collection drive, we have successfully enhanced the accuracy of our equal opportunities monitoring. We have also developed a diversity and inclusion dashboard, which enables us to assess and regularly review our progress in the attraction, progression and retention of diverse talent at The Gym Group. Through this work, we have been able to identify key areas in need of improvement.

Our recently formed Employee Diversity and Inclusion Group, led by our Chief Commercial Officer and Executive sponsor, Barney Harrison, has played a crucial role in raising the agenda for discussions and positive action on diversity. Throughout the year, the Group ran an ongoing series of internal podcasts focusing on topics such as International Women's Day and Black History Month. This has evolved into a valuable platform to celebrate the achievements and experiences of our diverse workforce, and to encourage conversations about diversity.

At the end of 2020 we launched our Diversity & Inclusion Manifesto, outlining The Gym Group's stance on inclusion and building upon the culture we have and continue to nurture. The manifesto provides transparency for our employees, members and all those who interact with The Gym Group on our commitments

DIVERSITY

BOARD[1]



2. FEMALE: 2
28.6%

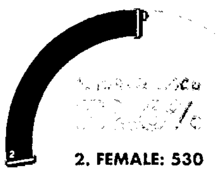
EXCO

2. FEMALE: 1
16.7%

SENIOR LEADERSHIP TEAM

2. FEMALE: 10
23.8%

ALL EMPLOYEES



2. FEMALE: 530
27.4%

1 Includes two Executive Committee Directors.

to improving diversity, inclusion and equality within the business, how we aim to achieve this, and the individual responsibilities in championing this.

Our Executive Committee have pledged their personal commitment and accountability to this agenda by signing The Gym Group Equality, Diversity & Inclusion Pledge, which sets out the principles, ambitions and targets for 2021.

We state our ambition to meet the following targets which will be reported monthly to the Board of Directors for review, and as an Executive Committee team we will constantly review the data and work to understand the insights behind it. We will review current employee and hiring targets for all populations. If in 2021 we are unable to achieve any of the targets below, we will explain why as part of our Equality, Diversity & Inclusion Plan and the 2021 Annual Report.

These are short term goals and by the end of 2021 we aim to have a minimum:

SENIOR LEADERSHIP TEAM DIVERSITY

20%

of the population will be from a culturally diverse heritage

25%

of the population will be female

GYM OPERATIONS DIVERSITY

30%

of the population will be from a culturally diverse heritage

30%

of the population will be female

RECRUITMENT

We will aim for female and culturally diverse new hires to represent the diversity targets.

Where possible, diverse shortlists will be provided for all interview panels.

Gender pay gap

The fitness industry has historically struggled to attract women. Through our Diversity & Inclusion Manifesto and Pledge, brand awareness, improved standardised recruitment practices, unconscious bias training and targeted recruitment strategies, we will strive to break down this barrier.

Our mean gender pay gap has increased this year, as we have seen more men than women in senior roles, which attract a higher salary. Our median gender pay gap has reduced as we now employ over 1,200 more Fitness Trainers, who are all paid the same hourly rate.

	April 2019	April 2020
Mean gender pay gap	2.0%	5.48%
Median gender pay gap	11.7%	0.00%
Mean bonus gender pay gap	37.4%	46.93%
Median bonus gender pay gap	37.1%	27.25%

Although our Gender Pay Gap has increased *slightly, our gap is still extremely low in* comparison to the National average of 15.5% in 2020 (from Office of National Statistics).

Wellbeing

As a 'people-first' business, the health and wellbeing of our employees remain a key priority. This year we focused on raising awareness of mental and physical wellbeing and providing the required support to those who need it. Our Wellbeing Strategy, led by our Chief People Officer, Ann-marie Murphy, focuses on four key areas:

- Prevention
- Development of Health and Wellbeing Champions
- Leadership
- Expanding our vocational health offering.

In addition to our Employee Assistance Programme, which provides a 24/7 telephone counselling service, we have already taken the first step towards enhancing our Wellbeing Programme by investing in increasing our number of qualified Mental Health First Aiders. In the last quarter of 2020, we have increased the number from three to 30. These Wellbeing Champions provide additional support and signposting, should employees have concerns over their mental wellbeing. We also have a new Wellbeing Hub, which provides employees and managers with additional support through access to online mental wellbeing toolkits, robust Wellness Action Plans, training resources and further guidance.

OUR NEW D&I MANIFESTO

The D&I Manifesto clearly sets out our commitments to creating a more diverse and inclusive workspace here at The Gym Group and the actions we are taking to achieve this. We want to ensure that The Gym Group is a place where everyone is welcome, accepted for who they are and has equal opportunities to succeed.

STRATEGIC REPORT

SUSTAINABILITY AT THE GYM
CONTINUED

RESPONSIBILITY TO THE ENVIRONMENT

Our strategic approach

We recognise that climate change is an important global challenge, and we support the commitments made by the UK Government to keep global temperature rise well below 2°C and achieve net zero carbon emissions by 2050. Clearly, meeting this commitment will require all sections of the economy to work together, and we support the UK's Net Zero Strategy and Ten Point Plan for a Green Industrial Revolution.

We believe in taking a proactive, strategic approach to environmental management, and we strive to be at the forefront of best practice within the health and fitness sector. As well as reducing our carbon emissions, we are also fully committed to reducing waste from our operations and increasing the efficiencies of our gyms. As our growth continues and we open more gyms, we aim to continue to reduce our carbon emissions and environmental impact through the energy-efficient design of new sites as well as investment into the existing estate.

Our commitment to the environment is a significant way in which we align and contribute to the SDGs. In particular, our efforts to procure renewable energy and increase the energy efficiency of our gyms align with SDG 7 – Affordable and Clean Energy; our efforts to reduce waste align with SDG 12 – Responsible Production and Consumption; and our approach to reducing our carbon emissions aligns with SDG 13 – Taking Urgent Action to Combat Climate Change.

The pandemic has significantly impacted our business, with gym closures in line with government policy and fewer new site openings than planned. Throughout this period, we have continued our commitment to the environment, and from March to July when gyms were closed, we ensured energy and water consumption was at a minimum across our sites. As our gyms reopen, and as a result of the additional safety measures we have introduced to protect our people and members, we are facing new challenges. Specifically, we have seen an increase in site-level energy consumption due to increased ventilation requirements, and an increase in waste from cleaning materials. We are actively exploring how to reduce this impact while continuing to keep our people and members safe.

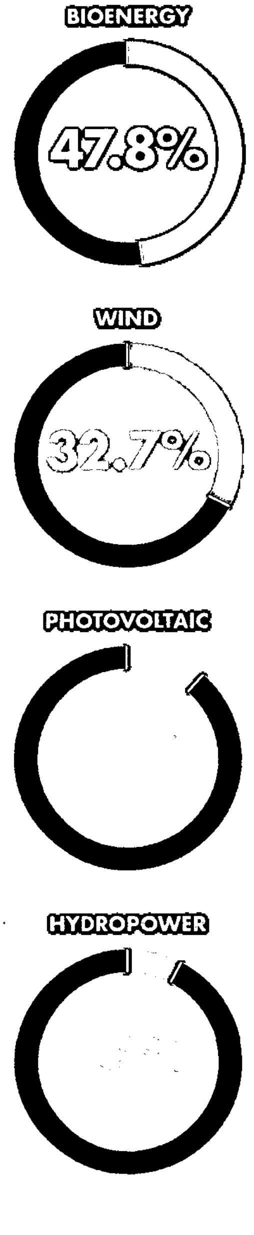
Climate and carbon

The world is facing a critical moment in tackling climate change. As a multi-site operator with 183 gyms across the UK, we have a responsibility to minimise the impact of our operations. Our most significant environmental impact comes from energy use in our gyms. As such, the single biggest improvement we can make is through the procurement of renewable energy.

We are proud to have purchased 100% renewable power since October 2019* for all of our sites where we control the purchase of energy. In doing so, we are directly contributing to SDG target 7.2 ('By 2030, increase substantially the share of renewable energy in the global energy mix'). The 2020 renewable fuel mix of our power supplier, as certified by EcoAct, is illustrated opposite.

1 We operate 21 sites (11% of the estate) where electricity is provided centrally by the respective landlord and we do not have purchasing control over the energy supplier and contract type.
2 Fuel mix disclosure statement by Haven Power (our supplier) for 12 months ending 31.3.20, verified by EcoAct. Our REGOcertificate can be found at tggplc.com

100% OF ELECTRICITY SUPPLIED BY RENEWABLE SOURCES[1,2]



Our renewable energy certificates are available on our website: www.tggplc.com

As part of our environmental strategy, we monitor energy consumption at each of our sites and minimise it to make our buildings as efficient as possible. In 2020, we implemented the requirements of the Streamlined Energy and Carbon Reporting ('SECR') scheme. As part of this process, we have undertaken quarterly progress reviews, allowing us to identify and act on opportunities for increased efficiencies.

We also continued with our programme of upgrading our lighting systems to high-efficiency LEDs, completing work on 23 sites during the year. 93% of our estate now operates with full LED lighting. (COVID-19 lockdowns prevented us from completing the whole estate in 2020; we plan to upgrade the remaining sites in 2021.)

We recognise that we have more to do to reduce our emissions, and in 2021 we will set long term, ambitious targets to reduce carbon emissions in line with global climate science and the UK Government's Net Zero Strategy. We also acknowledge the immediate and longer-term challenges to our business posed by climate change, and we are committed to understanding and managing these risks. In 2021, we will conduct a climate change materiality and risk assessment in line with the Task Force on Climate-related Financial Disclosures ('TCFD') requirements, to identify key physical and transition risks and opportunities to our business operations, and to consider appropriate mitigation measures.

We will also commence site-level energy audits in 2021 to provide insight into consumption variations across the estate and identify opportunities for energy-reduction programmes.

Greenhouse gas emissions

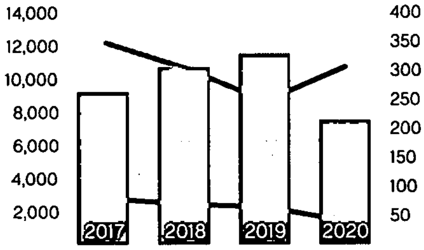
Greenhouse gas ('GHG') emissions for the year ended 31 December 2020 have been measured as required under the Large and Medium-sized Companies and Groups (Account and Reports) Regulations 2008 as amended in 2013. The main activity which releases GHG is the purchase and use of gas and electricity to power 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.

In previous years we have published an intensity metric of tCO_2e per trading gym, due to the continued growth of the business.

However, 2020 emissions have been significantly impacted by COVID and extended closure periods have reduced our overall energy consumption. For consistency we have presented 2020 data with the same intensity metric but, for fair and balanced reporting, we have included a second metric, tCO_2e per million member visits, to account for the time the business was closed and the occupancy restrictions that have been imposed. Member visits and building occupancy are key drivers of energy consumption and representative of the intensity and use of our facilities.

Emissions per gym have decreased due to the extended closure period whilst emissions per member visit have increased from the previous year due to the occupancy restrictions in place.

TOTAL EMISSIONS & INTENSITY METRICS



- Total emissions
- Intensity metric tCO_2e per million member visit
- Intensity metric[1] tCO_2e per gym

We have also presented data of total consumption in kWh and transportation which is generated by business journeys undertaken in personal vehicles.

Year ending 31 December TOTAL EMISSIONS (tCO_2e)	BASE YEAR 2017	2018	2019	2020
Direct Emissions from Operation (Scope 1)	1,267	1,950	2,035	1,602
Indirect Emissions from Energy Usage (Scope 2)	8,023	8,841	9,542	5,892
Indirect Emissions from Heat Purchased (Scope 2)	–	–	2	3
Transportation (Scope 3)	–	–	–	62
Total Emissions	9,290	10,791	11,579	7,559
Intensity Metric[1] (tCO_2e per gym)	80	70	65	41
% Change from base year	–	-13%	-19%	-49%
Intensity Metric (tCO_2e per million member visit)	348	304	248	307
% Change from base year	–	-13%	-29%	-12%

1 Includes any gym open at any point during the year.

TOTAL CONSUMPTION (KWh)	2018	2019	2020
Scope 1 (Gas)	10,602,020	11,071,196	8,710,907
Scope 2 (Electricity)	28,777,288	34,409,373	25,272,315
Scope 2 (Heat)		10,907	18,405
Scope 3 (Transport)			263,430
Total (kWh)	39,379,308	45,491,476	34,265,057

STRATEGIC REPORT
SUSTAINABILITY AT THE GYM
CONTINUED

Waste
Eliminating waste and improving our recycling rates is an important area of focus and we encourage our members and colleagues to take an active role in this. Our waste generation is limited to that brought onto the premises by our members and cleaning materials, as we do not directly operate any food or beverage facilities* and only have a limited offer for consumption through vending machines. In 2020, we introduced an electronic solution to replace all paper-based processes for staff in our gyms and we will see a benefit in waste reduction and the use of printer cartridges in 2021.

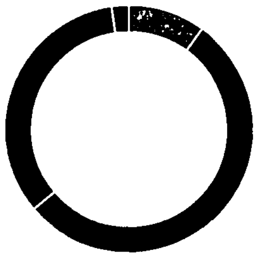
As a result of the additional safety measures we have introduced to protect our people and members from COVID-19, we have unfortunately seen an increase in general waste generated at our sites, mainly relating to the introduction of intensive cleaning regimes.

Throughout this period, we continue to actively explore how to reduce our impact while keeping our people and members safe. For example, we have provided our members with paper towels 'Blue Roll' and sanitiser spray rather than antibacterial wipes, as this is more easily recyclable or sent for energy generation.

We also found that single-ply sheet was suitable and reduced the volume of paper used, and sourced coreless rolls, which do not require cardboard inserts.

While we have seen a 13% decrease in the total weight of waste for the year, and a reduction from 4.3 to 3.5 tonnes per site, we were only open for approximately 55% of our expected trading time. For the three full operating months after reopening (August, September and October) we saw the total waste collected increase by over 90% due to the additional cleaning materials required to keep our gyms COVID-secure. The total waste removed from our sites during 2020 was 443 tonnes and the proportion of waste diverted from landfill was 90% for the year.

LANDFILL DIVERSION 2020



- Landfill 10%
- Recycled 54%
- Energy from waste incineration 34%
- Anaerobic digestion 2%

443 tonnes
of total waste removed from our sites during 2020

90%
Proportion of waste diverted from landfill

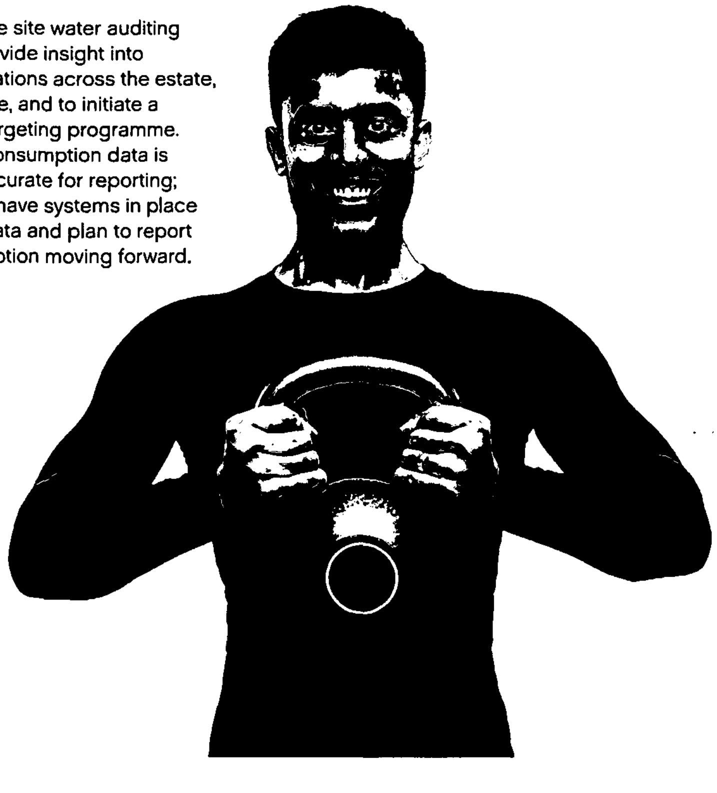
* There are small cafes run by private third parties operating from two of our gyms.
* The Gym Group had direct responsibility for waste removal at 128 operating sites in 2020 (70% of our estate). Data is provided from this cohort. At our remaining sites, waste collection is the responsibility of the respective landlord or local authority and we are not provided with waste data. Landfill diversion is based on overall waste depot performance.

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

Prior to the pandemic, we operated a small number of saunas and steam rooms, located in gyms we had recently acquired. These were closed due to COVID restrictions and are being fully decommissioned. One remaining installation will be evaluated during the course of 2021 to determine if it should reopen. We have never operated any swimming pools or other similar 'wet' facilities.

During 2020, we trialled a revolutionary toilet cistern at our new gym in Beverley, which uses condensate from the air conditioning units for flushing. This award-winning product is continually topped up with water produced by the air conditioning system which would normally have gone directly to the drain, reducing the amount of mains water required for each flush. We are now installing this unit in all new sites.

We will commence site water auditing during 2021 to provide insight into consumption variations across the estate, to identify wastage, and to initiate a monitoring and targeting programme. Historical water consumption data is not sufficiently accurate for reporting; however, we now have systems in place to collate water data and plan to report on water consumption moving forward.



Case study
LOW CARBON GYM

Beverley is the location of one of our first 'small box gyms', which enable us to open in towns that would previously have been considered too small for our operation. As well as developing a model to meet the needs of the members and delivering affordable fitness, we took the opportunity to incorporate energy and water-saving measures to make this gym one of the most environmentally friendly we have opened. Some of these initiatives are outlined here. We now have three small catchment gyms – Newark, Beverley and Lowestoft – and we will be rolling out more sites in 2021.

Ventilation
Gyms require plenty of clean fresh air for the exercise that's going on inside, as well as removing the stale air that's generated by it. To keep it fresh, we don't recirculate any of the air from the gym, but instead of throwing away the energy we've used to heat or cool the air from outside, we run it through a 'plate heat recuperator', to bring the outside air in line with the temperature inside, with up to 85% temperature efficiency. The fans are direct drive using high-efficiency permanent magnet EC motors, which are in a class of their own and allow stepless control of the airflow and therefore power during periods of low occupancy.

Air conditioning
Our gyms are always fully air conditioned and we use the latest advanced, high-efficiency air conditioning systems. As we're open 24/7, we need to keep close control of our operations to make sure we're not wasting our energy. The system at Beverley has a sensor on every unit, which scans the room to detect exactly how many people are in the space and switches off the air conditioning when it's not needed, while ensuring the empty room isn't too hot or cold for the next occupant. The air conditioning control system also offers full online reporting of both live and trending power consumption and provides us with full maintenance reports and alerts.

Hot water
The hot water provided to the showers and basins is generated by an air sourced heat pump connected to the air conditioning. By absorbing the heat created from cooling the gym and converting it into hot water for the showers, the heat pump removes the need for a gas supply, further lowering the carbon footprint of the site. The high-efficiency showers also result in lower hot water consumption and therefore energy demand.

Water
The showers have automatic flow rate regulation at the showerhead, and timed operation, providing an 80% water saving in comparison to conventional lever control, without compromising the shower experience. Taps are 'non-concussive' (self-closing) and require no external power source, delivering a timed flow of water and avoiding waste.

We have also installed a revolutionary toilet cistern that uses condensate from the air conditioning units for flushing. This award-winning product is continually topped up with water produced by the air conditioning system that would normally have gone direct to the drain, reducing the amount of mains water required for each flush.

Lighting
All of the light fittings in Beverley are high-efficiency LEDs, including the external signage. They are also installed to allow 50% of the lights to be switched off automatically during overnight periods, even when operating 24/7. All individual rooms also have infra-red detectors to switch lighting off when rooms are not occupied.

50%

of the lights are switched off automatically during overnight periods, even when operating 24/7

STRATEGIC REPORT

FINANCIAL REVIEW

STRONG TO THE CORE

Summary

2020 has been a challenging year for everyone, including The Gym Group, but we ended the year as a strong, well-capitalised business in a sector that will be at the heart of the nation's recovery from the pandemic.

The Group lost 45% of the trading days in the year due to closures as a result of government restrictions relating to COVID-19, with revenue declining by 47.4% to £80.5 million (2019: £153.1 million). During the year, and especially in the periods of closure, we have taken a number of actions to reduce costs to mitigate the impact of the lost revenue. We received £16.0 million of support from the UK Government in the form of business rates relief and furlough payments. Despite these measures, Group Adjusted EBITDA less Normalised Rent declined to £(10.2) million (2019: £48.5 million).

Our focus during the year has been to manage cash, ensuring we entered 2021 with a good level of liquidity. Capital expenditure was reduced from Q1 onwards as the first lockdown arrived; however we continued to invest in technology throughout the year, which will be central to our recovery and future growth, and we opened eight new sites, taking our total estate to 183 gyms. In a further measure to protect cash during the first lockdown, we entered into rent deferral agreements with landlords, deferring a total of £9.4 million of rent payments in the first half, of which £5.7 million was repaid by the end of the year, with the remaining £3.7 million expected to be repaid in 2021.

Our liquidity was strengthened by the raising of £39.9 million of net proceeds via an equity placing in April and the extension of our banking facilities from £70.0 million to £100.0 million in June, alongside improved flexibility in our bank covenants. As a result of the new funding and the careful management of cash we ended 2020 with a similar level of net debt as we started the year, with Non-Property Net Debt of £47.3 million (December 2019: £47.4 million).

This Financial Review uses a combination of statutory and non-statutory measures to summarise 2020 performance. See page 12 for the definitions of the Key Performance Indicators.

> "2020 HAS BEEN A CHALLENGING YEAR FOR THE GROUP BUT WE EMERGE AS A STRONG, WELL-CAPITALISED BUSINESS."
>
> MARK GEORGE, CFO

	2020 £'000	2019 £'000
Total number of gyms at end of period	**183**	175[1]
Total number of members at end of period ('000)	**578**	794
Revenue	**80,470**	153,134
Group Adjusted EBITDA*	**16,810**	74,453
Group Adjusted EBITDA less Normalised Rent*	**(10,169)**	48,540
Group Adjusted EBITDA less Normalised Rent and before Pre-Opening Costs*	**(9,850)**	49,715
Adjusted (Loss)/Profit Before Tax*	**(46,525)**	13,969
Adjusted Earnings*	**(35,999)**	10,574
Group Operating Cash Flow*	**(16,282)**	39,178**
Free cash flow	**(16,544)**	32,282**
Statutory (loss)/profit before tax	**(47,192)**	6,219

1 Excludes three gyms closed in 2019 as previously announced; two sites acquired from the Lifestyle Fitness and easyGym acquisitions plus one site opened in 2015 for which a five-year break clause was exercised by the Group.
* Refer to page 144 for the definitions of the non-Statutory Key Performance Indicators.
** Refer to note 5 of the Consolidated Financial Statements for details of the restatement of maintenance capex.

Result for the year

	2020 £'000	2019 £'000
Revenue	**80,470**	153,134
Cost of sales	**(2,116)**	(1,437)
Gross profit	**78,354**	151,697
Other income	**427**	–
Administration expenses excluding exceptional items	**(111,574)**	(124,036)
Exceptional administration items	**(1,122)**	(6,086)
Operating (loss)/profit	**(33,915)**	21,575
Finance income	**6**	32
Finance costs	**(13,283)**	(14,902)
Exceptional finance costs	**–**	(486)
(Loss)/Profit before tax	**(47,192)**	6,219
Tax credit/(charge)	**10,824**	(2,624)
(Loss)/Profit for the year	**(36,368)**	3,595
(Loss)/Profit before tax	**(47,192)**	6,219
Amortisation of non-IT intangible assets	**860**	1,178
Exceptional administration and finance expenses	**1,122**	6,572
Remeasurement of borrowings	**(1,315)**	–
Adjusted (loss)/profit before tax	**(46,525)**	13,969
Tax credit/(charge)	**10,824**	(2,624)
Tax effect of above items	**(298)**	(771)
Adjusted Earnings	**(35,999)**	10,574

	2020 £'000	2019 £'000
Operating (loss)/profit	**(33,915)**	21,575
Depreciation of property, plant and equipment and impairment	**45,169**	41,778
Amortisation of intangible assets	**3,765**	3,114
Exceptional impairment of property, plant and equipment	**1,606**	–
Exceptional impairment of intangible assets	**1**	–
Exceptional administrative costs	**(485)**	6,086
Long term employee incentive costs	**669**	1,900
Normalised Rent	**(26,979)**	(25,913)
Group Adjusted EBITDA less Normalised Rent	**(10,169)**	48,540

Revenue

For much of the year, with gyms closed, we had significant periods with no new member acquisition but we continued to see cancellations. As a result, we ended the year with 578,000 members, a decrease of 27.2% compared with the closing membership level in December 2019. The average membership level across the 12-month period fell by 11.1% to 708,000 (2019: 796,000). In addition to the reduction in subscription income, we also lost ancillary income (e.g. vending) during the closures plus revenue from the rent paid to us by our Fitness Trainers.

In the periods of government-enforced closure – comprising 45% of trading days in the year – we earned close to zero revenue as we immediately 'froze' members' accounts so they did not pay their subscription while gyms were closed. In the periods when gyms were open, lower levels of overall membership meant that monthly revenues were significantly lower than normal.

In the periods when we were trading with gyms open, we were able to maintain a good yield per member; average headline prices increased by £0.36 to £18.81 (2019: £18.45) and the take-up of LIVE IT continued to increase with 22.5% of the membership having this premium product at the end of the year vs 18.9% at the end of 2019.

As a result of these factors, revenue for the year decreased 47.4% to £80.5 million (2019: £153.1 million).

Operating costs including the benefits of government COVID-19 initiatives

Site costs, including Normalised Rent and excluding exceptional expenses, decreased to £77.7 million (2019: £90.3 million) as a result of the gyms being closed for significant periods in the year. Central support office costs remained flat at £13.0 million (2019: £12.7 million) but this was smaller than originally planned for the year; an investment in people and technology that would otherwise have increased costs year-on-year, was offset by savings from furloughed staff during the period of gym closures and from an internal restructuring programme in June which resulted in a 22% reduction in central headcount.

Immediately after the closing of our gyms on 20 March 2020, and in the subsequent periods of lockdown in the second half of the year, we implemented a number of cost reduction initiatives to ensure operating costs were reduced as far as possible while the gyms were closed.

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Mitigating actions to reduce costs
During periods of gym closure we were able to reduce the estate's running costs significantly: maintenance was reduced to cover health and safety requirements and to prepare the sites for reopening; utilities were reduced substantially; cleaning costs were reduced to zero; and insurance costs were reduced, reflecting the lower risk of sites not being in operation. In addition we reduced marketing spend very significantly with only spend on maintaining engagement with existing members.

When gyms reopened after the first lockdown the additional cleaning procedures and materials for our COVID-secure protocols resulted in a significant increase in cleaning costs. We expect this incremental cost to be £2.0 million to £2.5 million per year for the foreseeable future.

Support from government initiatives
In addition to the mitigating actions above, a number of government initiatives enabled us to reduce or defer costs:

- **Business rates relief** – relief available See page 102 for a reconciliation of operating profit to Group Adjusted EBITDA. ** Refer to note 5 of the consolidated accounts for details of the restatement from April 2020 to March 2021 saved us £9.6 million in the year and will provide further benefit of £1.1 million per month until August 2021.
- **Coronavirus Job Retention Scheme ('CJRS')** – across our gyms and central support we furloughed approximately 95% of our staff during closure periods. The total support claimed from the CJRS in the year was £6.1 million, with further support available in Q1 2021 whilst gyms are closed.
- **VAT payment deferral** – £1.9 million of VAT due to HMRC during the year has been deferred to 2021.

Group Adjusted EBITDA less Normalised Rent[1]
Our key profit metric takes EBITDA (which under IFRS 16 excludes any lease rental costs) and subtracts 'Normalised Rent' which is the cost of the rental payments applicable to the period in question, regardless of when the rent is paid in cash. This measure shows the underlying profitability of the business and then elsewhere we disclose the cash flow effects of rent payment deferrals.

Group Adjusted EBITDA less Normalised Rent decreased to £(10.2) million in the year (2019: £48.5 million). The drop in profitability was as a result of the significant reduction in revenue, partially offset by the various cost saving measures and government support described above.

Further information on the impact of our adoption of IFRS 16 in 2019 can be found on our corporate website: TGGPLC.com

Cash flow

	2020 £'000	2019 Restated** £'000
Group Adjusted EBITDA less Normalised Rent	(10,169)	48,540
Rent working capital	4,370	–
Movement in working capital	(3,096)	922
Maintenance capital expenditure cash flow	(7,387)	(10,284)
Group Operating Cash Flow	(16,282)	39,178
Exceptional items	(906)	(1,120)
Bank interest	(1,798)	(2,197)
Taxation	2,442	(3,579)
Free cash flow	(16,544)	32,282
Expansionary capital expenditure cash flow	(21,828)	(30,919)
Dividends paid	–	(1,933)
Refinancing fees	(418)	(884)
Net proceeds from issue of Ordinary shares	39,915	–
Other financial assets purchased	(1,000)	–
Bank interest received	6	32
Movement in non-property net debt	131	(1,422)
Net drawdown of borrowings	1,000	1,000
Net cash flow	1,131	(422)

* See page 102 for a reconciliation of operating profit to Group Adjusted EBITDA.
** Refer to note 5 of the Consolidated Financial Statements for details of the restatement.

Balance sheet

	2020 £'000	2019 £'000
Non-current assets	521,945	501,095
Current assets	10,543	12,028
Current liabilities	(43,095)	(49,627)
Non-current liabilities	(334,949)	(313,333)
Net assets	154,444	150,163

Exceptional items
Exceptional administrative costs decreased to £1.1 million, from £6.1 million in 2019, and comprised:

- £0.9 million writedown of assets of one of our sites whereby the discounted present value of future cash flows for the site do not support the full value of the assets and £0.7 million writedown of assets for one site announced as closing in 2019 following a delay in the surrender of the lease to 2021 (see below);
- £0.4 million gain recognised in 2020 arising on the closure of three sites announced during 2019, which arose as a result of estate management. Stoke and Birmingham Corporation Street were acquisitions from Lifestyle and easyGym respectively, whilst we exercised a lease break option in Newport, a site we opened in 2015;
- £0.7 million of restructuring costs, related to the restructuring of the central support team in June 2020 in which headcount was reduced by 22%;
- a one off gain of £0.6 million on the renegotiation of a lease reducing the lease term; and
- a reduction of £0.2 million in the provisions established upon the acquisition of sites from easyGym.

Exceptional finance costs decreased to £nil.

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

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

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

The Group recognised a charge of £0.7 million (2019: £1.9 million) in relation to these share based payment arrangements. The year-on-year reduction is due to the expectation that the financial targets in prior year PSP awards will not be met and therefore the proportion of awards associated with financial targets will not vest.

Finance costs

Finance costs excluding exceptionals decreased to £13.3 million in 2020 (2019: £14.9 million). The implied interest relating to the lease liability under IFRS 16 increased to £12.7 million (2019: £12.9 million). Finance costs associated with our bank borrowing facilities were £0.6 million (2019: £2.0 million) comprising interest costs and fee amortisation of £1.9 million offset by the remeasurement of the amortised cost of our borrowings of £(1.3) million.

On 5 June 2020 the Company agreed with its banks to extend its existing £70 million RCF with an additional £30 million facility for a term of 18 months (the New Bank Facility). Following the national lockdown in November, the Company agreed a revision to the New Bank Facility in which the term was extended to 24 months and covenants were revised to reflect updated Company forecasts. Upon termination or early cancellation of the New Bank Facility the covenants and all other terms of the original RCF will apply until the maturity of the RCF in October 2023.

At 31 December 2020 the Group had drawn £51.0 million of the facilities and with cash of £3.7 million ended the year with Non-Property Net Debt of £47.3 million.

Taxation

The Group has incurred a tax credit of £10.8 million for the year ended 31 December 2020, which represents an effective tax rate ('ETR') on statutory profit before tax of 22.9% (2019: 42.2%). The decrease in ETR is due to a decreased level of exceptional items which are not deductible for tax purposes and decreased charges relating to share based payments.

The underlying effective tax rate on adjusted loss before tax, after adjusting for amortisation and exceptional items, is 22.6% (2019: 24.3%).

Earnings

Statutory loss before tax was £47.2 million (2019: profit of £6.2 million), with a decrease in Group Adjusted EBITDA less Normalised Rent, increased depreciation due to the increased number of sites, increased amortisation of intangible assets from IT investments and lower exceptional costs. The Group delivered a loss for the year of £36.4 million (2019: profit of £3.6 million) as a result of the factors discussed above.

Adjusted loss before tax is calculated from statutory loss before tax and adding back the amortisation associated with non-IT related intangibles, any exceptional items and the remeasurement of borrowings. Adjusted loss before tax in the year was £46.5 million (2019: profit of £14.0 million).

Basic earnings per share ('EPS') was a loss of 23.1p (2019: earnings of 2.6p). Basic Adjusted EPS was a loss of 22.9p (2019: earnings of 7.7p).

Dividend

The Directors are not proposing a final dividend for 2020, taking into account the ongoing impacts of the pandemic and the material Government support received. It is a condition of the £30.0 million New Bank Facility that the Company shall not declare or pay a dividend and whilst this facility remains undrawn the Directors would like to continue to have access to it as necessary.

Group Operating Cash Flow decreased from an inflow of £38.8 million to an outflow of £16.3 million as a result of lower profitability.

Following closure of our gyms on 20 March 2020, and in subsequent closure periods, a number of actions were taken to preserve cash, in addition to the operating cost mitigation described in the 'Mitigating actions to reduce costs' section above:

- **Maintenance Capital Expenditure** includes the replacement and refurbishment of fixtures and fittings plus new gym equipment in existing gyms and in the year totalled £6.1 million. Adjusting for the movement in capex creditors, the cash flow from maintenance capex was £7.4 million (2019: £10.2 million). Following the closure of gyms on 20 March 2020, maintenance capex for the rest of the year was minimised by focusing only on repairs required for health and safety reasons.
- **Expansionary Capital Expenditure** arises primarily as a result of the fit-out of new and acquired gyms and in 2020 totalled £18.5 million. Adjusting for the movement in capex creditors, the cash flow from expansionary capex was £21.8 million (2019: £30.6 million). Prior to the closure of gyms on 20 March 2020, four new sites had been opened in the year (of which one was a small box gym) and then a further four were opened in August. In addition to new sites, major refurbishment work was undertaken in two former easyGym sites – London Fulham and London Oxford Street – which were completed and reopened in H2 2020.
- **Rent** – following the introduction of the government protections against eviction of tenants in March 2020, we deferred £9.4 million in rent payments that would otherwise have been paid during H1 2020. Immediately after the gyms were closed we engaged proactively with landlords and with the vast majority were able to agree deferred rent payments while the gyms were closed and to repay over the subsequent 12 months. These deferments did not impact the IFRS 16 income statement charge for the period but did reduce the cash rent outflow, thereby supporting Operating Cash Flow.

  The £9.4 million rent deferred from H1 started to be repaid in H2 and by the end of the year £5.6 million had been repaid leaving £3.8 million outstanding. This will result in higher cash rent outflows in 2021 than would otherwise have arisen. In addition, for a number of sites we have also been able to establish deals with landlords to extend the leases or take out a lease break in exchange for rent-free periods; the benefit of these rent-free periods will total approximately £2.1 million across 2020 and 2021 of which £1.4 million was a benefit in 2020.
- **VAT** – following the introduction of government relief measures on VAT, we retained £1.9 million of VAT payments relating to Q1 2020 due in March 2020, which will now be paid in 2021.

Non-current assets have increased by £20.8 million to £521.9 million (2019: £501.1 million), largely due to an increase in right- of-use assets totalling £17.0 million following new sites added to the estate plus the extension of a number of existing leases and the recognition of a deferred tax asset of £7.6 million.

Current assets have decreased £1.5 million mainly due to reduced inventory and receivables balances offset by an increase in cash balances. Current liabilities have decreased by £6.5 million mainly due to lower trade payables.

As of 31 December 2020 the Group had drawn £51.0 million of its £100.0 million revolving credit facility.

Outlook and guidance for 2021

At the end of February 2021 we had 547,000 members and Non-Property Net Debt of £58.2 million, with £8.7 million of deferred rent and VAT outstanding, partially offset by £1.1 million of furlough income still to be received. Whilst closed we have a monthly cash burn of c.£5.0 million of which c.£2.5 million is rent.

We anticipate that when we reopen gyms in April 2021 we will be close to cash flow break-even and we will then grow membership, revenues and profitability from this point.

We will open three new sites in April and one in May and expect to start on-site with an additional four gyms by June. We have six further leases exchanged and several more in advanced negotiations.

Mark George
Chief Financial Officer
18 March 2021

* For definitions of non-statutory measures please see 'Key Performance Indicators: Definitions of non-statutory measures' on page 144.

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

MANAGING OUR RISK

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.

This is an area that the Board has always taken seriously. However, it has never been more important than now, as the past year has shown us through the impact of an uncontrollable event in COVID-19.

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.

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 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.

Risks and uncertainties in 2020 relating to COVID-19

The impact of COVID-19 and resulting risks have been a significant feature of the past 12 months. We are continually monitoring the impact of the pandemic and our priority is to ensure the safety of our staff and members. Whilst there are signs of optimism that we will soon be through the cycle of lockdowns and that our business may soon be able to return to trade as normal, there remains uncertainty on the continuing impact of COVID-19 on the wider environment and the Group's operations.

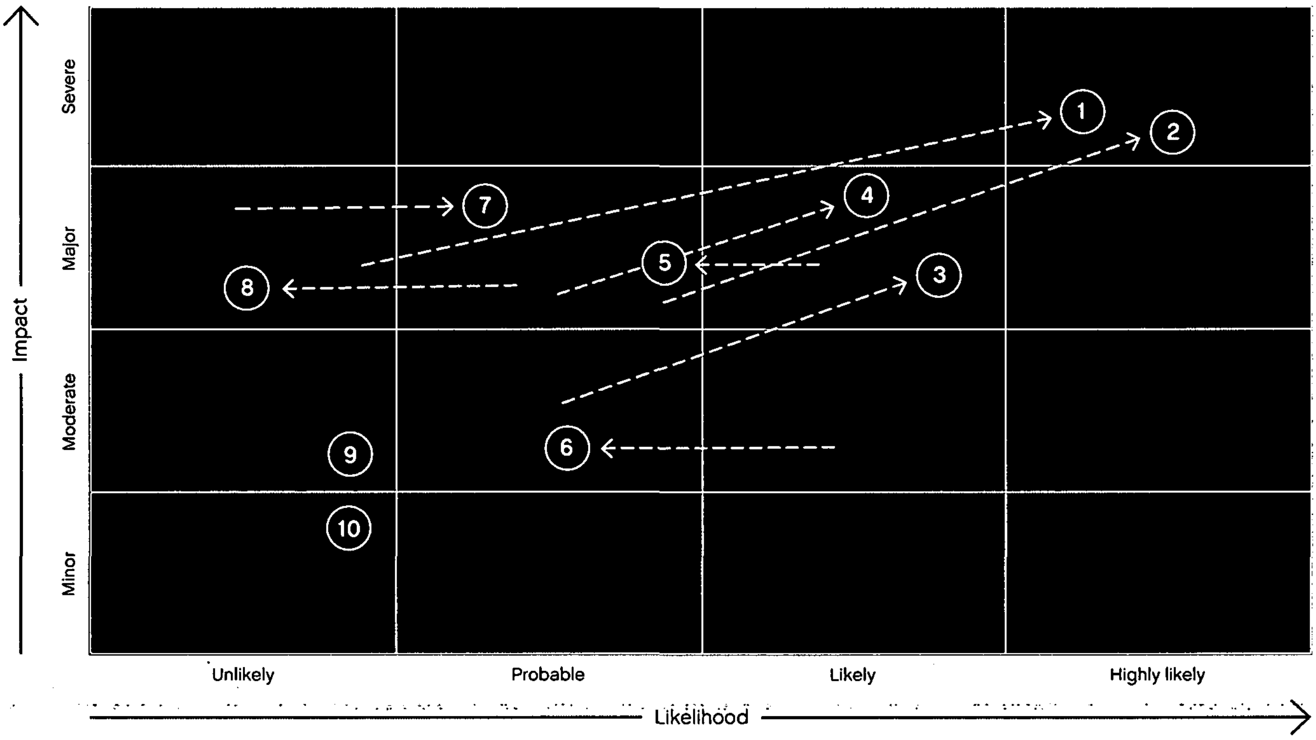
We are following our robust risk management framework and ensuring that an active risk assessment and business continuity plan is in place, overseen by our Health and Safety Manager, reporting to the Executive Committee. The Group will follow Public Health England and Health Protection Scotland guidance, and medical and local authority advice where relevant, to ensure that we respond to any developments quickly, safely and in the best interests of our people. In addition, management has taken a number of actions to increase available liquidity, reduce costs to mitigate the disruption caused by the outbreak, and it will also continue to seek to access the various government schemes to support businesses. As set out on page 51, appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from COVID-19 and in support of viability.

The table below sets out the principal risks of the business and for each risk identifies whether and how COVID-19 has affected that particular risk.

Responsibility for risk

The relevant roles and responsibilities in monitoring and operating the system of risk management are illustrated in the diagram on page 46.

PRINCIPAL RISKS HEAT MAP



Key

1. Business interruption
2. Operational gearing
3. Member experience
4. Economic conditions
5. Competition
6. Staff retention
7. Information technology dependency
8. Organic rollout
9. Data protection
10. Regulatory

Impact of COVID-19 on the risk likelihood and impact - - - →

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

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PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
1 BUSINESS INTERRUPTION	**Whilst this risk is highly relevant today as a result of COVID-19, this risk is wider than pandemics and there could be other causes of significant disruption or widespread closure of our estate, including for example:** (a) Climate change resulting in an increase in the likelihood and severity of environmental disasters such as storms or droughts, which could result in major infrastructure damage and outages of electricity and water supplies. (b) Major health scare in relation to gym usage. (c) Failure of a key supplier impacting our ability to operate our gyms. (d) Significant reputational damage.	Extended periods of closure would result in a loss of revenue and could also cause a decrease in membership numbers. This is specifically the case during the current COVID-19 pandemic, with reduced member numbers and enforced temporary gym closures. Over an extended period, a loss of revenue coupled with the inability of the Group to remove certain of its cost base in a closure scenario means this could lead to a material uncertainty in the Group's ability to continue as a going concern.	• A detailed exercise is being undertaken to assess each of the sources of business interruption risk and determine where appropriate action can be taken to mitigate it, based on whether the cost of the action is proportionate to the risk it is mitigating. • This will be turned into a clear action plan with agreed owners and timeframes. • In addition, business continuity procedures and risks are monitored and refreshed regularly. • In relation to COVID-19, management has identified and implemented proven measures to preserve cash and reduce discretionary expenditure during a period when all of the Group's sites are closed, and to be able to reopen quickly to minimise revenue loss. Appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from COVID-19 and in support of viability. • As part of our response to the TCFD recommendations, we will review the risks of future climate change on our business and identify adaptation action required.
2 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. COVID-19 lockdowns have caused a significant drop in revenue, which has been only partially mitigated by cost management measures.	• Monthly monitoring and reforecasting of business performance at site level. • Active yield management on a gym-by-gym basis. • Regular financial management by the Executive Committee and Board. • Option to slow down expansion in order to preserve cash. • During COVID-19 lockdowns, operating costs have been reduced significantly to minimise the impact of lost revenue and we have taken government support in the form of business rates relief and wages support for furloughed staff. Capex has also been reduced significantly to preserve cash.
3 MEMBER EXPERIENCE	**Failure to provide members with a high quality product and service would damage the Group's reputation.**	Reductions in actual or perceived customer service could result in a decrease in membership numbers and revenue generation. COVID-19 has had an adverse impact on this risk. Whilst member feedback is at an all-time high in response to the COVID-secure steps implemented in the gyms, there are significant numbers of former members who continue to be uncomfortable returning to their normal day-to-day activities – including due to COVID-19.	• Monitor gym utilisation and member satisfaction scores. • Enhance monitoring and feedback processes. • Ongoing review of equipment usage to ensure we meet member requirements. • Explore further innovations to improve the member experience. • Enhanced cleaning protocols to reduce risk of COVID-19 transmission and increase member confidence. • Maintain appropriate levels of expenditure on repairs and maintenance. • Significant work completed on preparing gyms to be COVID-secure. • Gym busyness tracker helps nervous members to visit at quieter times. • Strong communications plan in place to communicate the #safewithus commitment to members and to reinforce key guidelines regarding sanitisation, face coverings and social distancing.

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
4 ECONOMIC CONDITIONS	**A prolonged uncertainty following wider economic shock such as the impact of COVID-19 could cause significant disruption to business conditions.**	A period of disruption caused by continued national lockdowns may result in continuing challenges for the economy, resulting in a loss of membership and hence revenue. Over an extended period, a loss of revenue coupled with the inability of the Group to remove certain of its cost base in a closure scenario means this could lead to a material uncertainty in the Group's ability to continue as a going concern.	• We are very well placed to operate successfully in a challenging economic environment; we are one of the lowest price gym operators in the UK market with an average monthly subscription of £18.81 which is £1-4 per month lower than most competitors in the low cost gym sector and significantly lower than rates charged by mid-market and premium operators. Although some of our members may choose to cancel their subscription due to financial hardship we would also expect to benefit from others 'trading down' from the mid-market or premium gyms.
5 COMPETITION	**The Group may face increased competition and pressure from competitor pricing decisions.**	The ability of the Group to hold or increase prices and therefore achieve performance targets could be affected. However, COVID-19 has led to the closure of competitors and so at this stage has reduced this risk.	• Continue to operate a low cost operating model to ensure we can retain price leadership. • Maintain focus on choosing the best sites in a geographical area. • Continue to invest in the member proposition.
6 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. COVID-19 has resulted in a small reduction in staff churn, as the economic uncertainty is encouraging people to remain in role.	• 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; – succession planning; and – utilising staff engagement surveys so our staff have an opportunity to provide feedback and ideas. • In addition, the growth of central functions and way we run the business is reducing dependencies on key individuals by spreading knowledge more widely.

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

PRINCIPAL RISK	DEFINITION	IMPACT	MITIGATION
7 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. There is a slight increase in this risk due to COVID-19, as we experience significant spikes in usage around the point of reopening post-lockdown.	• 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 which 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. • Additional capacity has been added to our infrastructure to cope with large spikes in usage.
8 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. However, COVID-19 has resulted in increased availability of high quality sites, thereby resulting in a reduced risk.	• Our highly experienced property team is focused on site selection and sourcing the best deals to deliver a strong pipeline. • Our expansion into small box gyms increases the range of suitable sites.
9 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. We do not consider this risk to be affected by COVID-19.	• The Group's networks and systems are protected by firewalls, security software and secure passwords. • All sensitive data is captured and presented using SSL encryption. Our transactional website is scanned quarterly to ensure PCI compliance. • Access to central member data systems requires 2-Factor authentication. • All customer payment data is stored externally on systems that are PCI-DSS and/ or BACS certified. • We have implemented industry-leading authentication management software. • We are recruiting a Data Protection Manager to oversee and optimise our control environment in this area.
10 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. We do not consider this risk to be affected by COVID-19.	• The Board has oversight of the management of regulatory risk and compliance, and delegates specific responsibilities to senior management. • Expert opinion sought where relevant. • Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act. • Third party health and safety risks assessments and audits carried out. Staff conduct periodic health and safety assessments. • Employment and continuous training and development of appropriately qualified staff.

GOING CONCERN

In assessing the going concern position of the Group for the year ended 31 December 2020, the Directors have considered the Group's cash flows, liquidity and business activities in the light of the COVID-19 pandemic.

The outbreak of COVID-19 and its continuing impact on the economy casts a degree of uncertainty as to the future financial performance and cash flows of the Group. When assessing the ability of the Group to continue as a going concern the Directors have considered:

- the Group's financing arrangements;
- the pattern of trading during 2020 when gyms were open between lockdowns; and
- future trading risks including continued regional or nationwide lockdowns and reduced membership levels.

on the cash flows, liquidity and bank facility covenants of the Group over the period to 30 June 2022.

In the first half of 2020 the Group raised additional financing in the form of:

- an equity placing, which raised net proceeds of £39.9 million; plus
- a £30.0 million debt facility extension (the 'New Bank Facility'), which provided incremental liquidity beyond the existing £70.0 million Revolving Credit Facility ('RCF'). The RCF and the New Bank Facility are both provided by a consortium of HSBC, NatWest and Banco de Sabadell.

During the periods of trading between lockdowns in the second half of 2020 the Group traded profitably and reduced capital expenditure and other cash outflows. As at 31 December 2020, the Group had Non-Property Net Debt of £47.3 million versus £100.0 million of total borrowing capacity.

Following the phased introduction of Tier 4 restrictions in a number of regions in December 2020, the Group was required to close 162 of its 183 gyms. On 4 January 2021 all remaining gyms were required to close as the UK Government announced a nationwide lockdown and the gyms remain closed as at 18 March 2020. The UK Government has announced that gyms will reopen on 12 April if there is continued progress with the Government's four criteria for monitoring the pandemic.

As at 28 February 2021, the Group had Non-Property Net Debt of £58.2 million and therefore liquidity of £41.8 million versus a total borrowing capacity £100.0 million. In the next 12 months the Group's liquidity will be influenced by (i) the number of months of closure of its gyms and (ii) the trading performance of the business when gyms are permitted to open. Below we set out the financial implications of periods of closure and trading respectively:

Cash burn when gyms are closed

During the current period of closure, the Group has no revenue and is operating with a monthly cash burn (excluding new site capital expenditure) of around £5 million. This cash burn rate has been minimised as a result of significant reductions in operating costs and the following UK Government support:

- £1.1 million per month of Business Rates relief, currently due to end August 2021; due to there being a cap on the relief of £2.0 million in H2 2021;
- £1.1 million per month of furlough income support from the Coronavirus Job Retention Scheme ('CJRS'), currently due to end when we reopen in April 2021; and
- £0.5 million per month from Local Restrictions Support Grants (LRSG) ongoing until we re-open in April 2021.

In addition to the ongoing support the Group will also benefit from one-off Government grant of £27,000 per site; these grants have a total one-off benefit of c.£4.5 million to the Group, of which £2.2 million had been received from the relevant local authorities before 28 February 2021.

While gyms remain closed and with current levels of Government support, the business is operating with monthly cash burn of c.£5.0 million. This cash burn assumes c.£2.5 million of rent being paid each month, which is the 'normalised' level of rent per month excluding the impact of rent deferrals. A total of £3.6 million of rent deferred from 2020 is due to be repaid over the course of 2021, in addition to the 'normalised' level of £2.5 million per month. Any further deferrals agreed will improve cash flow in the closure period and extend the period of closure for which the Group would be able to operate.

Trading when gyms are open

As at 28 February 2021 the Group had 547,000 members, all on 'free freeze', down from 578,000 on 31 December 2020. During the ongoing period of closure we expect membership to reduce further at a similar rate to recent weeks; this rate of membership loss is lower than in the first national lockdown from March to July 2020 and the second national lockdown in November 2020.

When gyms reopen our subscription revenue starts immediately and in the periods of trading between national lockdowns in 2020 the business operated profitably. The profitability of the Group after the gyms reopen from the current lockdown will depend on the membership level and the level of UK Government financial support. Whilst we continue to receive the benefit of Business Rates relief, which is anticipated until the end of August 2021, the business would require approximately 540,000 members to be break even at the cash flow level. When the benefit of Business Rates relief ends, the cost base of the business increases by c.£1.1 million per month, increasing the cash flow break-even point to around 610,000 members.

Although there is uncertainty over the level of continued Government support and the speed of recovery in membership once gyms have reopened, it is the Directors expectation that the business will be close to break even at a cash flow level when gyms reopen and from that point the recovery in membership will improve profitability and cash flow, therefore reducing net debt and increasing liquidity headroom.

In December 2020, the Group amended the New Bank Facility to extend it from 18 months to 24 months (now due to end June 2022 at which point the terms of the original £70 million RCF will apply) and to set new covenants based on a revised business plan. The Group met the covenant test for December 2020. As a result of the national lockdown in early 2021 the Group agreed with its lending banks a waiver of the March 2021 covenant test. The June 2021 covenant test is based on a cumulative EBITDA for H1 2021 and was set at a level that allowed for up to one month of closure in that six month period; with the current lockdown being at least three months we will not be able to meet the June 2021 covenant test. As our plan anticipates meeting all subsequent covenant tests, we anticipate that our lending banks will provide flexibility on the June 2021 test although no such agreement has been reached. We have agreed with the banks that discussions regarding future covenant tests will take place during April/May 2021 once there is further visibility on the external environment, levels of government support and whether gyms have reopened.

STRATEGIC REPORT

PRINCIPAL RISKS AND UNCERTAINTIES

CONTINUED

The Directors have considered a reverse stress test scenario in which it is assumed the current lockdown ends at the end of April 2021 (vs Government target date for reopening gyms of 12 April 2021) and a new lockdown starts in November 2021 (matching the timing of the winter lockdown in November 2020) and continues indefinitely, with the business trading in the months between lockdowns on an approximately cash flow neutral basis. In such a scenario the Group would be able to continue operating until March 2022 before reaching the £100 million borrowing capacity. In such circumstances additional options may be available to mitigate the impact on the Group's liquidity and cash flow including: (i) further reductions in operating and capital expenditure; (ii) additional support from the UK Government; (iii) extension of debt facilities; (iv) continued deferral of, or reductions in, rent payments to landlords; (v) the potential to raise additional funds from third parties. In the reverse stress test scenario, the closures from November 2021 onwards would result in EBITDA losses in Q4 2021 and as a result the Q4 2021 covenant test would not be met.

Whilst the Group has secured sufficient liquidity, via the raising of equity and additional debt facilities, to finance operations through most reasonable scenarios, it may be necessary in certain downside scenarios to extend the term of the £30.0 million New Bank Facility beyond June 2022. The Directors also consider it to be a plausible risk that current covenant targets after June 2021 will not be met due to the impact of further closure or a slower recovery in membership numbers due to changes in members' behaviour. In the event that the Group fails to meet one or more of its 2021 debt covenants, the Directors believe it likely that further agreement could be reached with the lending banks to waive or amend covenants as part of a revised business plan. However, no such commitment for further covenant waivers (beyond the March 2021 waiver already agreed) is currently in place with the lending banks.

The Directors have concluded that the potential impact of COVID-19 described above and uncertainty over possible mitigating actions, including covenant waivers or extending the New Bank Facility, represents a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, having assessed the financial forecasts, sensitivities and possible mitigating actions, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months and therefore the Directors continue to adopt the going concern basis in preparing these financial statements.

Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Group were unable to continue as a going concern.

VIABILITY

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

As indicated under the Going Concern assessment above, the Directors have concluded that the potential impact of the COVID-19 pandemic described above and uncertainty over possible mitigating actions represents a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Nevertheless, as stated above the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months and that the Company will be able to continue in operation and meet its liabilities as they fall due over the period to 31 December 2023.

The Directors have determined that the 33 month period to 31 December 2023 is an appropriate period over which to assess its viability statement as:

- the Directors review a three-year financial plan each year as part of an annual strategy review with management and the viability analysis is based primarily from this forecast;
- the period is sufficient to reflect the impact that COVID-19 and related mitigation plans are likely to have on the Group's performance and cash flows; and
- it is also sufficient to reflect the return to stable (pre-COVID) mature membership numbers and see the maturation of new sites opened in 2019 and 2020.

The Board also carried out a robust assessment of the principal risks facing the Group, including those that would threaten its growth drivers, future performance, solvency or liquidity. As noted above the Board has also performed specific stress testing on the impact of the COVID-19 pandemic. The outputs from these reviews were then used to perform liquidity and debt covenant headroom analysis on the strategic plan and the COVID-19 scenarios, including the downside sensitivity reviews that were based on principal risks.

While the review has considered all the principal risks identified by the Group, severe but plausible events were focused on for enhanced stress testing. These included a slower recovery in membership numbers vs the base case plan and also a reverse stress test in which a further national lockdown occurs in the Autumn/Winter of 2021/22. In both the downside scenarios and the reverse stress test scenario mitigating actions were then modelled. Key mitigating actions included slowing the rollout programme, agreeing covenant waivers, moving to a minimum level of maintenance capital expenditure and IT capital expenditure and reductions in discretionary expenditure in order to preserve cash.

The principal risks detailed above which have the greatest effect on financial results are considered to be business interruption, operational gearing, member experience, support of lenders and economic conditions, with each of these risks being significantly increased as a consequence of COVID-19 as shown in the risk heatmap on page 47. Although the Group's response to the COVID-19 crisis is management's primary focus at this time, the Directors consider the longer term opportunity in the UK health and fitness market to remain substantial, with further opportunity created by the reduction in certain risks as a consequence of COVID-19, in particular ease of acquiring sites for organic rollout and weaker competition. The Directors consider that the Group will be very well placed to take advantage of these opportunities once it has come through the COVID-19 crisis.

NON-FINANCIAL INFORMATION STATEMENT

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

REPORTING REQUIREMENT	WHERE TO FIND FURTHER INFORMATION	PAGE	SUMMARY OF RELEVANT POLICIES IF APPLICABLE
ENVIRONMENTAL MATTERS	Sustainability Report – environmental responsibility and greenhouse gas information	38-39	Our environmental strategy is set out on page 38.
EMPLOYEES	Sustainability Report Chief Executive's Statement Principal Risks – staff retention	30-41 8-11 49	The Company has relevant training for all employees which is served via a training portal. Our employee-related policies and procedures which include our privacy notice, family-friendly and inclusivity policies, and all work-related policies are available to all employees online.
HUMAN RIGHTS	Modern Slavery Act Statement[1] Human rights, anti-bribery and anti-corruption	35	It is prohibited for any employee or person working on our behalf to offer, give, request or accept any bribe. the Company has an Anti-Bribery Policy which sets out the relevant procedures, as described on page 35. The Company also has a Whistleblowing Policy.
SOCIAL MATTERS	Sustainability Report	30-41	Our strategic approaches to diversity and equal opportunity and promoting wellbeing are set out on pages 36 and 37. Our Diversity & Inclusion Manifesto can be found on our website www.tggplc.com.
BUSINESS MODEL	Business Model	16-17	An explanation of the business model can be found on page 16.
PRINCIPAL RISKS	Principal Risks and Uncertainties	46-52	The Board has a process for considering the principal risks (page 46) as set out in the Audit and Risk Committee Report on page 68.
NON-FINANCIAL KPIs	Key Performance Indicators	12-13	The Board approves relevant KPIs for use in the Strategic Report, as on page 12.
RELATIONSHIPS WITH SUPPLIERS, MEMBERS AND OTHERS	S172 statement within the Strategic Report	26-29	The Company has a number of policies and procedures underpinning its commitment to high standards of business conduct, which are available to all staff online.

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

GOVERNANCE

CHAIRWOMAN'S INTRODUCTION

DEAR SHAREHOLDERS,

I am pleased to introduce the 2020 Corporate Governance Report on behalf of the Board. The Corporate Governance Report forms part of the Directors' Report.

"THE BOARD FULLY SUPPORTS AND PROMOTES THE COMPANY'S PURPOSE BY CONDUCTING ITS BUSINESS ACCORDING TO THE VALUES – TAKING THE FIRST STEP, REALNESS, FRIENDLINESS AND CHALLENGING YOUR LIMITS."

PENNY HUGHES CBE, CHAIRWOMAN

AREAS OF BOARD FOCUS IN 2020

Our areas of focus	Board activities
STRATEGY	• Engagement with industry peers and government in relation to COVID-19 • Site approvals and pipeline reviews • Consideration of sustainability matters • Restructuring • Performance management and talent review of executive management • Approval of 2021 Plan
STAKEHOLDERS	• COVID-19 Operating Protocol • Furlough and CJRS-related actions • Updates on engagement with our stakeholders in relation to COVID-19 disruption • Landlord negotiations
FINANCIAL	• Equity placing • Engagement with the Company's banks regarding COVID-19 • Consideration of revised budgets and trading plans • Approval of 2021 Budget
TECHNOLOGY	• Launch of busyness tracker • Website upgrades • Contactless entry to the gyms
GOVERNANCE	• Approval of the Annual Report • AGM under Stay at Home Measures • Board succession planning • Diversity and inclusion matters • Launch of the Health & Safety and Wellbeing Committee • Effectiveness reviews of the Board and Committees

AREAS OF BOARD FOCUS IN 2021

To date in 2021 the Board has focused on:

- preparation of the Company's year end reports;
- reviewing outcomes and agreeing actions relating to Board evaluation;
- succession planning and rotation of Board and Committee roles and responsibilities;
- the appointment and induction of new Directors;
- receiving reports from ExCo on reopening plans for sites, operational matters relating to the closure period and updates on progress of projects; and
- sustainability reporting.

Purpose and culture

The Gym Group's purpose is to break down barriers to fitness for all, and the Board fully supports and promotes this by conducting its business according to the values – taking the first step, realness, friendliness and challenging your limits – and considering the interests of stakeholders in our decision making. 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.

Ways of working

The Board's normal ways of working were also disrupted by the outbreak of COVID-19 in the UK, and the Board has demonstrated adaptability in moving to virtual working, changing our pattern of meetings and being flexible in our annual agenda to ensure meetings remained effective and key matters related to COVID-19 were given ample Board attention. We also held our 2020 AGM under stringent Stay at Home measures, ensuring that we preserved people's safety while facilitating shareholder participation by proxy voting, inviting questions in advance, and keeping shareholders up to date on arrangements with update announcements.

Stakeholders

During the year, we have ensured that the interests of stakeholders are a key part of Board decision making. Our report on how we manage the business in the interests of our stakeholders is set out on pages 26-29, including examples of activities the Board has carried out in the year. The Board's decision making has been focused on balancing the interests of our stakeholder groups through the COVID-19 crisis. The Board also considered the need to have regard to the interests of our stakeholders as part of its succession planning and composition review carried out in the year, which is detailed on page 66.

Board evaluation

In this report we have also described our Board evaluation process in respect of the year, set out on page 64. As part of this process, in accordance with the Corporate Governance Code, we reviewed our composition and concluded that there was an effective balance of skills, experience and knowledge. The Nomination Committee is responsible for keeping composition, tenure and succession planning under review and making recommendations as appropriate, and will continue to do so in 2021. The dates of Directors' service contracts are on page 88.

The remainder of this report explains in more detail the corporate governance structure in place, including our Board and Committee structure, described on page 60, our policies, including our Diversity and Inclusion Policy which is described in the report of the Nomination Committee on page 65, and protocols on internal controls, which is discussed in more detail in the Report of the Audit and Risk Committee on pages 68 to 70. I hope that you find these pages useful.

Penny Hughes
Chairwoman
18 March 2021

GOVERNANCE AND COMPLIANCE STATEMENT

Through the year and as at the date of this report, except where noted below, the Company has complied with the Code by applying the principles and reporting against the provisions in the Annual Report as a whole.

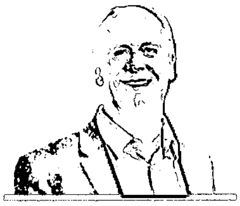
In respect of Provision 36, the Company does not currently have formal post-termination of employment share ownership guidelines in place. Share ownership guidelines are in place for Executive Directors and the Founder Director. The Remuneration Committee has stated its intention to review this during the term of the current Remuneration Policy, which was approved by shareholders in 2019. More information is on page 85.

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

Where to find information against each of the Code principles:

GOVERNANCE

BOARD OF DIRECTORS

	PENNY HUGHES Independent Non-Executive Chairwoman	RICHARD DARWIN Chief Executive Officer	MARK GEORGE Chief Financial Officer	JOHN TREHARNE Founder Director
Committees				
Career	Penny has served on the boards of directors of firms across the consumer, media, technology and finance sectors. The majority of Penny's executive career was spent at Coca-Cola, where she was appointed President of Coca-Cola Great Britain & Ireland in 1992.	Richard possesses extensive experience working for leisure and FMCG companies in the UK and internationally, including The Rank Group, Hard Rock Café International and Diageo. He qualified as a chartered accountant with Coopers & Lybrand. He has previously held the positions of Chief Financial Officer of Essenden plc (now Ten Entertainment Group plc) from 2009 to 2015 and Chief Financial Officer of Paramount Restaurants from 2003 to 2008. Richard served as The Gym Group's Chief Financial Officer from 2015 to 2018.	Mark has held senior roles in finance, strategy and general management in a number of leading consumer businesses including Tesco, Asos and most recently Auto Trader PLC, where he was Deputy CFO and a member of the Operational Leadership Team. He started his career as a management consultant with McKinsey & Co.	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.
Board skills and experience	Penny has taken a hands-on role in leading the business throughout her time as Chairwoman. Penny leads the Board in strategic matters, engages closely with the Executive Directors, visits operations extensively, and takes an active role in furthering initiatives across the business such as sustainability and diversity and inclusion.	Richard has led the business strongly through the disruption of the pandemic, including continuing to develop a talented and stable team of executives. Richard's detailed knowledge of The Gym Group and background in leisure businesses supports his development of the business's strategy and financial delivery.	Mark brings his quality experience in consumer plcs to the Board and executive team. Mark is diligent, sets high standards and has demonstrated flexibility and leadership in managing the financial operations of the business well through COVID-19 disruption, including working closely with our lenders and continuing to develop the finance function.	John's wealth of operational and leadership experience and knowledge of industry trends offers the Board valuable context to develop its strategy and inform its decisions. As founder, John has an unmatched network of industry connections used to support our business.
Other appointments	iQ Student Accommodation – Adviser Riverstone Living – Chair Form3 – Non-executive Director	None	None	ukactive – Board member Frame – Chairman Jigsaw South East – Chair of Trustees

Committees: Nomination Committee, Audit and Risk Committee, Remuneration Committee

PAUL GILBERT
Senior Independent Non-Executive Director

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

He has previously held the positions of Chief Financial Officer of TJ Hughes, National Car Parks and Matalan, and Non-Executive Chairman of Betterbathrooms (UK), Clothingsites.co.uk, Hiring Hub, and Sykes Cottages. Paul was also previously Non-Executive Director of New Look Retailers.

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

Paul is a Chartered Accountant with a strong finance background and experience of multi-site retail businesses. As our Audit and Risk Committee Chair, Paul brings recent, relevant and robust financial experience to the Committee and the Board as a whole. Paul is available to all stakeholders in his capacity as SID.

Grip-UK Limited – Non-Executive Chairman

EMMA WOODS
Non-Executive Director

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

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

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

Wagamama – Chief Executive Officer

DAVID KELLY
Non-Executive Director

David is an experienced digital operating executive.

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

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

Chair and Audit Chair of Simply Business; Chair of Pure360 and Camelot Global Lottery Solutions Ltd; Senior Independent Director and Chair of the Remuneration Committee of On the Beach Group plc; Chair of the Remuneration Committee of Reach plc; Audit Chair of Forest Holidays; Non-Executive Director of Holiday Extras.

RIO FERDINAND
Non-Executive Director

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

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

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

WAIS SHAIFTA
Non-Executive Director

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

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

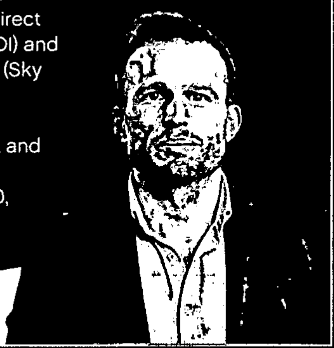
Push Doctor – CEO

GOVERNANCE

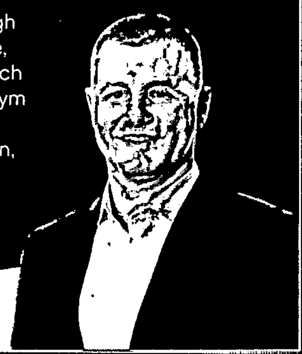
EXECUTIVE COMMITTEE

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

Barney joined The Gym in 2016, and in 2019 was promoted to Chief Commercial Officer. Since 2020, Barney has also led our central operations function.



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



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

At the start of 2021, Ann-marie took on the additional responsibility for our Gym operations across the UK, in addition to running the People function.

DAVID MELHUISH
Development Director
David joined The Gym Group in April 2013 and has successfully opened over 140 gyms to date. He was previously Head of Development & Facilities at Central England Co-operative managing a diverse trading estate of over 300 properties.

Richard Darwin, CEO, and Mark George, CFO, are also members of our Executive Committee, and their biographies are on page 56.

HOW THE BOARD AND EXECUTIVE COMMITTEE WORK TOGETHER

The Board and ExCo work closely together to ensure the robust governance of the business and successful execution of our strategy. Over the year, the Board and ExCo have worked closely on managing matters related to COVID-19 remediation actions and developing the strategy for 2021. The ExCo team's biographies can be seen set out above.

CORPORATE GOVERNANCE REPORT

BOARD GOVERNANCE

The Board and Committees

As at the date of this report, the Board comprises nine members:

- Non-Executive Chairwoman
- Five Independent Non-Executive Directors, of which one acts as Senior Independent Director
- Two Executive Directors
- Founder Director

Two Independent Non-Executive Directors, Wais Shaifta and Rio Ferdinand, joined the business on 1 February 2021, and Senior Independent Director Paul Gilbert will retire from the Board at the time of the Company's AGM.

The Chairwoman, Penny Hughes, was deemed independent on appointment.

The Board feels there is an appropriate succession plan for Board representation to ensure a continued appropriate combination of Executive and Non-Executive Directors. A full list of Directors and biographies is set out on pages 56-57, which include summaries of the skills and experiences each Director brings to the Board.

Board and Committee composition and orderly succession will be a focus for Directors in the coming year. Our Remuneration Committee continues to be made up of Independent Non-Executive Directors. Our Nomination Committee is made up of a majority of Independent NEDs, with the Founder Director and CEO also being members.

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

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

The Board has established a formal schedule of matters reserved for its approval and has delegated other specific responsibilities to its principal Committees: the Audit and Risk Committee, Remuneration Committee and Nomination Committee. Each of the Committee's roles and responsibilities are set out in formal terms of reference, which are determined by the Board and available on the Company's website. Reports from each of these Committees are provided on pages 65 to 89. In addition, in 2020 the Board formed the Health & Safety and Wellbeing Committee, with formal responsibility for oversight of COVID-secure operating protocols and material updates, and reviewing the effectiveness of, the Group's health and safety risk and control processes. A report on the business of the HSW Committee is on page 64.

Compliance with the Code

Our compliance and governance statement is on page 55.

In respect of Provision 36, the Company does not currently have formal post-termination of employment share ownership guidelines in place. The applicable share ownership guidelines under the Remuneration Policy are set out on page 85. In accordance with the Remuneration Policy, Executive Directors' PSP awards have had a two-year holding period applied since 2018. The Remuneration Committee has stated its intention to consider the appropriateness of extending the application of the share ownership guidelines for a period post termination of employment during the anticipated three-year term of the current Remuneration Policy, which was approved by shareholders in 2019. More information is on page 85.

Once Paul Gilbert retires from the Board at the Company's AGM, David Kelly will be appointed as Audit and Risk Committee Chair and Wais Shaifta will join the Committee. The Committee has considered Provision 24 in relation to the future composition of the Audit and Risk Committee when Paul Gilbert retires from the Board. When considering appointments to the Committee to replace Paul Gilbert, the Board has considered the rotation of Directors to ensure that the Committee retains recent and relevant financial experience. In addition to the commercial skills, length of service and experience of the Committee members, the Committee is well supported by the Chairwoman and Executive Directors and the Company's advisers. Taking into account David's experience of audit committees, the Committee's industry-relevant experience as a whole, the relevant financial experience of other Board members who do not sit on the Committee, and the support of the Company's advisers, the Committee can continue to discharge its obligations as set out in the Audit and Risk Committee Report on pages 68-70. The Committee will keep the composition of its Committees under regular review to ensure that composition remains appropriate. More information on the Board's succession planning is in the Nomination Committee Report.

BOARD LEADERSHIP

Governance structure and key responsibilities

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. The Board has further established a Health & Safety and Wellbeing Committee. Each of the Committee's roles and responsibilities are set out in formal terms of reference, which are determined by the Board. These are available for review on the Company's website.

All formal 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. The Board keeps the matters reserved for the Board under review, and has agreed the current schedule of matters reserved remains effective. The Board has agreed to review the matters reserved later in the year, once the Group's operations have fully resumed.

GOVERNANCE

CORPORATE GOVERNANCE REPORT

CONTINUED

Governance structure and key responsibilities

THE BOARD

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

BOARD COMMITTEES

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

AUDIT AND RISK
See report on page 68

REMUNERATION
See report on page 71

NOMINATION
See report on page 65

HEALTH & SAFETY AND WELLBEING
New for 2020
See report on page 64

Roles and responsibilities

	Key responsibility
CHAIRWOMAN	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 to promote effective debate and contribution from Executive and Non-Executive Board members.
CEO	Richard Darwin, as Chief Executive Officer, leads the Executive Committee, which support him in the operational and day-to-day management of the Company. The Non-Executive Directors meet at least once annually without Executive Directors present.
SENIOR INDEPENDENT DIRECTOR 'SID'	Paul Gilbert fulfils the role of SID on the Board. Paul is available to shareholders if they have concerns that the normal channels of Chairwoman, Chief Executive Officer or Chief Financial Officer have failed to resolve, or for which such channels of communication are inappropriate. This mode of communication was not used in the year. He also acts as intermediary for the other Directors and the Chairwoman, as necessary, and conducts the annual appraisal of the Chairwoman. From the Company's next AGM, when Paul retires from the Board, Emma Woods will take on the role of SID.
EXCO	The Executive Committee is responsible for executing the strategy determined by the Board and members regularly attend Board meetings to update Directors on progress made against the Company's agreed strategic objectives.
COMPANY SECRETARY	In January 2020, the Company appointed an in-house Company Secretary, with responsibility for ensuring effective communication flows between the Board, its Committees, and the Executive Committee. The Company Secretary also advises the Board on corporate governance matters and ensures that Board procedures are followed. The Company Secretary attends all Board and Committee meetings by invitation of the respective Chairs.

BOARD SKILLS AND COMPOSITION

Overview

Pursuant to the delegated authority of the Nomination Committee, during the year and in early 2021 the Nomination Committee reviewed the structure, size and composition of the Board to ensure it has an appropriate balance of skills, diversity, experience, knowledge and independence, and made recommendations regarding appointments to the Board, succession planning and Committee composition.

In 2021, it is the Board's intention that the Nomination Committee will carry on this continual review of composition by looking at the skills matrix of the Board, considering skills, knowledge and experience that are necessary and desirable for the successful execution of the Company's strategy.

RELATIONSHIP WITH SHAREHOLDERS

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

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

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

Presentations given to analysts and investors covering the annual and interim results, along with results and further information for investors, are included in the investors section of the Company's website at www.tggplc.com. The CEO and CFO hold presentations at the time of the half year and full year results, with such presentations being made available as audio recordings on the investor website. All Board members usually attend the AGM, subject to prevailing COVID-19 restrictions. In 2020, the AGM was held in accordance with the Stay at Home measures, as a closed meeting with shareholders given the opportunity to vote by proxy and submit questions in advance.

Board decision making

The Board considers the interests of the Company's stakeholders in all of its decision making, as described in detail on pages 26-29.

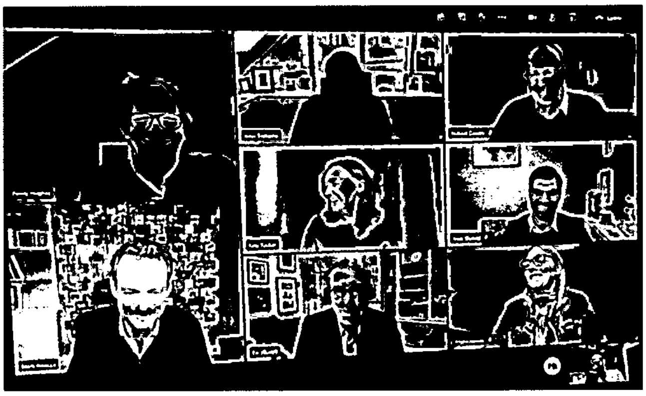
2020 was a severely disrupted year in which several well-established ways of working had to be reconsidered and carried out differently.

As part of its decision making, the Board has regard to a variety of matters including the interests of various stakeholders, the consequences of its decisions in the long term and its long term reputation in the marketplace. Usually, the Board holds two strategy sessions which consider future plans and initiatives for beyond the next 12 months. In 2020, owing to closure periods and disruption, the Board held one strategy session in November to look ahead to 2021 business plan and to recovery.

The Directors also review the Budget for the forthcoming year in detail. The Executive Committee attend these sessions and present to the Board on each of their respective areas of responsibility to ensure the Board has all relevant information on behalf of stakeholder groups, such as environmental impact, community assessment via site appraisals, employee and member feedback, and any necessary communications, and to ensure that the Board's strategy is clearly communicated.

To help reduce risk as part of decision making, the Audit and Risk Committee review all key risks that the Company faces, which are not limited to those disclosed as principal risks in this report. Risks are also considered in detail as part of any acquisition made by the Company. The Board draws on all of the above resources and processes when considering a major strategic decision.

See pages 26 to 29 for Stakeholder engagement



The Board has met virtually through the COVID-19 pandemic, and continued to do so in early 2021.

GOVERNANCE

CORPORATE GOVERNANCE REPORT

CONTINUED

BOARD MEETINGS

Overview

There were nine scheduled Board meetings held in 2020 and there are nine Board meetings scheduled for 2021, one of which is a shorter update meeting to review progress of preparation of interim financial statements. There are also four scheduled sub-Committee meetings of the Board to approve financial and trading statements.

In addition to our scheduled meetings, following the outbreak of COVID-19 in the UK, the Board adapted its ways of working by moving to virtual working and meeting online. As part of this, the Board agreed to hold more regular informal ad hoc meetings, which are considered unscheduled and usually less than an hour in duration, to ensure that the team remained connected and provide support to and access for the executive team if required. In March 2020, the Board held two additional ad hoc sub-Committee meetings to review and approve matters relating to the Company's Annual Report and Accounts, and thereafter chose to meet on an ad hoc basis at weekly intervals through the first national lockdown until the Company's sites reopened in July 2020.

Eight Audit and Risk Committee meetings were held. This was an increased number from 2019, owing to additional considerations around preparation of financial reporting and monitoring of the changing macroeconomic environment.

Seven Remuneration Committee meetings were held. The additional meetings were held to consider remuneration actions taken in response to the COVID-19 pandemic, as described in the Remuneration Report.

Four Nomination Committee meetings were held to consider the appointments of new Non-Executive Directors and Board succession planning matters.

The Health & Safety and Wellbeing Committee was first constituted in July 2020 and met three times to consider matters relating to the Company's COVID-secure operating protocols.

Since the end of 2020, the Board has moved to fortnightly informal virtual meetings in the third national lockdown commencing January 2021 in addition to its formal, scheduled meetings. This enables the Board to maintain regular contact with the executive team and facilitates effective decision making when in-person meetings are not possible.

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 a strategy meeting in November 2020 with the Executive Committee, to review, consider and discuss the strategic plans of the Group for 2021 and recovery from COVID-19 disruption. The Board intends to keep the number of strategic meetings under review for 2021.

Board and Committee attendance

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	Health & Safety and Wellbeing Committee
Penny Hughes	9/9	4/4	–	7/7	3/3
Richard Darwin	9/9	4/4	–	–	3/3
Mark George	9/9	–	–	–	–
Paul Gilbert	9/9	4/4	8/8	7/7	3/3
David Kelly	9/9	4/4	8/8	7/7	–
John Treharne	9/9	4/4	–	–	3/3
Emma Woods	9/9	4/4	8/8	7/7	–

BOARD EFFECTIVENESS

Information and support

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

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

Training and development

The Company has developed an induction programme to provide new Directors with a formal, tailored induction that will include visiting several operational locations when possible. 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 reviewed training and development needs with each Director. Overall, the Board feel well trained, and recognise the importance of formal training for new Directors or to support role and responsibility changes. There was a request for some refresher training on Board Committee responsibilities which will be facilitated during 2021.

Appointment and induction of new Directors

No new Directors were appointed during the year. Wais Shaifta and Rio Ferdinand joined the Board on 1 February 2021 and information relating to their appointment and induction programme is in the Nomination Committee Report on page 65.

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, Penny Hughes, Richard Darwin, Mark George, David Kelly, John Treharne and Emma Woods will be offering themselves for re-election at the Company's AGM. Wais Shaifta and Rio Ferdinand will be offering themselves for election at the Company's AGM, having joined on 1 February 2021.

Paul Gilbert, after nine years with the Group of which five were as Senior Independent Director, will be retiring from the Board and will not seek re-election at the AGM.

All of the Directors have service agreements or letters of appointment and the details of their terms are set out in the Report of the Remuneration Committee. The service agreements and letters of appointment are available for inspection at the Company's registered office during normal business hours.

BOARD EVALUATION AND EFFECTIVENESS

Overview

The Directors are aware of the need to continually monitor and improve performance and recognise this can be achieved through regular Board evaluations, which provide a valuable feedback mechanism for improving Board effectiveness. In addition to regular discussions during Board meetings, the Board considers each year whether to conduct a formal external performance evaluation of the Board, its Committees and the Chairwoman and it was agreed to undertake the review internally this year, as in previous years. As the Company is outside of the FTSE 350, it is not required to hold an external evaluation every three years. However, evaluation plans are kept under review on an annual basis.

Findings from previous review and progress on actions

Key findings for 2019	Actions undertaken
CONTINUED FOCUS ON ALL ASPECTS OF DIVERSITY WITHIN THE COMPANY.	The Nomination Committee reviewed the skills, experience, diversity and knowledge of the Board and made two new appointments as well as other developments as detailed in the Nomination Committee report on page 65. Progress has been made on diversity and inclusion initiatives as detailed in the Sustainability Report on page 36 – 37.
MORE OPPORTUNITIES FOR DIRECTORS TO REFRESH AND DEVELOP THEIR UNDERSTANDING OF SPECIFIC TOPICS.	Proposals for refreshing governance training have been carried forward into 2021 as new Directors join the Board.
CONSIDER WAYS OF ENSURING ROBUST AND EFFICIENT GOVERNANCE OVER SITE APPROVALS WAS MAINTAINED, SUCH AS DEVELOPING A DEDICATED BOARD COMMITTEE.	The frequency of site appraisals decreased pursuant to COVID-19 disruption. Instead, the Board constituted a new Committee dedicated to the oversight of health and safety and wellbeing matters.

GOVERNANCE

CORPORATE GOVERNANCE REPORT

CONTINUED

BOARD EFFECTIVENESS

2020 internal evaluation

As part of the 2020 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 covered the Board's performance in relation to the coronavirus disruption and the Board's leadership in this period as well as key initiatives which took place during the year, including the process of appointment of our new Non-Executive Directors. The questionnaire was supplemented by a review of the Chairwoman's performance. The results were collated, and a summary paper was prepared, which was discussed in detail by the Board and a list of action points was compiled which will be monitored by the Nomination Committee to ensure all outcomes are monitored and achieved in a timely manner.

The review showed a consensus view that 2020 had been an exceptional year of disruption, and the Board had showed flexibility and agility in leadership, adapting ways of working and maintaining a positive, supportive working relationship with the executive team, who had shown resilience and pace in a difficult period. In 2021, it would be important that the Board focus on the strategic outlook of the business during and after recovery from COVID-19 disruption. It was agreed to review agendas to focus on key essential priorities and value drivers, and ensure sufficient time for the Board to focus on future strategy. In addition, the Board will support the executive team as appropriate to achieve the strategic plan and return to growth.

The feedback relating to the appointments of the two new Non-Executive Directors was unanimously positive and all Directors agreed that a full, formal and tailored induction programme would be very important to support the new Directors in learning about the business, its culture, purpose, history and strategy, its commercial proposition, and the governance roles and responsibilities relevant to their duties. It was agreed that orderly succession and rotation of Board roles and responsibilities would continue and be reviewed regularly by the Nomination Committee. This review includes the role of the Designated NED for People Engagement, which would rotate to enable other Directors to take on the responsibilities including working with the Chief People Officer ensuring People matters were reflected at Board level. In addition, Directors commented that general refresher training on Committee responsibilities would be useful, in light of changes to Committee composition.

The performance of each Director was also assessed through a self-appraisal section of the questionnaire and discussed by the Board and, accordingly, the Board believes that each Director should be re-elected at the AGM, as they have the requisite skills and experience, and demonstrate the necessary commitment to contribute effectively to the deliberations of the Board. Additionally, the Chairwoman has confirmed that the performance of each Director continues to be effective and that they each demonstrate commitment to the role.

The questionnaire was supplemented by a review of the Chairwoman's performance which was carried out by the SID, who discussed feedback with the Chairwoman and identified no matters of concern. It was concluded that the Chairwoman's leadership remains effective.

The results of the evaluation exercise demonstrated that the Board, its Committees and the Chairwoman continue to operate effectively.

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 £1.8 million (2019: £2.0 million) to Closewall in connection with the fit-out of new gyms during the year ended 31 December 2020. John Treharne has never been involved in decision making in relation to the fit-out contractors that the Group engages and the Group operates a robust purchasing process overseen by a number of senior employees. In the opinion of the Directors, such decision making has followed appropriate governance procedures with regard to conflicts of interest.

No Directors took on additional significant commitments during the year.

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.

In accordance with the Board's Conflicts Policy, Rio and Wais declared their external commitments to the Board in advance of appointment and these were approved.

[illegible]

Members	Richard Darwin (Chair), Penny Hughes, John Treharne, Paul Gilbert, David Melhuish
Meetings	3

The HSW Committee first met on 30 July 2020 and met three times in the year, primarily to consider matters relating to the Company's COVID-secure operating protocols and applicable policies and procedures. In 2020, the Committee also received updates and reviewed progress on the Company's COVID-secure and health and safety site audits. The Committee also considered and, where appropriate, approved Health & Safety policies and procedures.

In 2021, the HSW Committee has met once to consider matters connected to reopening protocols, health and safety updates and employee wellbeing matters.

Richard Darwin is the Chair of the HSW Committee and its membership is comprised of Board Directors and the Development Director, David Melhuish, who is a member of the Executive Committee. In accordance with the Committee's terms of reference, the Chair invites other persons to attend the Committee depending on the business of the agenda.

As with Board Committees, the Company Secretary attends the meeting at the invitation of the Chair and keeps a formal record of minutes.

The Committee has formal terms of reference setting out its duties, which include, in addition to the matters detailed above, health and safety and wellbeing matters escalated by the Executive Committee and the H&S Steerco, or from other persons as appropriate. The Committee receives reports and recommendations from the H&S Steerco relating to operational health and safety matters.

An overview of the Company's health and safety is included in the Sustainability Report on pages 32 and 33.

REPORT OF THE NOMINATION COMMITTEE

COMMITTEE MEMBERS

Chairwoman	Penny Hughes
Committee members	Richard Darwin, Paul Gilbert, David Kelly, John Treharne, Emma Woods
Number of meetings held in 2020	4

"THE BUSINESS HAS BENEFITED FROM CONTINUITY AT BOARD LEVEL SINCE IPO, AND WE AGREED IT WAS TIME TO START ROTATION AND TO ATTRACT NEW SKILLS AND EXPERIENCES TO OUR TEAM."

PENNY HUGHES CBE, CHAIRWOMAN

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 2020

- Led the recruitment process using external search agency MBS Group for the appointment of two new Non-Executive Directors, Wais Shaifta and Rio Ferdinand, recommended their appointments to the Board and approved their induction programme.
- Reviewed the composition of the Board and its Committees and commenced an ongoing review process of Board rotation and succession planning to continue into 2021, with a remit to make recommendations for the composition of the Board's Committees and Board responsibilities on an ongoing basis.
- Oversaw progress on diversity and inclusion initiatives, including:
  - the publication of the Diversity and Inclusion Manifesto;
  - the Company's signature of the Race at Work Charter;
  - the appointment of Penny as the Board's Race Sponsor; and
  - receiving regular updates on the progress of diversity and inclusion workstreams.
- Supported the Board evaluation process for 2020-21, the results of which can be found in the Corporate Governance report on page 64.
- With support from the Remuneration Committee, held a review and planning session considering talent and succession planning for key roles within the wider business.

Roles and responsibilities

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

This involves:

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

GOVERNANCE

REPORT OF THE NOMINATION COMMITTEE

CONTINUED

MAIN ACTIVITIES

Appointment of new Directors

In 2020, as recommended by the previous Board evaluation, the Nomination Committee undertook to review the skills, diversity, experience and knowledge of the Board, to ensure the Board had the necessary resources to continue to provide strong and effective leadership to the Company. The Committee agreed that the Company had been well served by the stability and experience of the Board since IPO, and that the Company was well supported with a mix of skills. All Directors continued to perform their duties well and had shown flexibility and adaptability through the disruption caused by the COVID-19 outbreak in the UK.

The Nomination Committee recognised an opportunity to introduce further diversity and entrepreneurial, digital and engagement skills, aligned with the Company's future strategic ambitions. The Committee authorised the Chairwoman to lead a formal recruitment process, supported by external search agency MBS Group. MBS Group performed no other services for the Company in the year. The process included development of a brief setting out the Committee's specification for the role, preparation of a shortlist, and interviews with several Board members and members of senior management of the Company to assess the shortlisted candidates' skills, knowledge, experience and alignment with the Company's culture and strategy. Furthermore, the Committee determined that the existing Board of Directors was sufficiently well experienced to support an appropriate induction for Directors who had not held a post on a listed company Board before, which enabled the Company to consider a broader range of candidates at different stages and places in their respective careers.

Following a formal, robust and transparent process, including receipt of satisfactory references, the Committee recommended the appointments of Wais Shaifta and Rio Ferdinand to the Board. Their biographies can be found on page 57 and both Directors joined the Board on 1 February 2021.

The Committee further approved a full, formal and tailored induction programme designed to support the new Directors in learning about the business, its culture, purpose, history and strategy, its commercial proposition, and the governance roles and responsibilities relevant to their duties. Wais and Rio have begun this programme.

Succession planning: Board level

The Committee considered succession and Committee roles and responsibilities for the Independent Directors, taking into account governance requirements and the balance of Directors' skills and experience on an ongoing basis.

As announced by the Company on 15 January 2021, Paul Gilbert will retire from the Board of Directors at the Company's AGM. Paul has served nine years in total on the Board of The Gym Group; five since IPO as Senior Independent Director and prior to IPO as Non-Executive Chairman. The Board is enormously grateful to Paul for his support and contribution he has made to the Company. Following Paul's retirement, David Kelly will undertake the role of Chair of the Audit and Risk Committee.

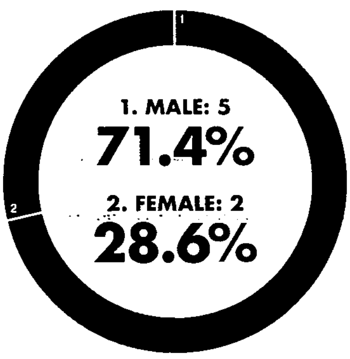
The Board formally considered the composition of the Audit and Risk Committee following these changes. The Board recognises the requirement of Provision 24 of the Corporate Governance Code, that at least one member of the Committee has recent and relevant financial experience, and the rationale for its satisfactory conclusions is set out on page 59.

Following the Company's AGM and Paul's retirement from the Board, the role of Senior Independent Director will be taken over by Emma Woods. In addition, the Nomination Committee recommended to the Board that further changes to the Committee memberships of the Non-Executive Directors be made, taking into account the Directors' skills, knowledge and experience. It was recommended that, with effect from the Company's AGM, Emma Woods be appointed Chair of the Remuneration Committee, Wais Shaifta join the Audit & Risk, Nomination and Health & Safety and Wellbeing Committees, and Rio Ferdinand join the Remuneration, Nomination and Health & Safety and Wellbeing Committees. The Committee will keep the composition of its Committees under regular review to ensure that composition remains appropriate.

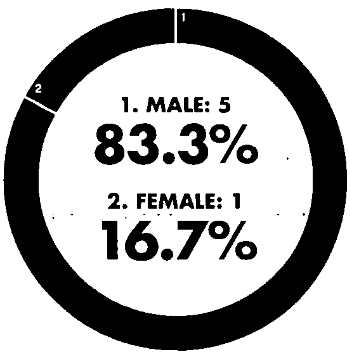
In the coming years, the Board intends that an orderly rotation of Independent Non-Executive Directors will take place, taking into account governance requirements and the balance of Directors' skills and experience, and the Committee will keep this matter under regular review.

Gender breakdown at 31 December 2020

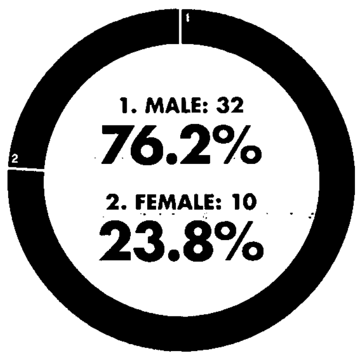
BOARD



EXCO



SENIOR LEADERSHIP TEAM



Succession planning: beyond the Board

In 2019, the Committee recommended the appointment of an in-house Company Secretary to the Board, which was an action from our Board evaluation the previous year. The Company Secretary's main duties are ensuring Board procedures are followed, advising the Board on corporate governance matters, and ensuring effective communication flows between the Board, its Committees, and the Executive Committee. Katy Tucker was appointed to the role of Company Secretary on 2 January 2020 and Mark George, Chief Financial Officer, stepped down as Company Secretary on the same date, retaining his executive responsibilities as CFO. As part of the Board evaluation process, details of which are on page 64, the Board agreed that the move to appoint a standalone Company Secretary had been well received and had a positive effect on Board procedures, communication flows and Board advice and support, particularly in light of the COVID-19 changes to ways of working.

Senior management succession planning continues to be a focus for the Committee. During the year, the Committee undertook to review certain senior management roles, both from a capabilities perspective and in terms of succession planning. The Committee met without the Executive Directors to review progress against the CEO and CFO's respective development plans as noted in 2019's report, and consider ongoing performance and development. With support from the Remuneration Committee, the Nomination Committee considered the findings of the talent review carried out by the Executive Committee in relation to the senior management team ('SLT').

Diversity and inclusion

Our Diversity and Inclusion Policy is that no individual should be discriminated against on the grounds of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race (which includes colour, nationality and ethnic or national origins), religion or belief, sex or sexual orientation. Our policy is reflected in our approach to recruitment at all levels, including Board level, and is stated in our employee handbook which forms part of our employees' service contracts.

During the year, our Chairwoman Penny Hughes was identified as an Advocate for Change within Women in Hospitality, Travel and Leisure, as an acknowledgment of her commitment to driving change and promoting equality, inclusion and diversity at The Gym Group.

Our strategic approach to diversity and equal opportunity, including the progress made in 2020, is set out within our Sustainability Report on diversity and inclusion on page 36. We have published our D&I Manifesto on the Company's website, www.tggplc.com.

As at 31 December 2020 the Board comprised 28.6% (two) female and 71.4% (five) male Board members. The gender balance within our Executive Committee as at 31 December 2020 was 16.7% (one) female and 83.3% (five) male members. The senior leadership team, comprised mainly of executive committees' direct reports, have 23.8% (ten) female and 76.2% (32) male members.

Since December, the Board composition has changed with the appointment of Wais and Rio. Following the Company's AGM, the Board will have two female (25%) and six male Board members (75%). We firmly believe in making progress towards more diverse leadership in all areas, including gender and cultural diversity. Whilst the proportion of female representation on the Board has fallen, we feel strongly that we are making strides towards a more representative, diverse Board and will continue this progress over time.

We have published our most recent Gender Pay Gap Report. Our mean gender pay gap has increased this year, as we have seen more men than women in senior roles, which attract a higher salary. Our median gender pay gap has reduced as we now employ over 1,200 more Fitness Trainers, who are all paid the same hourly rate. While our gender pay gap compares favourably with the UK economy more widely, we are committed to reporting on an annual basis the actions we are taking to further reduce the gap and on our progress made against these actions. As we highlight in our report, the pay gap is formed largely because our most senior roles are mainly filled by men and we continue to focus on a diverse succession pipeline.

We will continue to monitor and report our progress on diversity during 2021.

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 2020, the Committee met four times and attendance at the meetings is shown in the table on page 62.

The external search agency engaged to work on the appointment of the new Independent Non-Executive Directors, MBS Group, performed no other services for the Company in the year.

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

Annual evaluation of the Nomination Committee's performance

As part of the evaluation process, the performance and effectiveness of the Nomination Committee was considered and it was agreed that the Committee continued to work effectively. Feedback from Directors was unanimously positive regarding the high calibre of the appointments made to the Board, though it was acknowledged that as the interview process had been conducted amid COVID-19 protocols, it would be important for the new Directors to make site and business visits when possible. All Directors commented on the importance of a full, formal and tailored induction plan to introduce the new Board colleagues to the business and support their understanding of roles and responsibilities. Both factors were taken as actions and Wais and Rio have embarked on full, formal and tailored induction plans which will develop over time and include site visits at the appropriate stage.

The report on the full Board evaluation process can be found within the Corporate Governance Report on page 64.

Penny Hughes
Chairwoman of the Nomination Committee
18 March 2021

GOVERNANCE

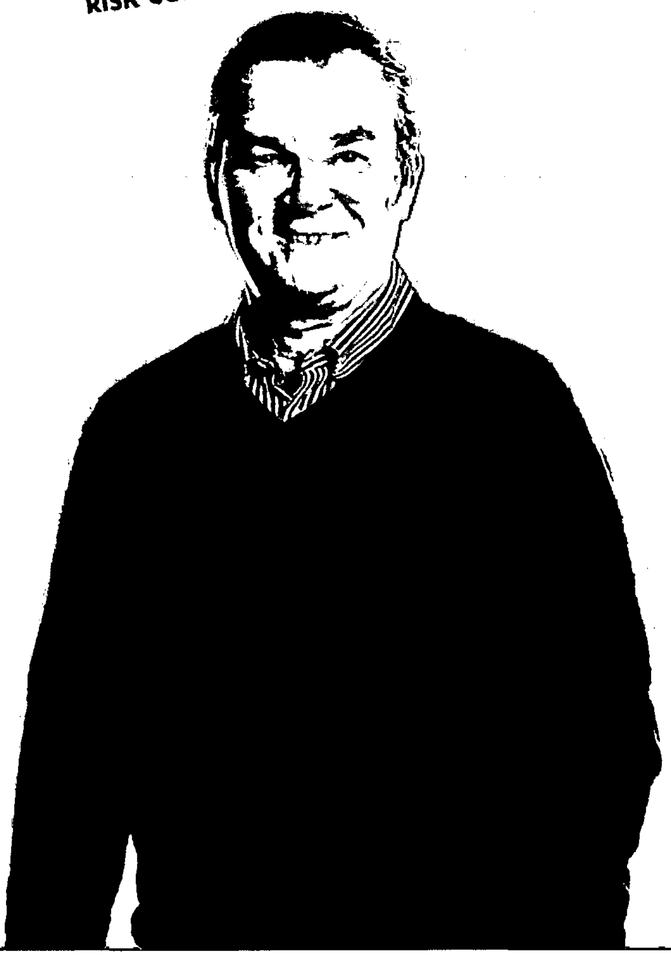
REPORT OF THE AUDIT AND RISK COMMITTEE

COMMITTEE MEMBERS

Chairman	Paul Gilbert
Committee members	David Kelly, Emma Woods
Number of meetings held in 2020	8

" THE BUSINESS HAS FOCUSED ON MANAGING CASH AND RISK THROUGH THIS PERIOD OF SIGNIFICANT UNCERTAINTY AND AS A RESULT IS PREPARED TO EMERGE FROM THE CRISIS IN A ROBUST POSITION."

PAUL GILBERT, CHAIR OF THE AUDIT AND RISK COMMITTEE



OBJECTIVES

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

KEY ACHIEVEMENTS IN 2020

- Considered the plans and outcome of the Group's half year and full year results announcements and Annual Report.
- Oversaw the Group's external reporting response to COVID-19, including review of the accounting and reporting impacts of COVID-19.
- Reviewed the Corporate Risk Assessment and the impact COVID-19 has on it.
- Oversaw the ongoing optimisation of the Company's financial process and control environment.
- Oversaw the planning and execution of the equity placing.
- Oversaw the planning and execution of amendments to the revolving credit facility.

Roles and responsibilities

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

Governance processes

The Audit and Risk Committee meets at least four times a year and as requested by the external auditors. The Committee met eight times in 2020 to consider additional matters relevant to the COVID-19 pandemic. During 2020 the Committee held a private session with the external auditors without members of management being present.

The Committee is made up solely of the Independent Non-Executive Directors who have experience relevant to our market. The Chairman of the Committee is a chartered accountant and brings recent and relevant financial experience and expertise. The Committee has formal terms of reference which can be viewed on the Company's website: www.tggplc.com.

The Chairman of the Committee will be retiring from this role and from the Board of Directors at the Company's next AGM. See the Corporate Governance Report page 59 for further details on his replacement as Audit and Risk Committee Chair.

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 2020 Annual Report are as follows:

COVID-19

The Committee considered the potential impact of the COVID-19 pandemic on the cash flows and liquidity of the Group, particularly in relation to the preparation of the Company's Financial Statements on a going concern basis and the assessment of the Group's viability. Appropriate financial modelling has been undertaken to support the assessment of the business as a going concern with the material uncertainty from COVID-19 and in support of viability. The Company's going concern and viability statements are set out on page 51, and these set out the approach taken and the conclusions made.

The Committee also considered the presentation of COVID-19 impacts in the Annual Report, including financial impact and the effect COVID-19 has had on the risks the Group is exposed to.

Deferral of membership fee income

The Audit and Risk Committee places reliance on management controls over revenue recognition. In a normal trading period, 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. However, the government restrictions in response to COVID-19 have meant that significant manual intervention has been required in determining the deferral of revenue. The approach to the deferral at year end and outcome has been reviewed by senior finance team members.

Annual impairment testing

Impairment reviews have been performed by management on the Group's cash-generating units to which tangible assets, goodwill and other intangible assets have been allocated. The cash flow forecasts used were based on the budgets approved by the Board together with assumed growth rates thereafter. The methodology, along with key assumptions around future growth rates (in particular, in relation to the recovery from the impact of COVID-19) and discount rates, were reviewed and considered by the Audit and Risk Committee. The Committee is satisfied that appropriate impairment of tangible and intangible assets has been recognised. Please refer to notes 15 and 16 to the Financial Statements for further information.

Exceptional items

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

External auditors

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

- reviewing the 2020 audit plan;
- discussing the results of the audit including their views on material accounting issues and key judgements and estimates;
- meeting the auditors without management present and understanding the extent to which the auditors challenged management;
- considering the robustness of the audit process; and
- confirming their independence and objectivity through a review of any non-audit service work undertaken during the year and whether any other conflicts of interest exist which might impact independence.

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

Audit rotation

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

Risk management

Our risk management process and the risks which are considered to be the principal risks of the Group are detailed on pages 46 to 50.

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

Internal control

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

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

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REPORT OF THE AUDIT AND RISK COMMITTEE

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The above risk management and internal control systems have been in place during 2020 and up to at least 18 March 2021. The Audit and Risk Committee, on behalf of the Board, has reviewed the effectiveness of the internal control systems and risk management processes in place during the year, taking account of any material developments since the year end. As part of its review, the Audit and Risk Committee has considered the FRC's 2014 'Guidance on Risk Management, Internal Control and Related Financial and Business Reporting'. The Committee has not identified, nor been advised of, any failings or weaknesses that it has determined to be significant although a number of minor improvements have been made throughout the year.

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

Whistleblowing

The Group encourages staff to report any concerns which they believe need to be brought to management's attention concerning any financial or other impropriety. All employees receive a copy of the employee handbook, which includes whistleblowing arrangements and sets out the procedures which apply for a member of staff to raise concerns in complete confidence in respect of suspicions of wrongdoing or unethical conduct. The policy confirms that bullying, harassment or other detrimental treatment afforded to a colleague who has made a qualifying disclosure is unacceptable. The Audit and Risk Committee reviews and considers responses to any whistleblowing reports received. The Committee reviewed the effectiveness of the Group's whistleblowing procedures at the March 2020 meeting.

Non-audit services

In 2020, the auditors did not provide any non-audit services to the Company or its subsidiaries.

In line with UK Independence Rules, the Committee is responsible for approving all non-audit services provided by the auditors. The Committee has a formal policy on the supply of non-audit services by the Company's auditors, which is aligned with the requirements of the UK Financial Reporting Council's Ethical Standards (2016 and 2019). This policy is available on the Group's website. All non-audit services carried out by the Company's auditors 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 were considered and it was agreed that the Committee continued to work effectively, and following the outcome of the last evaluation it was noted that more time had been dedicated to Committee meetings during the year under review.

Fair, balanced and understandable

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

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

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

As detailed in the Directors' Responsibility Statement on page 94, each of the Directors has confirmed that, to the best of each person's knowledge and belief, the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

Paul Gilbert
Chairman of the Audit and Risk Committee
18 March 2021

REPORT OF THE REMUNERATION COMMITTEE

COMMITTEE MEMBERS

Chairman	David Kelly
Committee members	Penny Hughes, Paul Gilbert, Emma Woods
Number of meetings held in 2020	7

"THE HEALTH AND WELLBEING OF THE GYM GROUP TEAMS HAVE BEEN THE PREDOMINANT FOCUS DURING THE MANAGEMENT OF THE PANDEMIC."

DAVID KELLY, CHAIR OF THE REMUNERATION COMMITTEE

DEAR SHAREHOLDER

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

As set out earlier in this report, 2020 was a year of extraordinary challenge for The Gym Group. Throughout the year, the Remuneration Committee sought to best support our executive team in taking the steps which they considered most appropriate for our business and to protect and promote the best long term interests of all our stakeholders, including our shareholders, customers and employees. These steps included the successful reopening of our gyms in line with rigorous safety protocols when we had the opportunity to do so, and the closure of gyms as government guidance changed. We also supported the business' emphasis on employee welfare in what has been a very challenging period for our employees. The health and wellbeing of The Gym Group teams have been a predominant focus during our response to the pandemic. A 'People First' support programme was launched during the first lockdown which has then been expanded into the creation of a 'Reset & Recharge' Programme to support the current lockdown. This focused on employee wellbeing and ensured support networks were known and communications were shared. Learning opportunities were provided and some great free external courses were sourced to ensure that when employees return they are in fact recharged and ready to restart. The programme aims to keep colleagues connected and gives ideas and mechanisms to teams who are both furloughed or still working.

We have updated our teams as far in advance as possible of any changes that we may need to make to pay while our gyms have been closed. We have been committed to uphold our people principles throughout – fairness and transparency being at the core. We have been able to top up the pay of our member-facing employees (Fitness Trainers, General Managers and Assistant General Managers) to full pay for the majority of the first lockdown and we have committed to pay in full until the end of March 2021, at which point we should have a clearer picture of when we are likely to be able to reopen.

The Gym Group's performance in 2020

During 2020, the Remuneration Committee took a number of steps to ensure that remuneration at TGG aligned to the broader experience of our stakeholders:

- We supported the actions taken by our Board whereby voluntary reductions were made to Executive Directors' salaries during the second quarter (the reductions were 30% for Richard Darwin and 20% for Mark George). In addition our Chair, Non-Executive Directors and Founding Director each waived their fees on a voluntary basis entirely in the second quarter.
- Although we released our annual bonuses for 2019, our Executive Directors reinvested 50% of the 2019 annual bonus amounts (net of income tax) in the shareholder placing in April 2020. The balance of 2019 bonuses were released only in August 2020.
- We supported the annual launch of our Sharesave Plan for all employees in October 2020.
- We initially delayed the grant of our 2020 Performance Share Plan ('PSP') awards until early September and when these awards were made we applied revised performance conditions which are focused on both relative out-performance of the market and on recovery of absolute value for shareholders over a period of three years:
  - 66.7% of awards were subject to a relative TSR condition, comparing our TSR performance to that of the constituents of the FTSE SmallCap (ex. Investment Trusts)

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REPORT OF THE REMUNERATION COMMITTEE

CONTINUED

  - 33.3% of awards are subject to a condition based on absolute TSR, with the targets requiring recovery to levels in 2023 of between 210p (threshold) and 300p (maximum). These values are challenging given that the three-month average share price prior to the award date on 8 September was £1.534
- The performance conditions applied to our 2020 PSP were only settled after detailed consideration as to which metrics would best support the business and align our executives to the experience of shareholders at a time when having appropriate pay arrangements for our senior leaders is crucial for the long term development of The Gym Group. We believe that a heavier weighting to TSR relative out-performance than for past awards was appropriate and links our PSP to the experience of shareholders directly. We also were keen to retain an element of absolute growth within the performance measures; ideally this would have been on a profits-based metric as in past years, but with the impact of COVID-19 making the setting of relevant and valid three-year financial targets very challenging, we moved to absolute TSR as our growth metric. This will be kept under review for future awards.
- Annual bonuses for 2020 were nil. 2018 PSP awards (for which performance is measured to 31 December 2020) will not vest.

Implementation of our remuneration policy in 2021

Looking forward into 2021, we have given consideration to three actions on pay matters which we regard as appropriate and designed to support shareholders' interests over the long term.

Annual bonus for 2021

Due to the significant uncertainty in the external environment and the difficulty in forecasting financial performance, it is proposed that the 2021 bonus will be assessed in two equal tranches in respect of the first and second half of the financial year.

Our initial proposal was that targets would be set separately for each half-year. However, setting H1 targets is exceptionally challenging due to the uncertainty of continuing lockdowns and forced closures of gyms. Any bonus which may become payable for H1 will accordingly be made on the basis of a holistic assessment of performance in H1, based on the Remuneration Committee's judgement and affordability. Our proposal is that H2 targets will be confirmed later in the year when the likely pattern of trading has, it is hoped, become more fully established. This 'split-year' approach allows the Committee to apply the 2021 bonus appropriately and in a way most likely to support the efforts of the management team to operate the business in shareholders' best interests in 2021, given that the operating environment for gyms is likely to change during the course of the year. With the current rapid pace of developments in the environment for gym operations in the UK, setting full year targets at the commencement of 2021 risks rewarding for the accuracy of predicting the frequency and length of lockdowns, rather than incentivising strong operational performance by our management team in 2021.

2021 PSPs

Our 2021 PSP awards will have the same performance condition mix as applied for our September 2020 PSP awards.

- 66.7% will be subject to a relative TSR performance condition (again comparing against the constituents of the FTSE SmallCap (ex. IT))
- 33.3% will be subject to an absolute TSR growth condition, with the target range as set out later in this report. These absolute growth targets have been set at levels that would have been challenging for the company to attain in the context of its pre-COVID performance, and they are considered appropriate notwithstanding the challenges that the company has faced in the last year.

At the current time, we believe that these performance measures continue to be appropriate for PSP awards at The Gym Group. Many of the same considerations as applied when setting the performance measures for the PSP awards made in September 2020 continue to be relevant for new PSP awards to be made in 2021.

CFO's base salary

In a normal operating environment, the Remuneration Committee strongly believes that 2021 would have been an appropriate time to propose an increase in the base salary for our CFO. Mark joined the Company in October 2018, with this being his first main board CFO role at a listed PLC. Since that time Mark has grown and developed in the role of CFO and he has demonstrated strong performance, leadership and contribution to developing the strategic direction of the business. Accordingly, the Committee has given strong consideration to rewarding this important contribution, although we remain guided by our philosophy of being relatively modest on fixed pay positionings, where base salaries are consciously positioned at or below 'market-median' levels.

However, Mark has asked for his base salary to remain frozen at this time. Mark's strong view is that accepting an increase in base salary would not be appropriate at a time when the Group is dealing with the challenges of the pandemic, is not paying salary increases to other colleagues and has been required to make tough decisions on costs right across the business.

As a Committee we accept and support this decision, and we fully respect the leadership and clear perspective which has guided Mark on this point. We do, however, want our shareholders to be aware that we are likely to bring forward a new proposal on this matter in the near future when it becomes appropriate to do so.

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

At the AGM, to be held on 11 May 2021, shareholders will be asked to approve the Directors' Remuneration Report (excluding the Directors' remuneration policy). The Directors' Remuneration Report comprises this introductory statement and the 'Implementation Report' which follows on pages 75 to 82. We also provide for information the main sections of our Directors' remuneration policy (approved by shareholders at our 2019 AGM) from page 83.

The vote on the Directors' Remuneration Report at our 2021 AGM is our normal annual advisory vote on such matters. At the Company's 2020 AGM our Directors' Remuneration Report was approved by 99.99% of our shareholders, and our whole Board is grateful to its shareholders for the support received.

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 resolution to approve the Directors' Remuneration Report at the 2021 AGM.

David Kelly
Chairman of the Remuneration Committee
18 March 2021

At a glance
Remuneration policy and implementation

	Overview of policy	Remuneration in 2020	Implementation for 2021
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 83.	Richard Darwin: £283,050 (normally £306,000*) Mark George: £213,180 (normally £224,400*) • During the year, each of the Executive Directors took material reductions in their salary for the second quarter of 2020 in response to the pandemic (this was 30% in respect of Richard Darwin and 20% in respect of Mark George). See page 74.	Richard Darwin: £306,000 Mark George: £224,400*
Pension and benefits	Pension – maximum contribution of 15% of salary. Benefits consist of car 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 page 83.	In line with policy. Richard Darwin and Mark George pension contributions at 10% of salary. See page 76.	The car allowance for the CEO will be extended to the CFO for 2021.
Annual bonus	Maximum of 100% of salary. Paid in cash up to 75% of base salary and outcomes above this level deferred into shares for two years. Subject to achievement of relevant performance conditions. Subject to malus and clawback provisions. See page 84.	Nil. See page 76.	No changes in maximum. See the Committee Chairman's letter regarding the proposed approach regarding annual bonus for 2021. See page 72.
Long term incentives	Performance share award, subject to service and performance over a three-year period, as well as two year post-vesting holding period. Maximum award of 200% of salary (300% in exceptional circumstances). Subject to malus and clawback provisions. See page 85.	PSP awards granted in 2018 held by Richard Darwin and John Treharne lapsed in full (as performance conditions not met). Awards granted in 2020: • Richard Darwin: 175% of salary • Mark George: 175% of salary Performance conditions: 66.7% relative TSR target, 33.3% absolute TSR target. Both Executive Directors also participated in the Sharesave Plan for 2020. See page 77 to 79.	Awards for 2021: • Richard Darwin: 175% of salary • Mark George: 175% of salary • Performance conditions: relative TSR (66.7%); absolute TSR (33.3%)
Share ownership guidelines	300% for Executive Directors. (200% for new Executive Directors). See page 85.	At the year end, Richard Darwin met the requirements. Mark George will build a shareholding to the required levels. See page 79.	No change.

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REPORT OF THE REMUNERATION COMMITTEE

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2020 single total figure

	Salary	Taxable benefits	Bonus	Long term incentives[1]	Pension	Total remuneration
Richard Darwin	283,050	11,786	–	12,483	28,305	335,624
Mark George	213,180	2,209	–	12,483	21,318	249,190

1 The values shown in respect of long term incentives relate to the intrinsic value of options granted under the Sharesave Plan during 2020.

See page 76.

Introduction

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

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

Part B represents shows the main sections of our Directors' remuneration policy which was approved by shareholders at the 2019 AGM ('the Directors' Remuneration Policy'). The material in Part B is not subject to the advisory vote on the Directors' Remuneration Report at the 2021 AGM. The policy as approved by our shareholders can be found within our 2018 Annual Report and Accounts which are available on our website at: www.tggplc.com/investors.

PART A: IMPLEMENTATION REPORT

Implementation of Policy for 2021 (unaudited information)

Base salary

The Executive Directors' base salaries for 2021 will be as follows:

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

Pension

Contributions rates for Richard Darwin and Mark George will be 10% of salary. Contributions may be made as cash supplements in full or in part.

Benefits

Details of the benefits received by Executive Directors are set out in note 2 to the single figure table on page 76. The car allowance for the CEO will be extended to the CFO for 2021.

Annual bonus

As set out in the Committee Chairman's letter, the Committee has decided to adjust the principles of the annual bonus plan to reflect the impact of COVID-19 on the business.

The overall bonus plan maximum for 2021 will be 100% of base salary for 2021.

However, due to the significant uncertainty in the external environment and the difficulty in forecasting financial performance, it is proposed that the 2021 bonus will be assessed in two equal tranches in respect of the first and second half of the financial year.

Setting H1 targets is exceptionally challenging due to the uncertainty of continuing lockdowns and forced closures of gyms. Any bonus which may become payable for H1 will accordingly be made on the basis of a holistic assessment of performance in H1, based on the Committee's judgement and affordability. H2 targets will be confirmed later in the year when the likely pattern of trading has, it is hoped, become more fully established. This approach allows the Committee to apply the 2021 bonus appropriately and in a way most likely to support the efforts of the management team to operate the business in shareholders' best interests in 2021, given that the operating environment for gyms is likely to change during the course of the year.

For the reasons outlined above, the Committee is not yet in a position to disclose details of targets for the annual bonus 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 2021 bonus (including a holistic assessment of performance for H1 and performance against these targets) in next year's Directors' Remuneration Report.

Any bonuses will be determined separately in respect of the first and second half of the financial year, but will only be paid following the end of the financial year (in early 2022). 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 2021 under the PSP to Richard Darwin and Mark George over shares worth 175% of salary. As in past years, the proposed award levels will be confirmed by the Committee only at the time of award having considered overall performance, including shareholder experience.

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 relative TSR (66.7% weighting) and absolute TSR (33.3% weighting) targets as described below. These are measures which encourage the generation of sustainable long term returns to shareholders. The conditions are measured from a 3-month average at the time of award.

Relative TSR vs FTSE Small Cap (excluding investment trusts) (66.7% of total award)

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

Absolute TSR (33.3% of total award)

The Gym Group adjusted share price	% of that part of the award that vests
Below 285p	0%
285p	20%
335p or above	100%
285p to 335p	Pro rata straight-line between 20% and 100%

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REPORT OF THE REMUNERATION COMMITTEE

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Founder Director

John Treharne will continue to be paid a base salary of £195,000 as Founder Director and to receive benefits in accordance with the Policy. He will not receive any pension contributions, nor will he participate in the annual bonus plan or receive any PSP awards in 2021.

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. Rio Ferdinand and Wais Shaifta joined the Board as non-executive Directors of the Company with effect from 1 February 2021 and will each receive an annual fee of £55,000.

Single total figure table (audited)

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

For the year ended 31 December 2020:

£	Salary/fees[1]	Taxable benefits[2]	Bonus[3]	Long term incentives[4,5]	Pension[6]	Total remuneration	Total fixed remuneration[7]	Total variable remuneration[7]
Executive Directors								
Richard Darwin	283,050	11,786	–	12,483	28,305	335,624	323,141	12,483
Mark George	213,180	2,209	–	12,483	21,318	249,190	236,707	12,483
Founder Director								
John Treharne	143,000	5,671	–	–	–	148,671	148,671	–
Non-Executive Directors								
Paul Gilbert	40,333	3,931	–	–	–	44,264	44,264	–
Penny Hughes	101,200	–	–	–	–	101,200	101,200	–
David Kelly	40,333	–	–	–	–	40,333	40,333	–
Emma Woods	40,333	–	–	–	–	40,333	40,333	–

1 As disclosed in the 2020 Annual Report, all of the Directors (including the Founder Director and Non-Executive Directors) agreed to material reductions in their normal salary or fees in respect of the second quarter of 2020 as part of the Company's mitigation against the COVID-19 crisis.
2 Taxable benefits comprise car allowance (£8,000 for Richard Darwin), 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).
3 No bonus was paid for 2020 as explained further on page 77.
4 Following year end it was confirmed that 2018 PSP awards (representing 139,096 shares for Richard Darwin and 185,414 shares for John Treharne) will lapse as the performance conditions (for both EPS growth and TSR performance to 31 December 2020) for these awards were not achieved (see page 77).
5 The value of long term incentives for Richard Darwin and Mark George are the intrinsic values of the options granted to them under the Sharesave Plan on 21 October 2020, being the difference between the option price (108.0p) and the average market value of the Company's shares over the final quarter of the 2020 financial year (182.9p), multiplied by the number of option shares (16,666 shares). Further details of the Sharesave Plan options are disclosed on page 79.
6 Pensions are provided via a defined contribution and/or cash supplement.
7 Total fixed remuneration is the aggregate of the base salary, pensions and benefits elements, and total variable remuneration is the aggregate of the bonus and long term incentive elements.

Comparative figures for the year ended 31 December 2019:

£	Salary/fees	Taxable benefits	Bonus	Long term incentive	Pension	Total remuneration[1]	Total fixed remuneration	Total variable remuneration
Richard Darwin	300,000	11,395	105,300	89,918	30,000	536,613	341,395	195,218
Mark George	220,000	1,840	77,220	5,613	22,000	326,673	243,840	82,833
John Treharne	195,000	10,999	–	139,873	–	345,872	205,999	139,873
Paul Gilbert	55,000	2,995	–	–	–	57,995	57,995	–
Penny Hughes	138,000	–	–	–	–	138,000	138,000	–
David Kelly	55,000	–	–	–	–	55,000	55,000	–
Emma Woods	55,000	–	–	–	–	55,000	55,000	–

1 The aggregate emoluments (being salary/fees, bonuses, benefits and pension allowances) of all Directors for 2020 was £959,615 (2019: £1,515,153).

Further information on the 2020 annual bonus (audited)

Although 2020 bonus outcome was nil, for information we have set out below the intended 2020 adjusted EBITDA targets for annual bonus:

	Threshold	Target	Maximum	Actual
EBITDA targets	£55.0m	£57.0m	£60.0m	N/A

Performance Share Plan awards

Vesting outcomes for 2018 PSP awards

Performance measure and weighting	Target range (each measured to 31 December 2020)	Performance achieved	Vesting outcome	% of total award vesting
Earnings per share growth (50%)	Target range between 11.7p (20% vests) and 17.6p (100% vests) for financial year 2020.	(23.1)p	0%[1]	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).	Below median	0%	0%
Total				0%

1 The calculation of Adjusted EPS for these purposes applied the assumptions regarding amortisation of IT capital expenditure which applied when the original target range of 11.7p to 17.6p was determined, to ensure a consistent basis of measurement across financial years 2018 to 2020.

Details of outstanding PSP awards

Executive	Awards held at 1 Jan 2020	Awards granted during the year[1,2]	Awards exercised during the year	Awards lapsed during the year[3]	Interests held at 31 Dec 2020[4]
Richard Darwin	524,873	349,087	–	(39,223)	834,737
Mark George	173,736	255,997	–	–	429,733
John Treharne	416,981	–	–	(61,014)	355,967

1 The above PSP awards were granted at the three-month average market price of 153.4p to the last trading day prior to grant on 9 September 2020 (the closing market price on the date of grant was 145p). The awards thus represented awards to Richard Darwin and Mark George over shares worth 175% of basic salary.
2 The exercise price of awards granted during the year is 0.01p.
3 PSP awards granted in 2017 to Richard Darwin and John Treharne vested over 109,641 shares and 170,553 shares respectively (including dividend equivalents).
4 Following year end it was confirmed that 2018 PSP awards (representing 139,096 shares for Richard Darwin and 185,414 shares for John Treharne) will lapse as the performance conditions for these awards were not achieved.
5 The minimum share price in 2020 was 76.9p and the maximum share price was 316.0p. The closing share price on 31 December 2020 was 217.0p.

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These awards vest based on performance against the following targets:

Performance measure	2018 award (50% growth in adjusted EPS and 50% TSR)	2019 award (50% TSR, 25% growth in adjusted EPS and 25% ROIC in mature estate)	2020 award (66.6% relative TSR and 33.3% absolute TSR)
Adjusted EPS growth 20% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award.	Target range between 11.7p and 17.6p for FY2020.	Target range between 14.2p and 19.6p for FY2021.	Not applicable.
Relative TSR	Target range between median performance against the constituents of the FTSE SmallCap (excluding Investment Trusts) rising on a pro rata basis until full vesting for upper quintile performance.	Target range as for 2018 award.	Target range as for 2018 award.
ROIC 20% of this part vests at threshold performance rising on a pro rata basis until 100% vests. Measured over three financial years commencing with the year of award (average across three years).	Not applicable.	Target range between 29.7% and 31.7%. Vesting above 60% for this part of the award subject to an additional underpin of average ROIC of 20% for legacy Lifestyle and easyGym sites across 2020 and 2021.	Not applicable.
Absolute TSR 20% of this part vests at threshold performance rising on a pro rata basis until 100% vests at maximum performance.	Not applicable.	Not applicable.	Target range between 210p (threshold) and 300p (maximum).

Detail:

- The EPS condition applies to the EPS achieved in the final year only of the three financial years' performance period, based on the Adjusted EPS. In all years, Adjusted EPS is to be calculated using the Company's definition of Group Adjusted EBITDA less Normalised Rent (which will reflect normalised rent rather than IFRS 16 depreciation and interest charges); and
- the EPS metrics will continue to apply the amortisation assumptions for IT capital expenditure which applied when the original PSP target ranges were set.

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

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

The Committee also has a standard power to apply its judgement to adjust the formulaic outcome of all performance measures to take account of any circumstances (including the performance of the Company, any individual or business) should it consider that to be appropriate.

Participation in the Share Incentive Plan

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 1 at Jan 2020	Partnership shares purchased in 2020	Matching shares awarded in 2020	Free shares awarded in 2020	Total SIP shares at 31 Dec 2020
Richard Darwin	6,809	958	958	–	8,725
Mark George	2,868	996	996	–	4,860

Participation in the Sharesave Plan

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

Executive	Total Sharesave awards at 1 Jan 2020	Awards granted[1]	Exercise price of awards granted (pence)	Awards vested (number)	Awards exercised (number)	Awards lapsed (number)[2]	Total Sharesave awards at 31 Dec 2020	Earliest exercise date
Richard Darwin	–	16,666	108.0	–	–	–	16,666	1 December 2023
Mark George	8,910	16,666	108.0	–	–	8,910	16,666	1 December 2023

1 The Sharesave awards granted to Richard Darwin and Mark George over 16,666 shares each relate to a three-year savings contract that is due to vest in December 2023. The exercise price was set in line with the HMRC rules.
2 Mark George elected to cancel his participation in the 2019 Sharesave in order to participate in the 2020 Sharesave scheme in full. This resulted in the lapse of the option originally granted to him over 8,910 shares at an exercise price of 202.0p per share.

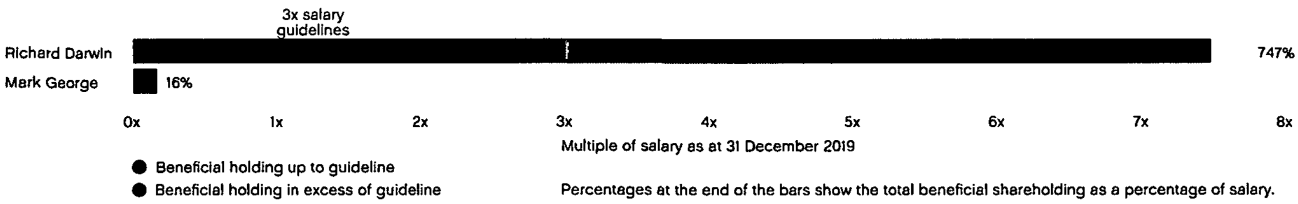
Statement of Directors' shareholding and share interests (audited)

The table below details, for each Director, the total number of Directors' interests in shares at 31 December 2020:

Director[1]	Penny Hughes[2]	John Treharne[3]	Richard Darwin[4]	Mark George	Paul Gilbert	David Kelly	Emma Woods[5]
Ordinary Shares	65,201	2,591,908	1,013,834	13,642	204,442	10,000	13,930
Shares awarded under SIP	–	3,909	8,725	4,860	–	–	–
Maximum shares receivable under PSP awards	–	355,967	834,737	429,733	–	–	–
Maximum shares receivable under Sharesave awards	–	–	16,666	16,666	–	–	–
Total shareholding and share interests	65,201	2,951,784	1,873,962	464,901	204,442	10,000	13,930

1 The shareholdings and awards set out above include those held by Directors and their respective connected persons.
2 The total number of Ordinary shares in which Penny Hughes or persons connected with her or are interested in includes 5,201 Ordinary shares owned by Robbie Hughes.
3 There is a charge over 1,150,000 shares held in John Treharne's name in an account with Investec Wealth & Investment Limited.
4 The total number of Ordinary shares in which Richard Darwin or persons connected with him is or are interested includes 35,758 Ordinary shares owned by Charlotte Darwin.
5 The total number of Ordinary shares in which Emma Woods or persons connected with her or are interested in includes 8,930 Ordinary shares owned by Lorcan Woods.

Progress towards share ownership guidelines



Under share ownership guidelines implemented by the Remuneration Committee, the existing Executive Directors are required to build and then maintain a shareholding equivalent to at least 300% of base salary. Additionally, John Treharne has committed to maintaining a holding of at least 0.5% of issued share capital whilst in the role of Founder Director. At the 2020 year-end, Richard Darwin and John Treharne complied with this requirement as shown above. Mark George joined the business on 31 October 2018 and will be required to build and then maintain a shareholding equivalent to at least 200% of base salary.

Payments to past Directors (audited)

No payments were made to past Directors during the year.

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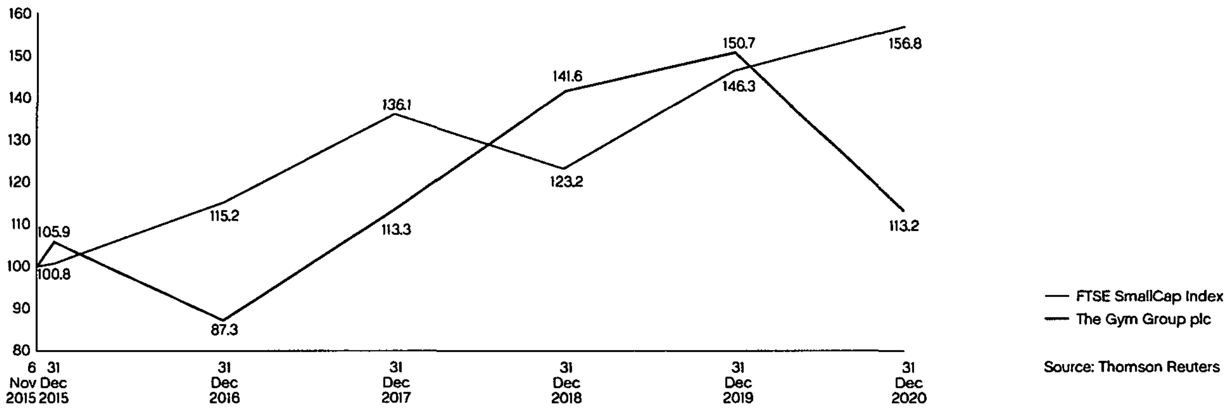
Performance graph and CEO remuneration table (unaudited)

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

Total Shareholder Return Index



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

	CEO	Single figure of total remuneration	Annual bonus pay-out against maximum %	Long term incentive vesting rates against maximum opportunity %
2015	John Treharne	£287,793	£60,000[2]	n/a
2016	John Treharne	£313,628	27.2%[3]	n/a
2017	John Treharne	£431,302	74.3%[3]	n/a
2018[1]	John Treharne	£272,721	16.0%	41.7%
2018[1]	Richard Darwin	£97,326	16.0%	41.7%
2019	Richard Darwin	£536,613	35.1%	72.5%
2020	Richard Darwin	£335,624	0%	0%

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.

Annual percentage change in remuneration of Directors and employees

The table below shows the percentage change in remuneration of the Directors and employees of the business between the 2019 and 2020 financial years.

	% change from 2019 to 2020		
	Salary or fees	Benefits	Bonus
Employees[1,2]	5.18%[3]	(10.56)%	(99.84)%
Executive Directors:			
Richard Darwin	(5.65)%	3.43%	(100)%
Mark George	(3.10)%	20.07%	(100)%
Non-Executive Directors:			
Paul Gilbert	(26.67)%	31.25%	N/A
Penny Hughes	(26.67)%	N/A	N/A
David Kelly	(26.67)%	N/A	N/A
Emma Woods	(26.67)%	N/A	N/A

1 The strict legal requirement is to only provide details of employees of The Gym Group plc. As the listed entity does not have any employees, we have decided to voluntarily disclose in respect of all The Gym Group employees.
2 The average percentage change in employee remuneration was calculated using the movement in mean values (in respect of each element of remuneration) between 2019 and 2020. The relevant mean values were calculated by dividing the aggregate total of each element of remuneration for all Group employees during the year (calculated on an FTE basis) by the total number of Group employees.
3 Average employee salaries increased by 5.18%, reflecting that a number of new senior roles were created in 2020. Director salaries or fees fell in 2020, reflecting the voluntary reductions/ waivers taken by our leadership team.

CEO to employee pay ratio (unaudited)

The table below shows how the CEO's single figure remuneration (as taken from the single figure remuneration table on page 76) compares to equivalent single figure remuneration for full-time equivalent UK employees, ranked at the 25th, 50th and 75th percentile.

Year	Method	25th percentile pay ratio	Median pay ratio	75th percentile pay ratio
2018	Option B	19.2 : 1	12.8 : 1	10.4 : 1
2019	Option B	30.4 : 1	26.6 : 1	13.5 : 1
2020	Option B	19.0 : 1	18.8 : 1	13.2 : 1

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 for each financial year. As the employees at the 25th, 50th and 75th percentile all have the same hourly rate (for gender pay gap reporting purposes), the relevant individuals were identified using the full pay and benefits of employees for the financial year.
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 The Committee believes the median pay ratios for 2018, 2019 and 2020 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.
6 The Company was not required to publish the CEO to employee pay ratio for 2018 but chose to on a voluntary basis (and this has been included for additional context).

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

	Salary			Total pay and benefits		
	25th percentile	Median	75th percentile	25th percentile	Median	75th percentile
	£17,633.73	£17,867.17	£25,404.57	£17,633.73	£17,867.17	£25,459.18

The change in each of the pay ratios for 2020 (relative to prior years) reflects both: (1) significantly lower remuneration for the CEO in 2020 (relative to previous years), as detailed earlier in this report; and (2) changes in the employment model of the Group where the number of UK staff increased in 2020 under the New Gym Team initiative which offers part-time employment to our Personal Trainers.

Relative importance of spend on pay (unaudited)

The table below details the change in total staff pay between 2019 and 2020 as detailed in note 11 to the Consolidated Financial Statements, compared with distributions to shareholders by way of dividend, share buy backs or any other significant distributions or payments. These figures have been calculated in line with those in the audited Financial Statements:

	2020 £'000	2019 £'000	% change
Total gross staff pay[1]	26,585	22,966	15.8%
Dividends/share buy backs	–	1,933	(100)%

1 The increase in gross staff pay from 2019 reflects the effect of the change in the employment model of the Group under the New Gym Team initiative (which offers part-time employment to our Personal Trainers). The new model was implemented during 2019 and 2020 is the first full year of operation.

Summary of shareholder voting

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

	Approval of the 2019 Directors' Remuneration Report (2020 AGM)		Approval of the Directors' Remuneration Policy (2019 AGM)	
	Total number of votes	% of votes cast	Total number of votes	% of votes cast
For (including discretionary)	122,619,935	99.99%	84,131,086	94.7%
Against	2,122	0.01%	4,759,041	5.3%
Votes withheld	3,190,654	–	–	–

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Remuneration Committee in 2020 (unaudited)

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

The Chief Executive Officer and other Executive Directors as necessary are invited to attend meetings of the Committee, except when their own remuneration is being directly discussed. Penny Hughes takes no part in any discussions relating to her own remuneration. The Committee met seven times during the year and the table on page 62 details attendance of members at these meetings.

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

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

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

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

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

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

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

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

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

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

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

FIT Remuneration Consultants LLP ('FIT'), signatories to the Remuneration Consultants Group's Code of Conduct, were appointed by the Committee and provide advice to the Committee on all matters relating to remuneration, including best practice. FIT provided no other services to the Group and, accordingly, the Committee was satisfied that the advice provided by FIT was objective and independent. FIT's fees in respect of 2020 were £97,718 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
18 March 2021

PART B: DIRECTORS' REMUNERATION POLICY

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

Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
Base salary This is the core element of pay and reflects the individual's role and position within the Group with some adjustment to reflect their capability and contribution.	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 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.
Pension To provide retirement benefits.	Executive Directors can receive pension contributions to personal pension arrangements or, if a Director is impacted by annual or lifetime limits on contribution levels to qualifying pension plans, the balance (or all) can be paid as a cash supplement.	The maximum employer's contribution is limited to up to 10% of base salary. Newly appointed Executive Directors will have employers' contribution levels aligned to the contribution levels for the majority of the workforce.	n/a	Reduced to 10% for all Executive Directors. This aligns Executive Directors' pension contribution levels with those for senior managers in the business. Newly appointed Directors will be aligned to the majority of the workforce.

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Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
Annual bonus plan To motivate executives and incentivise delivery of performance over a one-year operating cycle, focusing on the short- to medium-term elements of our strategic aims.	Annual bonus plan levels and the appropriateness of measures are reviewed annually at the commencement of each financial year to ensure they continue to support our strategy. Once set, performance measures and targets will generally remain unchanged for the year, except to reflect events such as corporate acquisitions or other major transactions where the Committee considers it to be necessary in its opinion to make appropriate adjustments. Annual bonus plan outcomes will be paid in cash up to 75% of base salary. Outcomes above this level will be deferred in shares for two years. During the deferral period the value of any dividends will be credited as 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 pay-out of more than 20% of the maximum portion of overall annual bonus attributable to that measure, with a sliding scale to full pay-out for maximum performance. However, the annual bonus plan remains a discretionary arrangement and the Committee retains a standard power to apply its judgement to adjust the outcome of the annual bonus plan for any performance measure (from zero to any cap) should it consider that to be appropriate.	Introduction of deferral feature for bonus outcomes in respect of financial year 2019 and later years. Deferral will be made under the new Deferred Share Bonus Plan ('DSBP') 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.

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Element and purpose	Policy and operation	Maximum	Performance measures	Changes from previous policy
All-staff share plans To encourage share ownership by staff, thereby allowing them to share in the long term success of the Group and align their interests with those of the shareholders.	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 would be 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 would not be subject to performance conditions.	No material changes.

Chairwoman and Non-Executive Directors

Element and purpose	Policy and operation	Maximum	Performance measures
Chairwoman and Non-Executive Director fees To enable the Company to recruit and retain Company Chairs and Non-Executive Directors of the highest calibre, at the appropriate cost.	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

Notes to the policy table

Malus and clawback

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

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

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

Stating maximum amounts for the Remuneration Policy

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

Travel and hospitality

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

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

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

Committee discretions

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

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

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

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

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

Outstanding obligations

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

Recruitment remuneration policy

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

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

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

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

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

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

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

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

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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 AGM 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, the DSBP and PSP. The potential treatments on termination under these plans are as follows:

Annual bonus plan

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

Deferred Share Bonus Plan

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

Performance Share Plan

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

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

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

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

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

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

Consideration of shareholder views

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

External appointments

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

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

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

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

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

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

GOVERNANCE

DIRECTORS' REPORT

As permitted by legislation, some of the matters normally included in the Directors' Report, including disclosures regarding greenhouse gas emissions, have instead been included in the Strategic Report (pages 6 to 53) as the Board considers them to be of strategic importance.

A summary statement of non-financial information and where this can be found in the report is on page 53.

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

Wais Shaifta and Rio Ferdinand joined the Board on 1 February 2021, and Paul Gilbert will retire from the Board at the Company's AGM on 11 May 2021.

The roles and biographies of the Directors as at the date of this report are on pages 56 and 57. The general powers of the Directors are set out in Articles 64 to 68 of the Company's Articles of Association ('the Articles'). These provide that the Board may exercise all the powers of the Company, subject to applicable legislation, the Articles and any special resolution of the Company, applicable on the date that any power is exercised.

Appointment and replacement of Directors

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

- the shareholders may by ordinary resolution elect any person willing to act as a Director;
- the Board may by ordinary resolution elect any person willing to be a Director;
- Every Director shall retire at each AGM and be eligible for re-election;
- the Company may, by special resolution, or ordinary resolution of which special notice has been given according to applicable legislation, remove any Director before the expiration of his or her period of office; 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 an indemnity by way of deed poll to its Directors against any liability which attaches to them in defending proceedings brought against them, to the extent permitted by English law. In addition, Directors and Officers of the Company and its subsidiaries are covered by Directors' and Officers' liability insurance.

Compensation for loss of office

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

Dividend

As noted on page 45, the Directors are not proposing a final dividend for the year 2020, taking into account the ongoing impacts of the pandemic upon the Group and the material support received by the Group from HM Government. It is a condition of the £30m New Bank Facility is that the Company shall not declare or pay a dividend and whilst this facility remains undrawn, the Directors would like to continue to have access to it as necessary.

Post Balance Sheet events

Following the phased introduction of Tier 4 restrictions in a number of regions in December 2020, the Group was required to close 162 of its 183 gyms. On 4 January 2021 all remaining gyms were required to close as the UK Government announced a nationwide lockdown. The UK Government has announced that gyms in England will re-open on 12 April 2021 if there is continued progress with the Government's four criteria for monitoring the pandemic. The Scottish Government has announced that gyms in Scotland will be able to re-open on 26 April 2021. The Welsh Government has not yet announced a date for gyms in Wales to re-open.

In the Government's Budget statement of 3 March 2021, it was announced that Business Rates relief would be extended and further grants for closed businesses would be made available. The Group will benefit from both of these measures to an estimated combined value of approximately £8 million between April and August 2021.

Future developments in the business of the Company

The likely future developments in respect of the business of the Company can be found in the Strategic Report on pages 6 to 53 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 54 to 64, and forms part of this report by reference.

Health and safety

An overview of health and safety is provided in the Sustainability Report on page 34 and forms part of this report by reference.

Greenhouse gas emissions

Information on the Group's greenhouse gas emissions is set out in the Sustainability Report on page 39 and forms part of this report by reference.

Human rights, anti-bribery and anti-corruption
Information on the Group's human rights and anti-bribery policies is set out in the Sustainability Report on page 35 and forms part of this report by reference.

Political donations
The Company made no political donations in 2020 (2019: £nil).

Employee involvement and policy regarding disabled persons
The Company operates an equal opportunities policy which aims to treat individuals fairly and not to discriminate on the basis of sex, race, ethnic origin, disability or on any other basis. The Company's policy and procedures are designed to provide for full and fair consideration and selection of disabled applicants, to ensure they are properly trained to perform safely and effectively and to provide career opportunities which allow them to fulfil their potential. Where an employee becomes disabled in the course of their employment, the Company will actively seek to retain them wherever possible by making adjustments to their work content and environment or by retraining them to undertake new roles.

Workforce engagement
The Group updates staff with information on the Group's performance and on matters concerning them on a regular basis, most frequently through our communications platform CORE, which was launched in 2020 and features videos, articles, podcasts, interactive forums and access to corporate tools and Company benefit information, as well as information on wellbeing. CORE also facilitates engagement with our staff members who have been furloughed at times, ensuring that they retain access to information. In addition we share information in email communications, staff meetings and forums, and the annual company conference, though an annual conference was not held in 2020 owing to coronavirus restrictions in the UK. Our People system, Workday, also alerts employees to Group related and role related communications. Through CORE and other communications we include any relevant updates on financial and economic factors which might be affecting the Company, particularly following results presentations to ensure that staff have an up to date understanding of the Company's performance. Our Board and Executive Committee regularly visit our gyms, which facilitates engagement and keeps the Board up to date with gym operations, and both teams have carried out visits when permitted by, and in accordance with, COVID-19 restrictions. The Board believes that our commitment to developing and supporting our people forms part of the Company's strategy, as set out in our Sustainability Report on page 34, where further employee engagement initiatives are detailed.

When making Board decisions which are relevant to our people, considerable value is placed on: the involvement of staff, regular, open, fair and respectful communication, zero tolerance for human rights violations, fair remuneration, and, above all, a safe working environment.

The Company encourages the involvement of employees in the Company's performance through our employee share schemes. In addition to the SIP, in October 2020 we launched a further invitation to join our Sharesave plan to allow all eligible employees including our new Personal Trainer population the opportunity to participate in the Company's success.

The Board has appointed one of its members as the Designated Non-Executive Director for People Engagement, and undertakes to review the specification and duties of this role annually. During the year and to date, David Kelly has held this role, with responsibility for acting as the employees' ambassador at the Board table. It is intended that the role will move to Emma Woods following the Company's AGM. In 2021, the views of our employees and feedback from our teams were gathered via an externally facilitated engagement survey, the results of which are discussed in more detail in our Sustainability Report on page 34. David worked with Ann-marie Murphy, Chief People Officer, to review the feedback in detail by region and function and analyse outcomes to be presented to the Board. One of the outcomes of the engagement survey was for the People team to provide regular pulse surveys to follow up and monitor progress on key people-related issues, such as maintaining engagement with and support for furloughed and working staff. David's responsibilities included working with the Chief People Officer in the review and analysis of the feedback from the survey, and presentation of feedback and engagement initiatives the Non-Executive Directors to the Board. David also plays a role in the Group-wide recognition programme via the Remuneration Committee.

Gender pay gap
As mentioned in the Report of the Nomination Committee, we have published our 2020 Gender Pay Gap Report on both the Government's and Company's websites. Our reports for previous years remain available on the same websites. Whilst our gender pay gap compares favourably with other organisations across both the UK economy and the low cost retail and fitness sector, we are committed to reporting on an annual basis the actions we are taking to reduce the gap and on our progress made against these actions. As we highlight in our report, the pay gap is formed largely because our most senior roles are mainly filled by men. We continue to focus on a diverse succession pipeline and our actions are set out on pages 36-37.

Directors' interests
The beneficial interests of the Directors of the Company at 31 December 2020, and their connected persons, in the issued Ordinary shares are provided on page 79 within the Directors' Remuneration Report.

Major interests in shares
As at 31 December 2020, the Company was aware of the following interests representing 3% or more of the issued share capital of the Company correct as at the date of notification. It should be noted that these holdings may have changed since notified to the Company; however, notification of any change is not required until the next applicable threshold is crossed.

Institution	Number of shares	Percentage
Liontrust Sustainable Investments	16,361,046	9.86%
Legal & General Investment Management	11,476,428	6.91%
Janus Henderson Investors	10,655,376	6.42%
Columbia Threadneedle Investments	8,685,833	5.23%
Fidelity International	8,349,068	5.03%
Invesco	6,966,598	4.20%
AXA Framlington Investment Managers	6,722,477	4.08%
Aberdeen Standard Investments	6,303,228	3.80%
Premier Miton Investors	5,274,340	3.18%

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DIRECTORS' REPORT

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Share capital

The details of the issued share capital can be found in note 28 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;
- some of the Company's employee share plans include restrictions on transfer of shares while the shares are held within the plan;
- pursuant to the Company's Share Dealing Code whereby the Directors and designated employees require approval to deal in the Company's shares; and
- where a person with an interest in the Company's shares has been served with a disclosure notice and has failed to provide the Company with information concerning interests in those shares.

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

Amendment to the Company's Articles of Association

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

Authority for the Company to purchase its own shares

At the 2020 AGM the Company was generally and unconditionally authorised by its shareholders to make market purchases (within the meaning of section 693 of the Act) of its Ordinary shares on such terms and in such manner as the Directors of the Company may determine subject to the following conditions:

- The maximum number of Ordinary shares authorised to be purchased is 16,583,992, representing 10% of the Company's existing share capital;
- the minimum price (exclusive of expenses) which may be paid for an Ordinary share is 0.01p (being the nominal value of the Ordinary shares);
- the maximum price (exclusive of expenses) which may be paid for each Ordinary share purchased under this authority is the higher of:
  - an amount equal to 105% of the average of the middle market price shown in the quotations for an Ordinary share as derived from the London Stock Exchange Daily Official list for the five trading days immediately preceding the date on which the Ordinary share is contracted to be purchased; and
  - an amount equal to the higher of the price of the last independent trade of an Ordinary share and the highest current independent bid for an Ordinary share as derived from the London Stock Exchange trading system;
- the authority shall expire at the close of the next AGM of the Company after the passing of this resolution or, if earlier, on 30 June 2021.

The Company did not buy back any shares during the year. A resolution will be proposed at the 2021 AGM to renew this authority.

Authority to allot shares

At the 2020 AGM, authority was given to the Directors to allot new Ordinary shares up to a nominal value of £5,527.44, equivalent to 33.33% of the issued share capital of the Company. In addition, authority was given to the Directors to allot further new Ordinary shares up to a nominal value of £11,056.55, equivalent to 66.67% of the authorised share capital of the Group. The authority shall expire at the close of the next AGM of the Company after the passing of this resolution or, if earlier, on 30 June 2021.

A resolution will be proposed at the 2021 AGM to renew this authority.

Significant agreements

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

Financial risk management

The Group's financial risk management objectives and policies, including its use of financial instruments, are set out in note 26 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
1	A statement of the amount of interest capitalised by the Group during the period under review with an indication of the amount and treatment of any related tax relief	Note 13 Finance Costs (Amount Capitalised) (page 120)
4	Details of long term incentive schemes	Report of the Remuneration Committee (pages 71-89)
7	Details of any allotment for cash of equity securities made during the period under review otherwise than to the holders of the Company's equity shares in proportion to their holdings of such equity shares and which has not been specifically authorised by the Company's shareholders	Note 28 Issued Share Capital and Reserves (page 132)
10	Details of contracts of significance	Corporate Governance Report (page 64 Directors' conflicts of interest)

Section 172 and engagement with suppliers, customers and others

In its decision making, the Board has regard to each Director's duty to promote the success of the Company on behalf of the Company's stakeholders, to foster the Company's relationships with employees, suppliers, members, and others, and considers the effect of the principal decisions taken by the Company during the financial year on the Company's stakeholders. This is set out in our s172 statement on pages 26 to 29.

Auditors

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 auditors are unaware; and b) the Director has taken all the steps which he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditors are aware of that information. Ernst & Young LLP have expressed their willingness to continue in office as auditors and a resolution to reappoint them will be proposed at the forthcoming AGM.

AGM

The Notice convening the 2021 AGM will be circulated to shareholders separately. Owing to ongoing COVID-19 restrictions, the Board anticipates that there will again be some necessary changes to our usual arrangements on attendance and participation for the 2021 AGM, and will ensure shareholders are kept informed using the Notice, our website, and relevant announcements in due course.

On behalf of the Board

Katy Tucker
Company Secretary
18 March 2021

GOVERNANCE

DIRECTORS' RESPONSIBILITY STATEMENT

The Directors are responsible for preparing the annual report and the Group Financial Statements in accordance with applicable United Kingdom law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors have elected to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRSs') in conformity with the Companies Act 2006, and the parent company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard 101 Reduced Disclosure Framework ('FRS 101'). Under company law the Directors must not approve the Group financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and the Company and of the profit or loss of the Group and the Company for that period.

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

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

- select suitable accounting policies in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs (or in respect of the Parent Company Financial Statements, FRS 101) is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's financial position and performance;
- in respect of the Group Financial Statements, state whether IFRSs in confirmity with the Companies Act 2006 and IFRSs adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union have been followed, subject to any material departures disclosed and explained in the Financial Statements;
- in respect of the Parent Company Financial Statements, state whether applicable UK accounting standards including FRS 101 have been followed, subject to any material departures disclosed and explained in the Financial Statements; and
- prepare the Financial Statements on a going concern basis, unless it is appropriate to presume that the Company and/or Group will not continue in business.

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

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

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

Responsibility statement

The Directors confirm, to the best of their knowledge:

- that the consolidated Financial Statements, prepared in accordance with IFRSs in conformity with the Companies Act 2006 (and IFRSs pursuant to Regulation (EC) 1606/2002 as it applies in the European Union), give a true and fair view of the assets, liabilities, financial position and results of the Parent Company and undertakings included in the consolidation taken as a whole;
- that the annual report, including the Strategic Report, includes a fair review of the development and performance of the business and the position of the Company and undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- that they consider the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

On behalf of the Board

Richard Darwin
Chief Executive Officer
18 March 2021

FINANCIAL STATEMENTS

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

Opinion

In our opinion:

- The Gym Group plc's Group Financial Statements and Parent Company Financial Statements (the "Financial Statements") give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 31 December 2020 and of the Group's loss for the year then ended;
- the Group Financial Statements have been properly prepared in accordance with International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in the European Union;
- the Parent Company Financial Statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements of The Gym Group plc (the 'Parent Company') and its subsidiaries (the 'Group') for the year ended 31 December 2020 which comprise:

Group	Parent Company
Consolidated balance sheet as at 31 December 2020	Balance sheet as at 31 December 2020
Consolidated income statement for the year then ended	Statement of changes in equity for the year then ended
Consolidated statement of comprehensive income for the year then ended	Related notes 1 to 9 to the financial statements including a summary of significant accounting policies
Consolidated statement of changes in equity for the year then ended	
Consolidated statement of cash flows for the year then ended	
Related notes 1 to 34 to the financial statements, including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group Financial Statements is applicable law and International Accounting Standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No. 1606/2002 as it applies in 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. We are independent of the group 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 going concern

We draw attention to note 2 in the financial statements, which indicates that the Directors have concluded that the potential impact of COVID-19 described in note 2 and uncertainty over possible mitigating actions, including covenant waivers or extending the New Bank Facility, represents a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, having assessed the financial forecasts, sensitivities and possible mitigating actions, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the next 12 months and therefore the Directors continue to adopt the going concern basis in preparing these financial statements. Our opinion is not modified in respect of this matter.

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

- We gained an understanding of the process undertaken by management to perform the going concern assessment, including the evaluation of the ongoing impact of COVID-19 on the Group and the Group's access to available sources of liquidity;
- We obtained management's forecast cash flows and covenant calculations covering the period from the date of signing to 30 June 2022 and we agreed these to the Board approved budgets and forecasts.
- We tested the mathematical accuracy of the cash flows, as well as the calculation of the forecast covenants;
- We obtained a copy of the waiver from the Bank for the anticipated covenant breach in March 2021;
- We challenged management in respect of the assumptions used in the going concern assessment and reverse stress test reflecting the risk of further lockdown later in FY21 and the impact this would have on liquidity and breaching of financial covenants.
- We understood and challenged the Board's controllable mitigation plans and the forecast impact on the ability of the business to operate within its financial covenants. We obtained supporting documentation to evaluate the plausibility and achievability of management's mitigation plans considering actions delivered to date.
- We compared forecast future cashflows to historical data, ensuring variations are in line with our expectations and understanding of the business and considered the reliability of past forecasts.
- Considered the results of other audit procedures and other knowledge obtained in the audit and whether it was consistent with or contradicted management's assumptions.
- We performed our own sensitivity analysis on managements forecast cashflows and considered the reverse stress tested management model.
- We agreed available facilities to underlying agreements and the extent of drawings thereunder to external confirmations.
- We assessed the adequacy of disclosures within the Annual Report and Accounts.

Our key observations

- We have observed that the group is experiencing a high level of disruption from the impact of the pandemic from both a revenue and profitability perspective. There is uncertainty about the impacts of COVID-19 on management's forecasts in the going concern assessment period, with membership levels and further enforced gym closures being key assumptions.
- In December 2020, the Group amended the New Bank Facility to extend it from 18 months to 24 months (now due to end June 2022 at which point the terms of the original £70 million RCF will apply) and to set new covenants based on a revised business plan. Based on management's forecasts, it is expected that the Group will breach its current banking covenant in June 2021 requiring a waiver and it may be necessary in certain downside scenarios to extend the term of the New Bank Facility beyond June 2022.

FINANCIAL STATEMENTS

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

CONTINUED

We draw attention to the Viability Statement in the Annual Report at page 51 that comments on the impact of the current outbreak of COVID-19 in the UK and the impact on the Viability Statement. The Directors consider that the material uncertainty referred to in respect of going concern may cast significant doubt over the future viability of the Group and Company. Our opinion is not modified in respect of this matter.

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

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

Overview of our audit approach

Audit scope	• We performed an audit of the complete financial information of two components and audit procedures on specific balances for a further one component. • The components where we performed full or specific audit procedures accounted for 100% of Profit before tax and exceptionals, 100% of Revenue and 100% of Total assets.
Key audit matters	• Deferral of membership income • Annual goodwill and property, plant and equipment impairment testing including cash flow and discount rate assumptions
Materiality	• Overall group materiality of £523,000 which represents 0.65% of revenue.

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

Tailoring the scope

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

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts in the financial statements, of the seven reporting components of the Group, we selected three components covering entities, which represent the principal business units within the Group.

Of the three components selected, we performed an audit of the complete financial information of two components ("full scope components") which were selected based on their size or risk characteristics. For the remaining one component ("specific scope components"), we performed audit procedures on specific accounts within that component that we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The reporting components where we performed audit procedures accounted for 100% (2019: 100%) of the Group's Revenue, Group's Profit before tax and exceptional items, Group's Profit before tax and the Group's Total assets.

	2020			2019		
	Full scope	Specific scope	Remaining components	Full scope	Specific scope	Remaining components
Number of components	2	1	4	2	3	2
Revenue	100%	0%	–	97.1%	2.9%	–
(Loss)/profit before tax and exceptional items	(94.7%)	(5.3%)	–	130.5%	(30.5%)	–
(Loss)/profit before tax	(97.8%)	(2.2%)	–	175%	(75%)	–
Total assets	99.9%	0.1%	–	99.9%	0.1%	–

Changes from the prior year

In the current year two of the components were descoped. This is due to a reorganisation during the prior year and these entities are no longer trading.

Involvement with component teams

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

Key audit matters

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

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 2020: £80.5m (31 December 2019: £153m), of which £6.4m was deferred at 31 December 2020 (31 December 2019: £8.0m) and presented in the balance sheet as contract liabilities. *Refer to the Report of the Audit and Risk Committee (page 68); accounting policies (page 108); and notes 6 and 21 of the Consolidated Financial Statements (pages 116 and 125).* In preparing the annual accounts, management need to calculate the amount of joining and subscription payments collected, which relate to membership after the year end date and for which the related revenue should be deferred and presented as a contract liability under IFRS 15 "Revenue from Contracts with Customers" ("IFRS 15"). The calculation of deferred membership fees does not involve significant judgement or estimation but is a non routine process whose calculation requires considerable manual input. That calculation is more complex this year due to the need to reflect impacts of COVID-related closure periods. There is an increased risk of material error and management override in the inputs to this calculation, with an increased risk in the current year due to these manual calculations due to COVID-19.	We obtained an understanding of the Group's revenue recognition process, in particular in respect of the membership subscription process. This included visiting the outsourced membership management service provider to obtain an understanding of the outsourced elements of the membership income process. We also obtained an understanding of the deferred membership fee income calculation process and related controls, taking into consideration the additional processes in place for the updated calculation reflecting the impact of COVID-19. We obtained the full revenue listing directly from the management service provider and tested a sample to ensure validity of the information. We re-performed a full recalculation on management's deferred membership fee income calculation for all material balances in order to ensure the accuracy of the calculation of income deferred.	Based on our procedures, deferral of membership income in the year ended 31 December 2020 is appropriately recognised and presented as contract liabilities as at that date.

FINANCIAL STATEMENTS

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

CONTINUED

Risk	Our response to the risk	Key observations communicated to the Audit Committee
Annual goodwill impairment testing including cash flow and discount rate assumptions – 31 December 2020: £77.7m (31 December 2019: £77.7m); and property, plant and equipment impairment testing – 31 December 2020: £171.4m (31 December 2019: £176.0m) *Refer to the Report of the Audit and Risk Committee (page 68); accounting policies (page 109 and 114); and note 16 of the Consolidated Financial Statements (page 122).* As disclosed in note 16 to the Consolidated Financial Statements, goodwill recognised in the Group Statement of Financial Position of £77.7m (arising on the acquisition of The Gym Limited, the acquisition of the trade and assets of 18 gyms from Lifestyle Fitness, the acquisition of the trade and assets of one gym in Aylesbury and the acquisition of the trade and assets of 13 gyms from easyGym) has been allocated to one group of cash generating units ("CGUs") comprising The Gym chain of health and fitness facilities. As disclosed in note 15 to the Consolidated Financial Statements, property, plant and equipment is recognised of £426.9m relating to the assets held, including the Right-of-Use assets for The Gym chain. 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 2020. They have also undertaken an annual impairment review in respect of property plant and equipment (PPE) and have recognised an impairment of £1.61m in the current year. We focused on this area due to both the significance of the carrying value of goodwill and PPE 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 for PPE and note 16 for goodwill to the Consolidated Financial Statements. There is an increased risk and uncertainty in the current year due to the impacts of the Government-enforced closures in respect of COVID-19.	We performed a walkthrough of the process and controls to gain an understanding of the Group's impairment process. We obtained and challenged management's CGU assessment which treats each gym as a CGU, but allocates the Group's goodwill to the chain of health and fitness facilities operating under "The Gym" brand. This group of CGUs represent the lowest level within the Group at which the goodwill will be monitored for internal management purposes and is consistent with the Operating Segments identified under IFRS 8 "Operating Segments". We obtained management's impairment testing models for goodwill and property plant and equipment. We checked the input data to source information, we evaluated the calculation methodology and tested the integrity of the model. We assessed whether the assumptions disclosed in note 15 and 16 to the Consolidated Financial Statements were the appropriate key assumptions to be used in the impairment model, being the discount rate, revenue growth and cost inflation over the next three years and the long term growth from 2023 onwards. We then challenged the reasonableness of these assumptions by reference to historical data, external benchmarks and the risk of management bias. We assessed the historical accuracy of management's forecasting by comparing actual financial performance to management's previous forecasts / budgets. We considered management's sensitivity analysis showing the impact of a reasonably possible change in key impairment assumptions to determine whether an impairment charge would be required. This consideration included performing our own sensitivity analysis by reference to the results of our assessment of assumptions referred to above. As part of our work we utilised EY valuations specialists to assist in assessing the appropriateness of the methodology used by the models and to assist in our assessment of the discount rate and long term growth rate assumptions used in the impairment models. We ensured that the Financial Statement disclosures, particularly those in note 15 for PPE and 16 for Goodwill 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	Based on our procedures, we consider management's assessment of the CGUs to be appropriate. We believe that the combined effect of the cash flow and discount rate assumptions used by management in the CGU impairment model are within acceptable ranges and reasonably possible changes in the key assumptions would not cause an impairment to arise in respect of the goodwill. Additionally, in respect of property plant and equipment impairment, we consider the cash flow and discount rate assumptions, and impairment charges which have been recorded in the current year in reasonable. We consider that management's impairment model methodology is acceptable. The Financial Statement disclosures, particularly those in note 15 and 16 to the Consolidated Financial Statements, materially comply with the applicable requirements of IAS 36 and IAS1.

In the prior year, our auditor's report included a key audit matter in relation to Adoption of IFRS 16, since it was the first year of implementation. Given that this is no longer the first year, this has not been included as a key audit matter in the current year. In the current year. PPE impairment has been considered additionally to Goodwill impairment, due to the impacts of Government-enforced closure due to COVID-19.

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 £523,000 (2019: £639,000), which is 0.65% of revenue (2019: 5% of profit before tax and exceptional items). Due to the loss before tax in the current year, profit before tax and exceptional items is no longer an appropriate materiality measure. We consider that revenue is the key variable which will drive performance of the group in 2021, and it is therefore expected that the users of the financial statements focus will turn to growth of membership levels and revenue.

We determined materiality for the Parent Company to be £2,638,630 (2019: £1,913,500), which is 1% (2019: 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% (2019: 75%) of our planning materiality, namely £392,000 (2019: £486,000). We have set performance materiality at this percentage due to experience with the Group demonstrating an effective control environment and low incidence of misstatements.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £176,400 to £392,000 (2019: £92,400 to £462,000).

Reporting threshold

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

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £26,000 (2019: £35,000), which is set at 5% of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

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

Other information

The other information comprises the information included in the annual report set out on pages 1 to 89, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the annual report.

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

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

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006

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

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

CONTINUED

Matters on which we are required to report by exception

In the light of the knowledge and understanding of the Group and the Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in:

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

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company Financial Statements and the part of the 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
- a Corporate Governance Statement has not been prepared by the Company

Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the group and company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

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

- Directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on pages 51 to 52;
- Directors' explanation as to its assessment of the Company's prospects, the period this assessment covers and why the period is appropriate set out on pages 51 to 52;
- Directors' statement on fair, balanced and understandable set out on page 94;
- Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 48 to 50;
- The section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 46 and 47; and;
- The section describing the work of the Audit Committee set out on pages 68 to 70.

Responsibilities of directors

As explained more fully in the Directors' Responsibilities Statement set out on page 94, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the group and determined that the most significant are Companies Act 2006; UK Listing Rules; UK Listing Authority – Disclosure and Transparency Rules; The Companies (Miscellaneous Reporting Regulation) 2018; The Large and Medium-sized Companies and 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 2018.
- We understood how The Gym Group plc is complying with those frameworks by making enquiries of senior management and those charged with governance; attendance at audit committees; obtaining an understanding of entity-level controls and considering the influence of the control environment; obtaining an understanding of policies and procedures in place regarding compliance with laws and regulations, including how compliance with such policies is monitored and enforced; obtaining an understanding of management's process for identifying and responding to fraud risks, including programs and controls established to address risks identified, or otherwise prevent, deter and detect fraud, and how senior management monitors those programs and controls; and reviewing correspondence with relevant regulatory authorities.
- We assessed the susceptibility of the Group's Financial Statements to material misstatement, including how fraud might occur by: discussing within the audit team; performing client acceptance/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

Following the recommendation from the audit committee 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 6 years, covering the years ending 31 December 2015 to 31 December 2020.
- 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.

Ernst & Young LLP

Michael Kidd (Senior statutory auditor)
for and on behalf of Ernst & Young LLP, Statutory Auditor
Belfast
18 March 2021

FINANCIAL STATEMENTS

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Revenue	6	**80,470**	153,134
Cost of sales		**(2,116)**	(1,437)
Gross profit		**78,354**	151,697
Other income	7	**427**	–
Administration expenses		**(112,696)**	(130,122)
Operating (loss)/profit	8	**(33,915)**	21,575
Finance income	12	**6**	32
Finance costs	13	**(13,283)**	(15,388)
(Loss)/profit before tax		**(47,192)**	6,219
Tax credit/(charge)	14	**10,824**	(2,624)
(Loss)/profit for the year attributable to equity shareholders		**(36,368)**	3,595
Other comprehensive income/(expense) for the year			
Items that may be reclassified to profit or loss			
Changes in the fair value of derivative financial instruments	27	**11**	(155)
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		**–**	(277)
Total comprehensive (expense)/income attributable to equity shareholders		**(36,357)**	3,163
(Loss)/earnings per share	10	**pence**	pence
Basic		**(23.1)**	2.6
Diluted		**(23.1)**	2.6
Reconciliation of operating (loss)/profit to Group Adjusted EBITDA less Normalised Rent:		**£'000**	£'000
– Operating (loss)/profit		**(33,915)**	21,575
– Depreciation of property, plant and equipment and right-of-use assets	15	**45,169**	41,778
– Amortisation of intangible assets	16	**3,765**	3,114
– Exceptional impairment of property, plant and equipment and right-of-use assets	9, 15	**1,606**	–
– Exceptional impairment of intangible assets	9, 16	**1**	–
– Exceptional items (excluding impairment of property, plant and equipment, right-of-use assets and intangible assets)	9	**(485)**	6,086
– Long term employee incentive costs	29	**669**	1,900
– Normalised Rent[2]		**(26,979)**	(25,913)
– Group Adjusted EBITDA less Normalised Rent[1]		**(10,169)**	48,540

1 Group Adjusted EBITDA less Normalised Rent is a non-statutory metric used internally by management and externally by investors. It is calculated as operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items, and after deducting Normalised Rent. Refer to the KPIs on page 144 for further information.
2 Normalised Rent is the contractual rent that would have been paid in normal circumstances without any agreed deferments, recognised in the monthly period to which it relates.

The notes on pages 106 to 136 form an integral part of the Financial Statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Non-current assets			
Property, plant and equipment	15	171,386	176,001
Right-of-use assets	15	255,558	238,702
Intangible assets	16	86,386	86,379
Investments in financial assets	17	1,000	–
Derivative financial instruments	27	1	13
Deferred tax assets	14	7,614	–
Total non-current assets		521,945	501,095
Current assets			
Inventories	18	290	654
Trade and other receivables	19	6,355	8,769
Income taxes receivable		162	–
Cash and cash equivalents	20	3,736	2,605
Total current assets		10,543	12,028
Total assets		**532,488**	513,123
Current liabilities			
Trade and other payables	21	18,598	29,389
Lease liabilities	22	21,842	15,637
Other financial liabilities	23	2,609	3,875
Provisions	25	46	352
Income taxes payable	14	–	374
Total current liabilities		43,095	49,627
Non-current liabilities			
Borrowings	24	49,180	49,116
Lease liabilities	22	284,473	262,706
Provisions	25	1,241	1,303
Deferred tax liabilities	14	55	208
Total non-current liabilities		334,949	313,333
Total liabilities		**378,044**	362,960
Net assets		**154,444**	150,163
Capital and reserves			
Issued capital	28	17	14
Own shares held	28	48	48
Capital redemption reserve	28	4	4
Share premium	28	159,474	159,474
Hedging reserve	28	(155)	(166)
Merger reserve	28	39,912	–
Retained deficit	28	(44,856)	(9,211)
Total equity shareholders' funds		**154,444**	150,163

The notes on pages 106 to 136 form an integral part of the Financial Statements.

These Financial Statements were approved by the Board of Directors on 18 March 2021.

Signed on behalf of the Board of Directors

Richard Darwin
Chief Executive Officer

Mark George
Chief Financial Officer

Company Registration Number 0852849

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Hedging reserve £'000	Merger reserve £'000	Retained deficit £'000	Total £'000
At 1 January 2019		14	48	4	159,474	(11)	–	(12,290)	147,239
Profit for the year		–	–	–	–	–	–	3,595	3,595
Other comprehensive expense		–	–	–	–	(155)	–	(277)	(432)
Total comprehensive income		–	–	–	–	(155)	–	3,318	3,163
Share based payments	29	–	–	–	–	–	–	1,670	1,670
Deferred tax on share based payments	14	–	–	–	–	–	–	24	24
Dividends paid	32	–	–	–	–	–	–	(1,933)	(1,933)
At 31 December 2019		14	48	4	159,474	(166)	–	(9,211)	150,163
Loss for the year		–	–	–	–	–	–	(36,368)	(36,368)
Other comprehensive income		–	–	–	–	11	–	–	11
Total comprehensive expense		–	–	–	–	11	–	(36,368)	(36,357)
Issue of Ordinary share capital	28	3	–	–	–	–	39,912	–	39,915
Share based payments	29	–	–	–	–	–	–	801	801
Deferred tax on share based payments	14	–	–	–	–	–	–	(78)	(78)
At 31 December 2020		**17**	**48**	**4**	**159,474**	**(155)**	**39,912**	**44,856**	**154,444**

The notes on pages 106 to 136 form an integral part of the Financial Statements.

CONSOLIDATED CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER 2020

	Note	31 December 2020 £'000	31 December 2019 Restated* £'000
Cash flows from operating activities			
(Loss)/profit before tax		**(47,192)**	6,219
Adjustments for:			
Net finance costs		**13,277**	15,356
Exceptional administration items	9	**(485)**	6,086
Depreciation and impairment of property, plant and equipment and right-of-use assets	15	**46,775**	41,778
Amortisation of intangible assets	16	**3,766**	3,114
Long term employee incentive costs	29	**669**	1,900
Loss/(profit) on disposal of property, plant and equipment and right-of-use assets		**676**	(112)
Decrease/(increase) in inventories		**364**	(275)
Decrease/(increase) in trade and other receivables		**2,719**	(1,073)
(Decrease)/increase in trade and other payables		**(5,589)**	2,382
Payment of deferred consideration	23	**(1,266)**	–
Cash generated from operations		**13,714**	75,375
Tax rebate/(paid)		**2,442**	(3,579)
Net cash flows from operating activities before exceptional items		**16,156**	71,796
Exceptional items		**(906)**	(1,120)
Net cash flow from operating activities		**15,250**	70,676
Cash flows from investing activities			
Payment for financial assets at fair value through profit and loss		**(1,000)**	–
Business combinations		**–**	(2,114)
Purchase of property, plant and equipment		**(25,469)**	(37,019)
Purchase of intangible assets		**(3,774)**	(2,461)
Disposal of tangible assets		**28**	391
Interest received		**6**	32
Net cash flows used in investing activities		**(30,209)**	(41,171)
Cash flows from financing activities			
Dividends paid		**–**	(1,933)
Repayment of lease liability principal		**(9,948)**	(13,093)
Lease interest paid		**(12,661)**	(12,820)
Bank interest paid		**(1,798)**	(2,197)
Payment of financing fees		**(418)**	(884)
Drawdown of bank loans		**41,000**	53,500
Repayments of bank loans		**(40,000)**	(52,500)
Proceeds of issue of Ordinary shares	28	**41,268**	–
Costs associated with share issue		**(1,353)**	–
Net cash flows from/(used in) financing activities		**16,090**	(29,927)
Net increase/(decrease) in cash and cash equivalents		**1,131**	(422)
Cash and cash equivalents start of period		**2,605**	3,027
Cash and cash equivalents at end of period		**3,736**	2,605

* See note 5 for details.

The notes on pages 106 to 136 form an integral part of the Financial Statements.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

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 financial statements have been prepared in accordance with the Listing Rules and the Disclosure Guidance and Transparency Rules of the United Kingdom Financial Conduct Authority (where applicable), international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The accounting policies applied are consistent with those described in the Annual Report and Accounts for the year ended 31 December 2019 of the Group. 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, financial assets and other financial liabilities at fair value through the profit and loss and the recognition of financial assets at fair value through other comprehensive income.

The Consolidated Financial Statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the preceding period when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in Financial Statements.

Going concern

In assessing the going concern position of the Group for the year ended 31 December 2020, the Directors have considered the Group's cash flows, liquidity and business activities in the light of the COVID-19 pandemic.

The outbreak of COVID-19 and its continuing impact on the economy casts a degree of uncertainty as to the future financial performance and cash flows of the Group. When assessing the ability of the Group to continue as a going concern the Directors have considered:

- the Group's financing arrangements;
- the pattern of trading during 2020 when gyms were open between lockdowns; and
- future trading risks including continued regional or nationwide lockdowns and reduced membership levels

on the cashflows, liquidity and bank facility covenants of the Group over the period to 30 June 2022.

In the first half of 2020 the Group raised additional financing in the form of:

- an equity placing, which raised net proceeds of £39.9 million; plus
- a £30.0 million debt facility extension (the 'New Bank Facility'), which provided incremental liquidity beyond the existing £70.0 million Revolving Credit Facility ('RCF'). The RCF and the New Bank Facility are both provided by a consortium of HSBC, NatWest and Banco de Sabadell.

During the periods of trading between lockdowns in the second half of 2020 the Group traded profitably and reduced capital expenditure and other cash outflows. As at 31 December 2020, the Group had Non-Property Net Debt of £47.3 million versus £100.0 million of total borrowing capacity.

Following the phased introduction of Tier 4 restrictions in a number of regions in December 2020, the Group was required to close 162 of its 183 gyms. On 4 January 2021 all remaining gyms were required to close as the UK Government announced a nationwide lockdown. The UK Government has announced that gyms will re-open on 12 April 2021 if there is continued progress with the Government's four criteria for monitoring the pandemic.

As at 28 February 2021, the Group had Non-Property Net Debt of £58.2 million and therefore liquidity of £41.8 million versus a total borrowing capacity £100.0 million. In the next 12 months the Group's liquidity will be influenced by (i) the number of months of closure of its gyms and (ii) the trading performance of the business when gyms are permitted to open. Below we set out the financial implications of periods of closure and trading respectively:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash burn when gyms are closed

During the current period of closure, the Group has no revenue and is operating with a monthly cash burn (excluding new site capital expenditure) of around £5 million. This cash burn rate has been minimised as a result of significant reductions in operating costs and the following UK Government support:

- £1.1 million per month of Business Rates relief, currently due to end August 2021 due to there being a cap on relief of £2.0 million in H2 2021;
- £1.1 million per month of furlough income support from the Coronavirus Job Retention Scheme ('CJRS'), currently due to end when we reopen in April 2021; and
- £0.5 million per month from Local Restrictions Support Grants ('LRSG') ongoing until we reopen in April 2021.

In addition to the ongoing support the Group has also benefited from a one-off Government grant of £27,000 per site; these grants have a total one-off benefit of £4.5 million to the Group, of which £2.2 million had been received from the relevant local authorities before 28 February 2021.

While gyms are required to remain closed and with current levels of Government support and the business is operating with monthly cash burn of c. £5.0 million. This cash burn assumes c.£2.5 million of rent being paid each month, which is the 'normalised' level of rent per month excluding the impact of rent deferrals. A total of £3.6 million of rent deferred from 2020 is due to be repaid over the course of 2021, in addition to the 'normalised' level of £2.5 million per month. Any further deferrals agreed will improve cash flow in the closure period and extend the period of closure for which the Group would be able to operate.

Trading when gyms are open

As at 28 February 2021 the Group had 547,000 members, all on 'free freeze', down from 578,000 on 31 December 2020. During the ongoing period of closure we expect membership to reduce further at a similar rate to recent weeks; this rate of membership loss is lower than in the first national lockdown from March to July 2020 and the second national lockdown in November 2020.

When gyms re-open our subscription revenue starts immediately and in the periods of trading between national lockdowns in 2020 the business operated profitably. The profitability of the Group after the gyms re-open from the current lockdown will depend on the membership level and level of UK Government financial support. Whilst we continue to receive the benefit of Business Rates relief, which is anticipated to be until the end of August 2021, the business would require approximately 540,000 members to be break even at the cash flow level. When the benefit of Business Rates relief ends, the cost base of the business would increase by c.£1.1 million per month, increasing the cash flow break-even point to around 610,000 members.

Although there is uncertainty over the level of continued Government support and the speed of recovery in membership once gyms have reopened, it is the Directors expectation that the business will be close to break even at a cash flow level when gyms re-open and from that point the recovery in membership will improve profitability and cash flow, therefore reducing net debt and increasing liquidity headroom.

In December 2020, the Group amended the New Bank Facility to extend it from 18 months to 24 months (now due to end June 2022 at which point the terms of the original £70 million RCF will apply) and to set new covenants based on a revised business plan. The Group met the covenant test for December 2020. As a result of the national lockdown in early 2021 the Group agreed with its lending banks a waiver of the March 2021 covenant test. The June 2021 covenant test is based on a cumulative EBITDA for H1 2021 and was set at a level that allowed for up to one month of closure in that six month period; with the current lockdown being at least three months we will not be able to meet the June 2021 covenant test. As our plan anticipates meeting all subsequent covenant tests, we anticipate that our lending banks will provide flexibility on the June 2021 test although no such agreement has been reached. We have agreed with the banks that discussions regarding future covenant tests will take place during April/May 2021 once there is further visibility on the external environment, levels of government support and whether gyms have reopened.

The Directors have considered a reverse stress test scenario in which it is assumed the current lockdown ends at the end of April 2021 (vs Government target date of reopening gyms of 12 April 2021) and a new lockdown starts in November 2021 (matching the timing of the winter lockdown in November 2020) and continues indefinitely, with the business trading in the months between lockdowns on an approximately cash flow neutral basis. In such a scenario the Group would be able to continue operating until March 2022 before reaching the £100 million borrowing capacity. In such circumstances additional options may be available to mitigate the impact on the Group's liquidity and cash flow including: (i) further reductions in operating and capital expenditure; (ii) additional support from the UK Government; (iii) extension of debt facilities; (iv) continued deferral of, or reductions in, rent payments to landlords; (v) the potential to raise additional funds from third parties. In the reverse stress test scenario, the closures from November 2021 onwards would result in EBITDA losses in Q4 2021 and as a result the Q4 2021 covenant test would not be met.

Whilst the Group has secured sufficient liquidity, via the raising of equity and additional debt facilities, to finance operations through most reasonable scenario, it may be necessary in certain downside scenarios to extend the term of £30.0 million New Bank Facility beyond June 2022. The Directors also consider it to be a plausible risk that current covenant targets after June 2021 will not be met due to the impact of further closure or slower recovery in membership numbers due to changes in members' behaviour. In the event that the Group fails to meet one or more of its 2021 debt covenants, the Directors believe it likely that further agreement could be reached with the lending banks to waive or amend covenants as part of a revised business plan. However, no such commitment for further covenant waivers (beyond the March 2021 waiver already agreed) is currently in place with the lending banks.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020
CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Directors have concluded that the potential impact of COVID-19 described above and uncertainty over possible mitigating actions, including covenant waivers or extending the New Bank Facility, represents a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. However, having assessed the financial forecasts, sensitivities and possible mitigating actions, the Board has a reasonable expectation that the Group has adequate resources to continue in operational existence for the next twelve months and therefore the Directors continue to adopt the going concern basis in preparing these financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company were unable to continue as a going concern.

Consolidation

Subsidiaries

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

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

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

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

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

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

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

Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the Board of Directors. The Group's activities consist solely of the provision of high quality health and fitness facilities within the United Kingdom, presently traded through 183 sites. It is managed as one entity and management has consequently determined that there is only one operating segment.

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

Revenue

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

Revenue from membership income comprises monthly membership fees, non-refundable joining fees and longer term membership fees. Longer term membership fees comprises student membership fees which typically cover a nine month period and corporate annual membership fees. All membership income is recognised and spread over the period the membership relates to, being the period of the Group's performance obligations, with any subscriptions in advance of the period in which the service is provided being recorded as a contract liability on the statement of financial position. Joining fee income is recognised over the period in which the membership commences since the performance obligation attached to that income is satisfied in that period and to match against the costs associated of a new member joining.

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

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

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

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

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.

Other income

Other income compromises amounts receivable not in the ordinary course of business and government grants. Where the income relates to an identifiable expense, the income is offset against the relevant expense. Where an expense is not easily identifiable, the income is recognised within Other income.

Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises as expenses the related costs for which the grants are intended to compensate. Specifically, government grants whose primary condition is that the Group should purchase, construct or otherwise acquire non-current assets (including property, plant and equipment) are recognised as deferred income in the Consolidated Statement of Financial Position and transferred to profit or loss on a systematic and rational basis over the useful lives of the related assets.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Where the income relates to a distinct identifiable expense, the income is offset against the relevant expense e.g. income received under the Coronavirus Job Retention Scheme has been offset against staff costs. Where an expense is not distinctly identifiable or the income relates to multiple expenses, the income is recognised within Other income.

Exceptional items

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

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

Property, plant and equipment

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

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

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

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

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

Leases

The Group assesses whether a contract is or contains a lease, at inception of the contract. The Group recognises a right-of-use asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets (such as tablets and personal computers, small items of office furniture and telephones). For these leases, the Group recognises the lease payments as an operating expense on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

Right-of-use assets

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

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020
CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The carrying values of right-of-use assets are reviewed for impairment if events or changes in circumstances indicate the carrying value may not be recoverable.

Lease liabilities

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Group uses its incremental borrowing rate.

Lease payments included in the measurement of the lease liability comprise:

- Fixed lease payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that depend on an index or rate, initially measured using the index or rate at the commencement date; and
- Payments of penalties for terminating the lease, if the lease term reflects the exercise of an option to terminate the lease.

The lease liability is presented as a separate line in the consolidated statement of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Group remeasures the lease liability (and makes a corresponding adjustment to the related right-of-use asset) whenever:

- The lease payments change due to changes in an index or rate, in which cases the lease liability is remeasured by discounting the revised lease payments using an unchanged discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).
- A lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group did remeasure lease liabilities during the year ended 31 December 2020.

Although the Group enjoys security of tenure as tenant in respect of certain of its lease arrangements, there are conditions associated with these rights such that no unconditional right to extend the lease term exists.

Intangible assets

Goodwill

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

Goodwill is allocated to cash generating units ('CGUs') for the purpose of impairment testing. The allocation is made to those CGUs or groups of CGUs that are expected to benefit from the business combination in which the goodwill arose identified according to operating segment. As the Group has just one operating segment and no monitoring on a lower level of goodwill occurs, goodwill is tested over the one operating segment.

Brands and customers lists

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

Technology related

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

Contract related

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

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:

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

- 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 depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

Financial instruments

Financial assets (excluding derivative financial instruments)

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

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

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

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

Debt instruments that meet the following conditions are measured subsequently at amortised cost:

- The financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are measured subsequently at fair value through other comprehensive income ('FVTOCI'):

- The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss ('FVTPL').

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.

FINANCIAL STATEMENTS

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020
CONTINUED

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

The Group initially recognises its financial liabilities at fair value net of transaction costs where applicable and, other than derivatives and contingent consideration, are subsequently measured at amortised cost using the effective interest method. Transaction costs are amortised using the effective interest method over the maturity of the loan. Contingent consideration is subsequently measured at its fair value, which is reassessed at each reporting period, and any fair value movement is recognised in the income statement.

Borrowing costs

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

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

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

Derivative financial instruments and hedging activities

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

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

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

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

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

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

Pensions

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

Share based payments

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

Inventories

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

Trade and other receivables

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

Cash and cash equivalents

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

Trade and other payables

Trade payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities. Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Current taxation

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date. Income tax relating to items recognised in comprehensive income or directly in equity is recognised in comprehensive income or equity and not in the income statement.

Deferred taxation

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

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

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

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

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of a past event; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate can be made of the amount of the obligation. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and risks specific to the obligation. The increase in the provision due to the passage of time is recognised as a finance cost.

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

Dividends

Dividends payable by the Company are recognised on declaration.

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.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

Incremental borrowing rate

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

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 15 and 16.

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3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS CONTINUED

Impairment

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its CGUs. In addition, the Group has reviewed plant, property and equipment for indicators of impairment and where such indicators exist, has estimated the recoverable amount of the CGUs. For each of these, 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 notes 15 and 16.

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. Further, the Directors have currently assessed that the carrying value of plant, property and equipment is sensitive to reasonably possible changes in key assumptions – see note 15 for further details. In addition, estimates of future cash flows and the determination of discount rates applied to those cash flows could change in the longer term such that an impairment arises in relation to other CGUs.

Provisions

Provisions are made for dilapidations in respect of leased premises. The recognition and measurement of these provisions require estimates to be made in respect of uncertain events and amounts, with the key sources of estimation uncertainty relating to whether a restoration obligation will arise, the amount and timing of future cash flows required to settle any restoration obligation assessed as arising, and to a lesser extent the discount rate 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 not probable in relation to 159 of the Group's 184 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 2020 would increase by £124,000. If a provision was required for a site where the Group does benefit from security of tenure, the provision at 31 December 2020 would increase by £50,000. A ten basis points change in the discount rate would increase/ decrease the provision recognised at 31 December 2020 by £13,000.

Details of dilapidation provisions recognised are set out in note 25.

4. NEW AND AMENDED IFRS STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT YEAR

Impact of the initial application of interest rate benchmark reform amendments to IFRS 9 and IFRS 7

In September 2019, the IASB issued interest rate benchmark reforms (Amendments to IFRS 9, IAS 39 and IFRS 7). These amendments modify specific hedge accounting requirements to allow hedge accounting to continue for affected hedges during the period of uncertainty before the hedged items or hedging instruments affected by the current interest rate benchmarks are amended as a result of the ongoing interest rate benchmark reforms.

The amendments are relevant to the Group given that it applies hedge accounting to its benchmark interest rate exposures. The application of the amendments impacts the Group's accounting in the following ways:

- The Group has floating rate debt, linked to GBP LIBOR, which it cash flow hedges using interest rate swaps. The amendments permit continuation of hedge accounting even though there is uncertainty about the timing and amount of the hedged cash flows due to the interest rate benchmark reforms.
- The Group will retain the cumulative gain or loss in the cash flow hedge reserve for designated cash flow hedges that are subject to interest rate benchmark reforms even though there is uncertainty arising from the interest rate benchmark reform with respect to the timing and amount of the cash flows of the hedged items. Should the Group consider the hedged future cash flows are no longer expected to occur due to reasons other than interest rate benchmark reform, the cumulative gain or loss will be immediately reclassified to profit or loss.

The amendments also introduce new disclosure requirements to IFRS 7 for hedging relationships that are subject to the exceptions introduced by the amendments to IFRS 9. The new disclosure requirements are presented in note 26.

Impact of the initial application of 'COVID-Related Rent Concessions' Amendment to IFRS 16

In May 2020, the IASB issued COVID-Related Rent Concessions (Amendment to IFRS 16) that provides practical relief to lessees in accounting for rent concessions occurring as a direct consequence of COVID-19, by introducing a practical expedient to IFRS 16. The practical expedient permits a lessee to elect not to assess whether a COVID-related rent concession is a lease modification. A lessee that makes this election shall account for any change in lease payments resulting from the COVID-related rent concession the same way it would account for the change applying IFRS 16 if the change were not a lease modification.

The practical expedient applies only to rent concessions occurring as a direct consequence of COVID-19 and only if all of the following conditions are met:

a) The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
b) Any reduction in lease payments affects only payments originally due on or before 30 June 2021 (a rent concession meets this condition if it results in reduced lease payments on or before 30 June 2021 and increased lease payments that extend beyond 30 June 2021); and
c) There is no substantive change to other terms and conditions of the lease.

In the current financial year, the Group has applied the amendment to IFRS 16 (as issued by the IASB in May 2020) in advance of its effective date.

4. NEW AND AMENDED IFRS STANDARDS THAT ARE EFFECTIVE FOR THE CURRENT YEAR CONTINUED

Impact on accounting for changes in lease payments applying the exemption

The Group has applied the practical expedient retrospectively to all rent concessions that meet the conditions in IFRS 16:46B, and has not restated prior period figures.

The Group has benefited from a one-month waiver of lease payments on five sites and additional rent free periods on a further six sites in exchange for the removal of break clauses in the leases. The waiver of lease payments of £682,000 has been accounted for as a negative variable lease payment in profit or loss. The Group has derecognised the part of the lease liability that has been extinguished by the forgiveness of lease payments, consistent with the requirements of IFRS 9:3.3.1.

Impact of the initial application of other new and amended IFRS Standards that are effective for the current year

In the current year, the Group has applied the below amendments to IFRS Standards and Interpretations issued by the Board that are effective for an annual period that begins on or after 1 January 2020. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Financial Statements.

Amendments to References to the Conceptual Framework in IFRS Standards	The Group has adopted the amendments included in Amendments to References to the Conceptual Framework in IFRS Standards for the first time in the current year. The amendments include consequential amendments to affected Standards so that they refer to the new Framework. Not all amendments, however, update those pronouncements with regard to references to and quotes from the Framework so that they refer to the revised Conceptual Framework. Some pronouncements are only updated to indicate which version of the Framework they are referencing to (the IASC Framework adopted by the IASB in 2001, the IASB Framework of 2010, or the new revised Framework of 2018) or to indicate that definitions in the Standard have not been updated with the new definitions developed in the revised Conceptual Framework. The Standards which are amended are IFRS 2, IFRS 3, IFRS 6, IFRS 14, IAS 1, IAS 8, IAS 34, IAS 37, IAS 38, IFRIC 12, IFRIC 19, IFRIC 20, IFRIC 22, and SIC-32.
Amendments to IAS 1 and IAS 8 Definition of material	The Group has adopted the amendments to IAS 1 and IAS 8 for the first time in the current year. The amendments make the definition of material in IAS 1 easier to understand and are not intended to alter the underlying concept of materiality in IFRS Standards. The concept of 'obscuring' material information with immaterial information has been included as part of the new definition. The threshold for materiality influencing users has been changed from 'could influence' to 'could reasonably be expected to influence'. The definition of material in IAS 8 has been replaced by a reference to the definition of material in IAS 1. In addition, the IASB amended other Standards and the Conceptual Framework that contain a definition of 'material' or refer to the term 'material' to ensure consistency.

New and revised IFRS Standards that are in issue but not yet effective

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

IFRS 17	Insurance Contracts
IFRS 10 and IAS 28 (amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
Amendments to IAS 1	Classification of Liabilities as Current or Non-current
Amendments to IFRS 3	Reference to the Conceptual Framework
Amendments to IAS 16	Property, Plant and Equipment – Proceeds before Intended Use
Amendments to IAS 37	Onerous Contracts – Cost of Fulfilling a Contract
Annual Improvements to IFRS Standards 2018-2020 Cycle	Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards, IFRS 9 Financial Instruments, IFRS 16 Leases, and IAS 41 Agriculture

The Directors do not expect that the adoption of the Standards listed above will have a material impact on the Financial Statements of the Group in future periods.

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5. ADJUSTMENTS TO PRIOR YEAR

Classification of cash flows in respect of capital expenditure

In the Consolidated Cash Flow Statement for the year ended 31 December 2019, cash outflows of £1,585,000 in relation to the purchase of plant, property and equipment were incorrectly classified within movements in trade and other payables. This classification has therefore been amended as shown in the table below. There is no impact on the income statement or net cash.

Consolidated Cash Flow Statement for the year ended 31 December 2019 (extract):

	As reported £'000	Reclassification of capex creditor £'000	Restated £'000
Increase in inventories	(275)	–	(275)
Increase in trade and other receivables	(1,073)	–	(1,073)
Increase in trade and other payables	3,967	(1,585)	2,382
Other operational cash flows	69,642	–	69,642
Net cash flow from operating activities	72,261	(1,585)	70,676
Cash flows from investing activities			
Purchase of property, plant and equipment	(38,604)	1,585	(37,019)
Other investing cash flows	(4,152)	–	(4,152)
Net cash flows used in investing activities	(42,756)	1,585	(41,171)
Net cash flows used in financing activities	(29,927)	–	(29,927)
Net increase in cash and cash equivalents	(422)	–	(422)
Cash and cash equivalents start of period	3,027	–	3,027
Cash and cash equivalents at end of period	2,605	–	2,605

6. REVENUE

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

Disaggregation of revenue

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

	31 December 2020 £'000	31 December 2019 £'000
Major products/service lines		
Membership income	**77,041**	146,782
Rental income from personal trainers	**2,454**	4,572
Other income	**975**	1,780
	80,470	153,134
Timing of revenue recognition		
Products transferred at a point in time	**1,162**	2,550
Products and services transferred over time	**79,308**	150,584
	80,470	153,134
Liabilities relating to contracts with customers		
Contract liabilities	**(6,442)**	(7,961)
Revenue recognised that was included in contract liabilities in the prior year		
Membership income	**7,952**	7,051
Other income	**9**	61

Contract liabilities relate to membership fees received at the start of a contract, where the Group has the obligation to provide a gym membership over a period of time and are included within trade and other payables (see note 21). During periods of gym closure, no revenue is recognised for membership fees thereby increasing contract liabilities. The contract liability balance increases as the Group's membership numbers increase, and therefore has decreased between 2019 and 2020 following a fall in membership numbers. The Group does not receive any consideration in advance from customers greater than 12 months hence the total contract liability at 31 December 2019 of £7,961,000 has been recognised as revenue during the year ended 31 December 2020.

7. OTHER INCOME

	31 December 2020 £'000	31 December 2019 £'000
Government grant for the purpose of immediate financial support	**251**	–
Government grant towards work placements (note 8)	**26**	–
Compensation for disruption caused by building works	**150**	–
	427	–

8. OPERATING PROFIT

Operating profit is stated after charging/(crediting):

	31 December 2020 £'000	31 December 2019 £'000
Depreciation of property, plant and equipment (excluding right-of-use asset)	**23,530**	22,571
Depreciation of right-of-use asset	**21,639**	19,112
Amortisation of IT intangible assets	**2,905**	1,936
Amortisation of non-IT intangible assets	**860**	1,141
Impairment of property, plant and equipment (excluding right-of-use asset)	**1,059**	1,696
Impairment of right-of-use asset	**547**	1,189
Impairment of intangible assets	**1**	37
Loss/(gain) on disposal of property plant and equipment	**676**	(112)
Cost of inventory recognised as an expense	**1,722**	260
Employee benefit expense (note 11)	**22,921**	26,742
Auditors' remuneration		
Fees payable for the audit of the Company's annual accounts	**100**	96
Audit of the Company's subsidiaries pursuant to legislation	**70**	61
Total	**170**	157

In 2020, as a result of the COVID-19 pandemic, the Group received £6,357,000 of direct grant support from the UK Government:

- Grants of £6,106,000 were received as part of a government initiative to provide immediate financial support in the form of the Coronavirus Job Retention Scheme ('CJRS'). The Group was entitled to the CJRS payments because it had to shut down its operations and furlough its employees from March to July 2020 and in November and December 2020. There is no outstanding balance of deferred income and a receivable related to this grant of £244,000 in the Statement of Financial Position as at 31 December 2020;
- Local government grants totalling £251,000 (see note 7) were received under the Local Restrictions Support Grant (Closed) scheme ('LRSG') to provide immediate financial support for businesses that were forced to cease operations or close as a result of local restrictions. These grants were recognised in profit or loss in Other income as the related costs were recognised. There are no future related costs in respect of these grants which were received solely as compensation for costs incurred in the year. There is no outstanding balance of deferred income or receivable related to this grant as at 31 December 2020.

In addition to the grants received under CJRS and LRSG, the Group also received government assistance in the form of a business rates holiday for the period 1 April 2020 to 31 March 2021. During this period, business in the retail, hospitality and leisure sectors in England will not have to pay business rates for the 2020 to 2021 tax year. The value of business rates saved during the year ended 31 December 2020 is £9,600,000.

The Group has enrolled in the Kickstart scheme offered by the Government to combat youth unemployment. Under this scheme, the Group receives financial support in order to offer six-month work placements for young people aged 16-24 who are claiming Universal Credit. Grant income is recognised evenly over each six-month placement term, and during the period, the Group has recognised £26,000 in other income (see note 7). A further balance of £38,000 within deferred income will be recognised in future periods. There is no outstanding balance receivable related to this grant as at 31 December 2020.

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9. EXCEPTIONAL ITEMS

	31 December 2020 £'000	31 December 2019 £'000
Impairment of tangible and intangible assets	**1,607**	1,448
Restructuring costs	**657**	410
Adjustment to net assets acquired in business combinations	**(171)**	–
Finalisation of site closures	**(403)**	1,240
Gain on reduction of lease term	**(568)**	–
Remeasurement of contingent consideration (see note 23)	**–**	2,988
Total exceptional items in operating expenses	**1,122**	6,086
Refinancing costs	**–**	486
Total exceptional items in financing expenses	**–**	486
Total exceptional items	**1,122**	6,572

Impairment and tangible and intangible assets

Impairment costs in 2020 relate to the writedown of assets of £881,000 for one site whereby the discounted present value of future cash flows using a pre-tax discount rate of 11.1% do not support the full value of the assets and an additional £726,000 for one site which was announced as closing in 2019 where the lease surrender has been delayed to 2021. The £1,448,000 recognised in 2019 relates to the impairment of assets for the closure of three sites announced in 2019 (see Finalisation of site closures below).

Restructuring costs

Restructuring costs in the current year relate primarily to the costs associated with restructuring the central support team in June 2020 in which headcount was reduced by 22%. The costs in 2019 relate primarily to changing the operating model for the use of Personal Trainers within the business that was completed in 2019.

Adjustment to net assets acquired in business combinations

Certain provisions that were recognised as part of acquisition of gyms from easyGym have been released as the costs are unlikely to be incurred.

Finalisation of site closures

Finalisation of site closures relate to the closure of the three sites announced in 2019, which arose as part of our estate management in order to optimise Group performance; the closures comprised two sites acquired from the Lifestyle and easyGym acquisitions plus one site opened in 2015 for which a five-year break clause was exercised by the Group in 2019. The gain in the current year primarily arises due to certain costs provided for in 2019 not being incurred, or no longer being expected to be incurred, in closing these sites.

Gain on reduction of lease term

The landlord on one of our sites has reduced the lease term and in exchange for doing so the lease has been renegotiated in 2020. As a consequence of the renegotiation, the Group has recognised a one-off gain of £568,000 this year related to the remeasurement of the lease liability and associated right-of-use asset.

Remeasurement of contingent consideration

Remeasurement of contingent consideration relates to a change in the probability-based estimate of contingent consideration that will be payable for the acquisition of two easyGym sites in the event the Group is successful in acquiring new leases for these sites. This remeasurement of the acquisition consideration has been recognised in the income statement but has no cash impact in 2020 and 2019.

Refinancing costs

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

10. LOSS PER SHARE

Basic earnings per share is calculated by dividing the profit or loss attributable to equity shareholders by the weighted average number of Ordinary shares outstanding during the year, excluding unvested shares held pursuant to The Gym Group plc Share Incentive Plan, The Gym Group plc Performance Share Plan, The Gym Group plc Restricted Stock Plan and The Gym Group plc Long Service Award Plan (see note 29).

10. LOSS PER SHARE CONTINUED

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 2020, 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 29). As the Group is in a loss making position in the current year, all potential dilutive share options will not be dilutive.

	31 December 2020	31 December 2019
Basic weighted average number of shares	**157,292,003**	137,870,237
Adjustment for share awards	**–**	2,561,055
Diluted weighted average number of shares	**157,292,003**	140,431,292
Basic (loss)/earnings per share (p)	**(23.1)**	2.6
Diluted (loss)/earnings per share (p)	**(23.1)**	2.6

At 31 December 2020, 4,125,842 share awards (2019: nil) were excluded from the diluted weighted average number of Ordinary shares calculation because their effect would be anti-dilutive.

Adjusted earnings per share is based on (loss)/profit for the year before exceptional items, amortisation of non-IT intangible assets, revaluation of borrowings and their associated tax effect.

	31 December 2020 £'000	31 December 2019 £'000
(Loss)/Profit for the year	**(36,368)**	3,595
Amortisation of non-IT intangible assets	**860**	1,178
Exceptional administration expenses	**1,122**	6,572
Revaluation of borrowings	**(1,315)**	–
Tax effect of above items	**(298)**	(771)
Adjusted (loss)/earnings	**(35,999)**	10,574
Basic adjusted (loss)/earnings per share (p)	**(22.9)**	7.7
Diluted adjusted (loss)/earnings per share (p)	**(22.9)**	7.5

11. EMPLOYEE INFORMATION

	31 December 2020 £'000	31 December 2019 £'000
Wages and salaries	**25,763**	22,458
Social security costs	**2,143**	1,876
Employers' pension costs	**452**	508
Long term employee incentive costs (note 29)	**669**	1,900
Coronavirus Job Retention Scheme ('CJRS') Income	**(6,106)**	–
	22,921	26,742

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

	31 December 2020 Number	31 December 2019 Number
Operational	**1,965**	1,314
Administration	**106**	109
	2,071	1,423

12. FINANCE INCOME

	31 December 2020 £'000	31 December 2019 £'000
Bank interest receivable	**6**	32
	6	32

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13. FINANCE COSTS

	31 December 2020 £'000	31 December 2019 £'000
Bank loans and overdrafts interest	**1,562**	1,848
Gain arising on changes in actual and estimated cash flows of bank borrowings (see note 24)	**(1,315)**	–
Lease interest	**12,661**	12,852
Unwinding of discount	**29**	24
Movement in fair value of derivative financial instruments	**23**	1
Amortisation of financing fees	**360**	353
Refinancing costs (see note 9)	**35**	486
	13,355	15,564
Capitalised interest	**(72)**	(176)
	13,283	15,388

Capitalised interest is recognised within leasehold improvements. The capitalisation rate used to determine the amount of borrowing costs to be capitalised is the weighted average interest rate applicable to the entity's general borrowings during the year of 1.9% (2019: 3.2%).

14. TAXATION

Tax on (loss)/profit

	31 December 2020 £'000	31 December 2019 £'000
Current income tax		
Current tax on (losses)/profits for the period	**(2,488)**	2,681
Adjustments in respect of prior years	**(491)**	(153)
Total current income tax	**(2,979)**	2,528
Deferred tax		
Origination and reversal of temporary differences	**(6,280)**	91
Change in tax rates	**(143)**	–
Adjustments in respect of prior years	**(1,422)**	5
Total deferred tax	**(7,845)**	96
Tax (credit)/charge in the Consolidated Statement of Comprehensive (Losses)/Income	**(10,824)**	2,624

The standard rate of corporation tax applied to reported (losses)/profits is 19% (2019: 19%).

Reconciliation of tax charge

	31 December 2020 £'000	31 December 2019 £'000
(Loss)/profit before tax	**(47,192)**	6,219
Tax calculation at standard rate of corporation tax of 19.0%	**(8,966)**	1,182
Expenses not deductible for tax purposes	**177**	924
Exceptional costs not deductible	**21**	666
Change in tax rates	**(143)**	–
Adjustments in respect of prior years	**(1,913)**	(148)
	(10,824)	2,624

14. TAXATION CONTINUED
Deferred tax

	Accelerated capital allowances £'000	Losses £'000	Intangible assets £'000	Share Schemes £'000	Other £'000	Total £'000
At 1 January 2019	(3,369)	107	(500)	514	3,110	(138)
Adjustments in respect of prior years	(104)	1	(33)	10	121	(5)
Recognised in income statement	26	(18)	168	155	(420)	(89)
Recognised in equity	–	–	–	24	–	24
At 31 December 2019	(3,447)	90	(365)	703	2,811	(208)
Adjustments in respect of prior years	1,212	–	205	(26)	31	1,422
Recognised in income statement	3,833	1,849	105	589	47	6,423
Recognised in equity	–	–	–	(78)	–	(78)
At 31 December 2020	**1,598**	**1,939**	**(55)**	**1,188**	**2,889**	**7,559**

Unrecognised tax losses
The Group has tax losses of £nil (2019: £nil) that are available indefinitely for offset against future taxable profits of the companies in which the losses arose.

Change in tax rate
The 2020 Finance Bill announced that the planned reduction in the main rate of corporation tax from 19% to 17% from 1 April 2020 would not occur and that the corporation tax rate would remain at 19% from 1 April 2020 and that this rate will be maintained from 1 April 2021. Deferred tax assets and liabilities that had previously been measured at 17% have been remeasured at 19% as that is the rate expected to be in effect when the asset or liability reverses.

The Finance Bill 2018-2019 introduced a number of changes to the capital allowances regime. These included the following:
- a temporary increase in the maximum annual investment allowance from £200,000 to £1 million per annum from 1 January 2019-31 December 2020;
- the introduction of a new Structures and Buildings Allowance of 2% per annum on certain structural construction, improvements and repairs; and
- a reduction in the rate of relief applying to Special Rate plant and machinery from 8% to 6% from 1 April 2019.

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

Uncertain tax positions
The Group had no material uncertain tax provisions as at 31 December 2020 (2019: £nil).

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15. PROPERTY, PLANT AND EQUIPMENT

	Assets under construction £'000	Leasehold improvements £'000	Fixtures, fittings and equipment £'000	Gym and other equipment £'000	Computer equipment £'000	Total before Right-of-use assets £'000	Right-of-use asset £'000	Total £'000
Cost								
At 1 January 2019	2,365	153,855	10,709	68,861	2,766	238,556	267,629	506,185
Additions	24,672	7,462	519	3,968	251	36,872	40,372	77,244
Disposals	–	(157)	–	(580)	–	(737)	–	(737)
Transfers	(23,338)	15,566	655	6,903	214	–	–	–
At 31 December 2019	3,699	176,726	11,883	79,152	3,231	274,691	308,001	582,692
Additions	19,661	1,536	39	80	385	21,701	38,069	59,790
Disposals	(563)	(435)	(43)	(860)	(16)	(1,917)	(1,764)	(3,681)
Transfers	(20,461)	13,954	(614)	6,073	40	(1,008)	1,008	–
Transfers to intangible assets	(94)	–	–	–	–	(94)	–	(94)
At 31 December 2020	**2,242**	**191,781**	**11,265**	**84,445**	**3,640**	**293,373**	**345,314**	**638,687**
Accumulated depreciation								
At 1 January 2019	–	35,673	5,473	32,110	1,625	74,881	48,998	123,879
Charge for the year	–	12,238	1,308	8,406	618	22,570	19,112	41,682
Disposals	–	(110)	–	(347)	–	(457)	–	(457)
Impairment	–	1,165	24	498	9	1,696	1,189	2,885
At 31 December 2019	–	48,966	6,805	40,667	2,252	98,690	69,299	167,989
Charge for the year	–	13,525	1,240	8,145	620	23,530	21,639	45,169
Impairment	–	809	9	241	–	1,059	547	1,606
Disposals	–	(439)	(58)	(769)	(26)	(1,292)	(1,729)	(3,021)
At 31 December 2020	**–**	**62,861**	**7,996**	**48,284**	**2,846**	**121,987**	**89,756**	**211,743**
Net book value								
At 31 December 2019	3,699	127,760	5,078	38,485	979	176,001	238,702	414,703
At 31 December 2020	**2,242**	**128,920**	**3,269**	**36,161**	**794**	**171,386**	**255,558**	**426,944**

The impairment charge of £1,606,000 for 2020 includes £726,000 in relation to the closure of one site announced in 2019 following a delay in the surrender of the lease to 2021 (2019: £2,885,000 includes £2,688,000 in relation to the closure of three sites announced). See note 9 for further details. The impairment loss for the open site was calculated based on the value in use of the assets for the site being lower than the carrying value of the assets making the recoverable amount £nil. The discount rate used in measuring value in use was 11.1%.

Under reasonably possible downside scenarios arising in relation to a potential 5% shortfall in long-term membership, further impairment of up to £470,000 would arise in relation to two sites.

Right-of-use assets relate to property leases – see note 22.

Included within additions for the year are £72,000 of capitalised interest (2019: £176,000), £168,000 of capital contributions from landlords not yet received (2019: £nil), £820,000 of accrued capital expenditure for invoices not received (2019: £2,278,000) and £116,000 of invoices received but not paid at 31 December 2020 (2019: £3,382,000).

16. INTANGIBLE ASSETS

	Goodwill £'000	Brand £'000	Customer list £'000	Technology £'000	Contract £'000	Computer software £'000	Total £'000
Cost							
At 1 January 2019	77,738	2,219	6,270	776	1,249	7,915	96,167
Additions	–	–	–	–	–	3,333	3,333
Disposals[1]	–	(2,219)	(3,550)	(776)	–	–	(6,545)
At 31 December 2019	77,738	–	2,720	–	1,249	11,248	92,955
Additions	–	–	–	–	–	3,679	3,679
Disposals	–	–	–	–	(40)	(2)	(42)
Transfer from tangible assets	–	–	–	–	–	94	94
At 31 December 2020	**77,738**	**–**	**2,720**	**–**	**1,209**	**15,019**	**96,686**
Accumulated amortisation							
At 1 January 2019	–	2,217	4,421	776	78	2,515	10,007
Charge for the year	–	2	914	–	225	1,936	3,077
Impairment	–	–	–	–	37	–	37
Disposal	–	(2,219)	(3,550)	(776)	–	–	(6,545)
At 31 December 2019	–	–	1,785	–	340	4,451	6,576
Charge for the year	–	–	646	–	214	2,905	3,765
Impairment	–	–	–	–	–	1	1
Disposals	–	–	–	–	(40)	(2)	(42)
At 31 December 2020	**–**	**–**	**2,431**	**–**	**514**	**7,355**	**10,300**
Net book value							
At 31 December 2019	77,738	–	935	–	909	6,797	86,379
At 31 December 2020	**77,738**	**–**	**289**	**–**	**695**	**7,664**	**86,386**

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

Impairment test for goodwill

Each of the Group's individual gyms has been identified as a CGU. However, for the purposes of impairment testing goodwill has been allocated to the chain of gyms or group of CGUs expected to benefit from the business combination in which the goodwill arose. Since 2018, all the gyms operated under The Gym brand and the Group now operates only as one chain of gym.

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

	2020 £'000	2019 £'000
The Gym chain of gyms	**77,738**	77,738
	77,738	77,738

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:

	2020		2019	
	Discount rate	Growth rate	Discount rate	Growth rate
The Gym	**11.1%**	**3.0%**	9.4%	3.0%

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

Membership growth, growth rates in subscription rates and increases applied to costs have been modelled on a site-by-site basis based upon a mixture of historical experience and expected recovery post COVID-19 and range from 7% to 67% for revenue and 2% to 50% for costs. The impact of any new openings are not included in the assessment as they do not form part of the existing asset. The performance of any gyms expected to close are included within the calculation up to the point of closure.

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

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17. INVESTMENTS IN FINANCIAL ASSETS

	31 December 2020 £'000	31 December 2019 £'000
Investments in equity instruments designated as at FVTOCI		
Equity instruments	–	–
Financial assets mandatorily measured at FVTPL		
Convertible debt instruments	1,000	–
Total investments	1,000	–

Investments in equity instruments designated as at FVTOCI

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

This is a level 3 valuation under the fair value hierarchy and was determined based on the ongoing uncertainty surrounding the Company's ability to raise sufficient funds to continue trading until it is generating positive net cash flows. The range of sensitivity in the valuation at 31 December 2020 to reasonably possible changes in the assumptions used is not considered to be material. The Directors have determined that the Group's unlisted equity investment should not be accounted for as an associate. Although the Group holds a 17.2% shareholding in the investee, financial and operating policy decisions are governed by a shareholder agreement that provides voting rights based on the number of shareholders rather than the number of shares held. On the basis the Group is one of over 30 shareholders, the Directors consider that the Group does not have significant influence over the investee.

Financial assets mandatorily measured at FVTPL

On 3 February 2020, the Group purchased convertible loan notes in Fiit Limited for cash consideration of £1,000,000. Conversion will take place within two years of issue and would give the Group a small minority stake. The loan notes bear an implied compound interest rate of 25% upon conversion.

This is a level 3 valuation under the fair value hierarchy and was determined based on the performance of the business post acquisition against the business plan produced at the time of investment. As the business is performing well and is expected to continue to have adequate funding in place, no revaluation is required as the carrying amount appropriately reflects fair value. The range of sensitivity in the valuation at 31 December 2020 to reasonably possible changes in the assumptions used is not considered to be material.

18. INVENTORIES

	31 December 2020 £'000	31 December 2019 £'000
Goods for resale	290	654
	290	654

The cost of inventories recognised as an expense during the year was £1,722,000 (2019: £260,000).

19. TRADE AND OTHER RECEIVABLES

	31 December 2020 £'000	31 December 2019 £'000
Trade receivables	990	2,129
Loss allowance	(240)	(88)
	750	2,041
Other receivables	663	406
Prepayments and accrued income	4,942	6,322
	6,355	8,769
Due in less than one year	6,355	8,769
Due in more than one year	–	–
	6,355	8,769

20. CASH AND CASH EQUIVALENTS

	31 December 2020 £'000	31 December 2019 £'000
Cash at bank	**229**	17
Short term deposits	**3,557**	2,597
	3,786	2,614
Bank overdrafts	**(50)**	(9)
Cash and cash equivalents	**3,736**	2,605

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.

21. TRADE AND OTHER PAYABLES

	31 December 2020 £'000	31 December 2019 £'000
Trade payables	**2,850**	10,603
Social security and other taxes	**620**	724
Accruals	**8,648**	10,101
Contract liabilities (note 6)	**6,442**	7,961
Deferred income	**38**	–
	18,598	29,389

22. LEASES

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

(i) Amounts recognised in the balance sheet

The balance sheet shows the following amounts relating to leases:

	31 December 2020 £'000	31 December 2019 £'000
Right-of-use asset		
Property leases	**255,674**	238,702
Lease liabilities		
Current	**21,842**	15,637
Non-current	**284,473**	262,706

Maturity analysis of lease liabilities:

	31 December 2020 £'000	31 December 2019 £'000
Within one year	**34,550**	28,410
Greater than one year but less than two years	**32,370**	29,691
Greater than two years but less than three years	**32,491**	29,911
Greater than three years but less than four years	**32,714**	29,634
Greater than four years but less than five years	**32,241**	29,862
Five years or more	**232,296**	227,136
	396,662	374,644
Less: unearned interest	**(90,347)**	(96,301)
	306,315	278,343

As described in Note 4 the IASB issued COVID-19-Related Rent Concessions – amendment to IFRS 16 Leases to provide relief to lessees from applying IFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the COVID-19 pandemic.

Many lessors have provided rent concessions to lessees as a result of the COVID-19 pandemic. Rent concessions can include rent holidays or rent reductions for a period of time, possibly followed by increased rent payments in future periods. Applying the requirements in IFRS 16 for changes to lease payments, particularly assessing whether the rent concessions are lease modifications and applying the required accounting, could be practically difficult in the current environment. The objective of the amendment is to provide lessees that have been granted COVID-19 related rent concessions with practical relief, while still providing useful information about leases to users of the financial statements.

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22. LEASES CONTINUED

As a practical expedient, a lessee may elect not to assess whether a COVID-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the COVID-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic.

As permitted by this concession, the Group has derecognised £682,000 of the lease liability that has been extinguished by the forgiveness of lease payments on buildings.

Where landlords have agreed to permanently change the frequency of rental payments, the change in the value of the lease liability of £843,000 has been recognised within finance costs in the Income Statement as all changes impact solely on the interest charge related to the lease liability.

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

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

	31 December 2020 £'000	31 December 2019 £'000
Depreciation charge of right-of-use assets	**21,523**	19,112
Impairment of right-of-use assets	**547**	–
Interest expense (included in finance cost)	**12,661**	12,852

The total cash outflow for leases in 2020 was £22,609,000 (2019: £25,913,000). A maturity analysis of future lease payments is set out above.

Additionally, the Group has benefited from a one-month unconditional waiver of lease payments on six properties in England and additional rent free benefits on six properties in exchange for removal of break clauses without modification to the original lease contract. The waiver of lease payments of £682,000 and the decrease in the lease liability of £682,000 has been accounted for as a negative variable lease payment in profit or loss.

The Group does not have any low value or short term leases.

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

The Group leases gym sites and its head office. Rental contracts are typically made for fixed periods of ten to 20 years, but may have extension options as well. Leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Amounts expected to be payable by the Group under residual value guarantees; and
- Payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. There are no variable lease payments nor residual value guarantees.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received;
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by The Gym Group, which does not have recent third party financing; and
- makes adjustments specific to the lease, e.g. term and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

22. LEASES CONTINUED

(iv) Extension and termination options

Extension and termination options are included in a number of property leases across the Group. These are used to maximise operational flexibility in terms of managing the assets used in the Group's operations. The majority of extension and termination options held are exercisable only by the Group and not by the respective lessor.

During the period, the Group has extended 12 leases (2019: nil) which resulted in additional lease liabilities of £16,654,000 being recognised (2019: £nil). In addition, one lease term has been reduced by the landlord resulting in £568,000 being recognised in profit and loss (see note 9).

23. OTHER FINANCIAL LIABILITIES

	Deferred Consideration £'000	Contingent Consideration £'000	Total £'000
At 1 January 2019	2,115	887	3,002
Cash paid in year	(2,115)	–	(2,115)
Recognised in relation to prior acquisition	–	2,988	2,988
At 31 December 2019	–	3,875	3,875
Transfer from contingent consideration to deferred consideration	3,875	(3,875)	–
Cash paid in year	(1,266)	–	(1,266)
At 31 December 2020	**2,609**	**–**	**2,609**

On 4 July 2018 the Group acquired the trade and assets of a portfolio of 13 gyms trading under the easyGym brand for an initial cash consideration of £14.5 million, with an additional £6.1 million deferred consideration payable on completion of lease assignment on three sites and further contingent consideration if lease extensions are agreed on two sites. £4.0 million of deferred consideration was paid shortly after acquisition. At 31 December 2018, deferred and contingent consideration with fair value of £3.0 million was outstanding and recognised within other financial liabilities. During the year ended 31 December 2019 the remaining deferred consideration of £2.1 million was paid. During 2019 the Directors reassessed the probabilities of the lease extensions occurring in respect of the two sites concerned and considered these to be virtually certain. As a consequence, the estimated fair value of contingent consideration payable in respect of these lease extensions at 31 December 2019 increased by £3.0 million to £3.9 million. During 2020, the two lease extensions were obtained which crystallises the remaining consideration. As a result, the contingent consideration has been reclassified as deferred consideration, with £1.3 million being paid during the year.

24. BORROWINGS

	31 December 2020 £'000	31 December 2019 £'000
Non-current		
Revolving credit facility	**49,798**	50,000
Loan arrangement fees	**(618)**	(884)
	49,180	49,116

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

In October 2019, the Group successfully refinanced its borrowings, moving from a mix of term loans and Revolving Credit Facility ('RCF') to a single committed RCF of £70 million. The facility is syndicated to a three lender panel of HSBC, Barclays and Banco de Sabadell and matures in 2023. On 5 June 2020 the Company agreed with its lending banks to extend its existing £70 million RCF with an additional £30 million facility for a term of 18 months, which was subsequently further extended on 17 December 2020 to June 2022 ('the New Bank Facility').

The funds borrowed under the New Bank Facility bear interest at a minimum annual rate of 2.60% (2019: 1.75%) above the appropriate Sterling LIBOR. The average interest rate paid in the year on drawn funds under the new facility is 2.28% (2019: 2.71%). Undrawn funds bear interest at a minimum annual rate of 0.910% (2019: 0.613%). At the year end, the Group had drawn down £51 million (2019: £50 million) on the facility.

The 2019 facility resulted in fees incurred of £873,000 and these costs will be spread over the term of the loan using the effective interest method. The facility is recognised at its amortised cost. The June 2020 refinancing resulted in fees incurred of £366,000 and the costs will be spread over the remaining term of the loan on a straight-line basis.

The Group's borrowings are held at amortised cost using the effective interest method. Each reporting period, the Group reviews its cash flow forecasts and if these have changed since the previous reporting period, the borrowings are remeasured using the original effective interest rate. Any remeasurement of borrowings is treated as being non-underlying and is excluded from adjusted earnings.

Covenants

The RCF is subject to financial covenants relating to leverage and fixed charge cover, which did not change significantly from those under the previous facility.

From September 2020 until June 2022 the covenant tests of the RCF have been replaced in the New Bank Facility by new covenant tests primarily relating to the performance of the Group against agreed targets for Group Adjusted EBITDA less Normalised Rent. Upon termination or early cancellation of the New Bank Facility the covenants and all other terms of the original RCF will apply until the maturity of the RCF in October 2023.

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24. BORROWINGS CONTINUED

Available facilities

The total borrowing facilities available to the Group are:

Total facilities available to the Group

	31 December 2020 £'000	31 December 2019 £'000
Revolving credit facility	**100,000**	70,000
	100,000	70,000

Facilities undrawn and available are:

	31 December 2020 £'000	31 December 2019 £'000
Revolving credit facility	**49,000**	20,000
	49,000	20,000

The loan maturity is as follows:

	31 December 2020 £'000	31 December 2019 £'000
Within one year	**–**	–
Between two and five years	**51,000**	50,000
	51,000	50,000

25. PROVISIONS

	Dilapidations £'000	Other £'000	Total £'000
At 1 January 2019	1,145	679	1,824
New provisions	134	161	295
Utilisation of provisions	–	(412)	(412)
Unwinding of discount	24	–	24
Release of provision	–	(76)	(76)
At 31 December 2019	1,303	352	1,655
New provisions	58	46	104
Utilisation of provisions	–	(60)	(60)
Unwinding of discount	29	–	29
Release of provision	(149)	(292)	(441)
At 31 December 2020	**1,241**	**46**	**1,287**
Due in less than one year	–	352	352
Due in more than one year	1,303	–	1,303
At 31 December 2019	1,303	352	1,655
Due in less than one year	–	46	46
Due in more than one year	1,241	–	1,241
At 31 December 2020	**1,241**	**46**	**1,287**

A dilapidations provision is recognised when there is future obligation relating to the maintenance of leasehold properties. The provision is based on management's best estimate of meeting this obligation, but the amount and timing of this are uncertain.

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

26. 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 financial assets at fair value through profit and loss or other comprehensive income that are categorised as Level 3, the fair value of all other financial assets and liabilities are categorised as Level 2.

	31 December 2020		31 December 2019	
	Carrying value £'000	Fair value £'000	Carrying value £'000	Fair value £'000
Held at amortised cost				
Trade and other receivables	**1,413**	**1,413**	2,447	2,447
Cash and cash equivalents	**3,736**	**3,736**	2,605	2,605
Trade and other payables	**(11,498)**	**(11,498)**	(20,704)	(20,704)
Borrowings	**(49,180)**	**(51,000)**	(49,116)	(50,000)
Held at fair value				
Financial assets at fair value through profit and loss	**1,000**	**1,000**	–	–
Financial assets at fair value through other comprehensive income	**–**	**–**	–	–
Derivative financial instruments	**1**	**1**	13	13
Other financial liabilities	**(2,609)**	**(2,609)**	(3,875)	(3,875)

Capital risk management

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

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

	31 December 2020 £'000	31 December 2019 £'000
Total borrowings	**51,000**	50,000
Less: cash and cash equivalents	**(3,736)**	(2,605)
Non-property net debt	**47,264**	47,395
Total equity	**199,403**	159,488
Total capital	**246,667**	206,883
Gearing ratio	**19%**	23%

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.

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26. 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 2020 and 2019. 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

The Group is exposed to interest rate risk because the Group's long term debt obligations are at floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite, ensuring the most cost-effective hedging strategies are applied.

The Group's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

The Group is exposed to the following interest rate benchmarks within its hedge accounting relationships, which are subject to interest rate benchmark reform: GBP LIBOR ('LIBOR'). At 31 December 2020 and 2019 all of the Group's borrowings were at floating rates of interest.

The Group's current GBP LIBOR contracts include adequate and robust fallback provisions for a cessation of the referenced benchmark interest rate.

For the Group's derivatives, the International Swaps and Derivatives Association's ('ISDA') fallback clauses were made available at the end of 2019 and during 2020 the Group started discussions with its banks with the aim to implement this language into its ISDA agreements.

Below are details of the hedging instruments and hedged items in scope of the IFRS 9 amendments due to interest rate benchmark reform, by hedge type. The terms of the hedged items listed match those of the corresponding hedging instruments.

Hedge type	Instrument type	Maturing in	Nominal	Hedged item
Cash flow hedges	Receive three-month GBP LIBOR, pay GBP fixed interest rate swap	September 2022	GBP 27,200,000	GBP LIBOR RCF of £70,000,000 maturing in October 2023

The Group will continue to apply the amendments to IFRS 9 until the uncertainty arising from the interest rate benchmark reforms with respect to the timing and the amount of the underlying cash flows that the Group is exposed to ends. The Group has assumed that this uncertainty will not end until the Group's contracts that reference LIBOR are amended to specify the date on which the interest rate benchmark will be replaced, the cash flows of the alternative benchmark rate and the relevant spread adjustment. This will, in part, be dependent on the introduction of fallback clauses which have yet to be added to the Group's contracts and the negotiation with lenders.

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

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

	31 December 2020 £'000	31 December 2019 £'000
Change in interest rates of 0.5%	**255**	246

26. FINANCIAL INSTRUMENTS CONTINUED

Liquidity risk

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

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

	31 December 2020				
	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	**11,498**	**–**	**–**	**–**	**11,498**
Borrowings	**1,811**	**1,658**	**52,157**	**–**	**55,626**
Other financial liabilities	**2,609**	**–**	**–**	**–**	**2,609**
Lease liabilities	**34,550**	**32,370**	**97,446**	**232,296**	**396,662**
	50,468	**34,028**	**149,603**	**232,296**	**466,395**

	31 December 2019				
	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	More than 5 years £'000	Total £'000
Trade and other payables	20,704	–	–	–	20,704
Borrowings	1,660	6,353	47,151	–	55,164
Other financial liabilities	3,875	–	–	–	3,875
Lease liabilities	28,410	29,691	89,407	227,136	374,644
	54,649	36,044	136,558	227,136	454,387

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.

27. DERIVATIVES AND HEDGE ACCOUNTING

On 9 November 2018 the Group entered into an interest rate cap with a notional amount of £27.2 million with a term of four years and a strike rate of 1.75% with reference to 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 26.

The fair value loss during the year was £12,000 (2019: £156,000). £23,000 (2019: £1,000) has been recognised within Financing Costs and a gain of £11,000 (2019: loss of £155,000) has been recognised directly in equity in the Hedging Reserve.

Hedge ineffectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group's interest rate cap has similar critical terms as the hedged item, such as reference rate, reset dates, payment dates, maturities and notional amount. The Group does not hedge 100% of its loans; therefore the hedged item is identified as a proportion of the outstanding loans up to the notional amount of the cap.

Hedge ineffectiveness will arise from changes in probability of the hedged transactions occurring, or if there are changes in the credit risk of the derivative counterparty.

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28. ISSUED SHARE CAPITAL AND RESERVES

	31 December 2020 £'000	31 December 2019 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.0001 each	**17**	14
Own shares held		
Deferred Ordinary shares of £1 each	**48**	48

The number of Ordinary shares in issue is as follows:

	31 December 2020	31 December 2019
Ordinary shares of £0.0001 each	**165,751,888**	137,917,377
Deferred Ordinary shares of £1 each	**48,050**	48,050

In addition, 217,777 Ordinary shares of £0.0001 each are held by an employee benefit trust (2019: 178,170).

In April 2020, 27,512,181 Ordinary shares of £0.0001 each were issued at a price of £1.50 per share raising gross proceeds of approximately £41,300,000. A cash box structure was used in such a way that merger relief was available under the Companies Act 2006, section 612. In this circumstance no share premium is recorded and the £39,900,000 excess of the net proceeds over the nominal value of the share capital issue has been recorded as a Merger reserve. The proceeds of this issue were used to reduce net indebtedness, provide working capital flexibility and to fund incremental capital expenditure across the wider Group. For amounts passed to entities in the Group by way of inter-company loans, this Merger reserve is not immediately distributable. This reserve will qualify as distributable on settlement of these inter-company funding arrangements in the future.

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, non-voting class of shares which is held in treasury and not admitted to trading. The rights attached to the Deferred Shares are set out in the Company's Articles.

Share premium

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

Hedging reserve

The fair value movements on the effective portion of hedging instruments.

Merger reserve

The amount subscribed for share capital in excess of nominal value attracting merger relief under the Companies Act 2006.

Retained earnings/deficit

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

29. SHARE BASED PAYMENTS

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

a) The Gym Group plc Performance Share Plan
b) The Gym Group plc Share Incentive Plan – Free shares
c) The Gym Group plc Share Incentive Plan – Matching shares
d) The Gym Group plc Restricted Stock Plan
e) The Gym Group plc Long Service Award Plan
f) The Gym Group plc Savings Related Share Option Scheme ('SAYE')

In accordance with IFRS 2 Share Based Payments, the value of the awards is measured at fair value at the date of the grant. The fair value is expensed on a straight-line basis over the vesting period, based on management's estimate of the number of shares that will eventually vest. The Group recognised a total charge of £801,000 (2019: £1,670,000) in respect of the Group's share based payment arrangements and a credit related to employer's national insurance of £132,000 (2019: charge of £230,000).

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

Scheme name	Outstanding at 1 January 2020	Granted during the year	Lapsed/ cancelled during the year	Exercised during the year	Outstanding at 31 December 2020	Exercisable at 31 December 2020
Performance Share Plan	2,852,355	1,447,479	(326,157)	(193,634)	**3,780,043**	**570,690**
Share Incentive Plan – Free shares	33,528	–	(3,429)	(6,477)	**23,622**	**23,622**
Share Incentive Plan – Matching shares	106,377	65,265	(5,657)	(21,794)	**144,191**	**–**
Restricted stock	728,404	1,064,218	(57,568)	(125,916)	**1,609,138**	**48,861**
Long Service Awards	6,930	–	(233)	(2,780)	**3,917**	**–**
Save as You Earn	227,029	694,940	(130,909)	–	**791,060**	**–**
	3,954,623	3,271,902	(523,953)	(350,601)	**6,351,971**	**643,173**

The outstanding share options balances at 1 January 2020 for the Performance Share Plan and Restricted Stock have been restated by 103,584 and 9,206 shares respectively to correctly reflect the opening balances. The exercise price of all options under the schemes held during the year is £0.01. 655,397 options were exercisable under the PSP and SIP schemes as at 31 December 2020 (2019: 220,757). No other options were exercisable as at 31 December 2020.

(a) Performance Share Plan

During the year, the Group has modified its reporting of profit KPIs for 2018 and 2019 awards to reflect the impact of the introduction of IFRS 16 (leases) and also changes in accounting assumptions regarding the amortisation of IT investments. The related vesting targets of the financial measures (Adjusted EPS and ROIC) have also been subsequently modified to ensure that there is no impact on the vesting outcome of the awards from the adoption of IFRS 16.

The outstanding awards as at 31 December 2020 will all vest within three years, subject to continued employment and the achievement of certain performance targets. For awards made in 2020, the performance targets are solely based on TSR, with 33.3% based on absolute shareholder return and 66.7% based on relative TSR. For awards made prior to 2020, the targets are based on TSR and financial performance measures with each target contributing to 50% of the vesting conditions. Prior to the 2019 awards all of the financial performance measures were based on adjusted EPS targets, with the 2019 awards split equally between EPS and ROIC. The vesting conditions of the Performance Share Plan awards are set out in part B of the Report to the Remuneration Committee. The maximum term of these awards is three years and settlement is in the form of shares. The fair value of the EPS element was determined using the share price at the date of grant. The fair value of the TSR element of the award was estimated at the grant date using a Monte Carlo simulation model, taking into account the terms and conditions upon which the awards were granted. This model simulates the TSR and compares it against the group of comparator companies. It takes into account historic dividends and share price fluctuations to predict the distribution of relative share price performance.

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

The following assumptions were used for options granted during the year:

	2020	2019
Weighted average share price at date of grant	**£1.45**	£2.17
Exercise price	**£0.0001**	£0.0001
Expected volatility	**49.5%**	37.7%
Expected term until exercised	**3 years**	3 years
Expected dividend yield	**0**	0
Risk-free interest rate	**(0.10)%**	0.67%

The weighted average fair value of each award issued under this scheme during the year was £0.84 (2019: £1.77). The weighted average remaining contractual life was 1.7 years (2019: 1.3 years) at 31 December 2020.

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29. SHARE BASED PAYMENTS CONTINUED

(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 5.3 years (2019: 6.3 years) at 31 December 2020.

(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 £1.76 (2019: £2.17) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 1.8 years (2019: 1.4 years) at 31 December 2020.

(d) Restricted stock

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

The options vest in full at the end of the three-year period. The weighted average fair value of each award issued under this scheme during the year was £1.45 (2019: £2.37) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 9.0 years (2019: 8.5 years) at 31 December 2020.

(e) Long Service Awards

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

The options vest in full at the end of the three-year period. The weighted average fair value of each award issued under this scheme during the year was £nil (2019: £2.37) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 7.8 years (2019: 8.3 years) at 31 December 2020.

(f) Save as You Earn (SAYE) Scheme

Under the SAYE scheme, employees are allowed to acquire options over the Company's shares at a discount of up to 20% of their market value at the date of grant. The awards are subject to continued employment requirements over a three-year period and have no performance conditions. The shares are held by an employee benefit trust and are dilutive for the purposes of earnings per share.

The options vest in full at the end of the three-year period. The weighted average fair value of each award issued under this scheme during the year was £0.52 (2019: £1.00) and was determined using the share price at the date of grant. The weighted average remaining contractual life was 3.3 years (2019: 3.4 years) at 31 December 2020.

30. COMMITMENTS AND CONTINGENCIES

	31 December 2020 £'000	31 December 2019 £'000
Contracted for but not provided	**2,247**	3,461

31. 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	Dormant	United Kingdom	100%
Derwent Fitness GS Limited	Dormant	United Kingdom	100%

The registered office of the subsidiaries is 5th Floor, OneCroydon, 12-16 Addiscombe Road, Croydon, CR0 0XT.

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

	31 December 2020 £'000	31 December 2019 £'000
Closewall Limited	–	186
	–	186
Opening balance	186	98
Purchases	1,651	2,120
Repayments	(1,837)	(2,032)
	–	186
Representing:		
Trade and other payables	–	186

All purchases in the period are in relation to Closewall Limited.

Terms and conditions of transactions with related parties

The purchases from related parties are made at normal market prices. Outstanding balances at the year end are unsecured, interest free and settlement occurs in cash. There have been no guarantees provided for any related party payables. Payments to Closewall Limited are in respect of the provision of services.

Compensation of key management personnel

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

	31 December 2020 £'000	31 December 2019 £'000
Remuneration	2,068	2,612
Termination benefits	313	–
Company contributions to defined contribution pension scheme	108	161
Share based payment (credit)/charge	209	1,186
	2,698	3,959

At the year end, £nil (2019: £nil) was owed by key management personnel in respect of season ticket loans. At the year end, £nil (2019: £533,000) 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.

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32. DIVIDENDS MADE AND PROPOSED

	31 December 2020 £'000	31 December 2019 £'000
Interim dividend of nil per Ordinary share paid and declared (2019: 0.45p)	–	621
Final dividend of nil per Ordinary share proposed (2019*: 1.15p)	–	–
	–	621

* The Board had recommended a final dividend of 1.15p per share for 2019. However, the Board decided to suspend the payment of that dividend after careful consideration of distributable reserves, the capital base of the Group and earnings fluctuations arising from the COVID-19 pandemic and no resolution was proposed for this at the Group's AGM.

A condition of the New Bank Facility is that the Company shall not declare or pay a dividend during the term of the facility and as such the Directors are not proposing a final dividend for the financial year 2020.

33. FINANCING LIABILITIES

	Cash and cash equivalents £'000	Borrowings £'000	Lease Liabilities £'000	Derivative financial instruments £'000
At 1 January 2019	3,027	(48,165)	(251,857)	169
Cash flows	(422)	(116)	(25,913)	–
Other non-cash movements	–	(840)	(573)	–
Changes in fair values	–	–	–	(156)
At 31 December 2019	2,605	(49,121)	(278,343)	13
Cash flows	1,131	(1,000)	22,609	–
Other non-cash movements	–	941	(50,581)	–
Changes in fair values	–	–	–	(12)
At 31 December 2020	**3,736**	**(49,180)**	**(306,315)**	**1**

34. EVENTS AFTER THE REPORTING PERIOD

Following the phased introduction of Tier 4 restrictions in a number of regions in December 2020, the Group was required to close 162 of its 183 gyms. On 4 January 2021 all remaining gyms were required to close as the UK Government announced a nationwide lockdown. The UK Government has announced that gyms in England will re-open on 12 April 2021 if there is continued progress with the Government's four criteria for monitoring the pandemic. The Scottish Government has announced that gyms in Scotland will be able to re-open on 26 April 2021. The Welsh Government has not yet announced a date for gyms in Wales to re-open.

In the Government's Budget statement of 3 March 2021, it was announced that Business Rates relief would be extended and further grants for closed businesses would be made available. The Group will benefit from both of these measures to an estimated combined value of approximately £8 million between April and August 2021.

COMPANY STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2020

	Note	31 December 2020 £'000	31 December 2019 £'000
Non-current assets			
Investments in subsidiaries	4	193,608	192,807
Derivative financial instruments	8	1	13
Trade and other receivables	5	17,000	17,000
Total non-current assets		210,609	209,820
Current assets			
Trade and other receivables	5	53,164	16,358
Cash and cash equivalents		90	13
Total current assets		53,254	16,371
Total assets		263,863	226,191
Current liabilities			
Trade and other payables	6	5,603	8,760
Corporation tax payable		13	–
Total current liabilities		5,616	8,760
Non-current liabilities			
Borrowings	7	49,180	49,116
Total liabilities		54,796	57,876
Net assets		209,067	168,315
Capital and reserves			
Issued capital	9	17	14
Own shares held	9	48	48
Capital redemption reserve	9	4	4
Share premium	9	159,474	159,474
Hedging reserve	9	(155)	(166)
Merger reserve	9	39,912	–
Retained earnings	9	9,767	8,941
Total equity shareholders' funds		209,067	168,315

The notes on pages 139 to 143 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 £25,000 (2019: £1,585,000).

These Financial Statements were approved by the Board of Directors on 18 March 2021.

Signed on behalf of the Board of Directors

Richard Darwin
Chief Executive Officer

Mark George
Chief Financial Officer

Company Registration Number 08528493

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COMPANY STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2020

	Issued capital £'000	Own shares held £'000	Capital redemption reserve £'000	Share premium £'000	Hedging reserve £'000	Merger reserve £'000	Retained earnings £'000	Total £'000
At 1 January 2019	14	48	4	159,474	(11)	–	7,619	167,148
Profit for the year	–	–	–	–	–	–	1,585	1,585
Other comprehensive expense	–	–	–	–	(155)	–	–	(155)
Total comprehensive income for the year	–	–	–	–	(155)	–	1,585	2,004
Capital contributions to subsidiaries	–	–	–	–	–	–	1,670	1,670
Dividends paid	–	–	–	–	–	–	(1,933)	(1,933)
At 31 December 2019	14	48	4	159,474	(166)	–	8,941	168,889
Profit for the year	–	–	–	–	–	–	25	25
Other comprehensive income	–	–	–	–	11	–	–	11
Total comprehensive income for the year	–	–	–	–	11	–	25	36
Capital contributions to subsidiaries	–	–	–	–	–	–	801	801
Issue of Ordinary share capital	3	–	–	–	–	39,912	–	39,915
At 31 December 2020	**17**	**48**	**4**	**159,474**	**(155)**	**39,912**	**9,767**	**209,067**

The notes on pages 139 to 143 form an integral part of the Financial Statements.

Retained earnings include distributable reserves of £4,361,000 (2019: £4,117,000).

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020

1. GENERAL INFORMATION

The Gym Group plc ('the Company') is incorporated and domiciled in the United Kingdom with company number 08528493. The registered address of the Company is 5th floor, OneCroydon, 12-16 Addiscombe Road, Croydon, United Kingdom, CR0 0XT.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Statement of compliance and basis of preparation

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

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

(a) the requirements of IFRS 7 Financial Instruments;
(b) the requirements of paragraph 97 of IFRS 13 Fair Value Measurement;
(c) the requirements of IAS 7 Statement of Cash Flows;
(d) the requirements of paragraphs 10(d), 111 and 134 to 136 of IAS 1 Presentation of Financial Statements;
(e) the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors;
(f) the requirements of paragraph 17 of IAS 24 Related Party Disclosures; and
(g) the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member.

The preparation of financial statements in conformity with FRS 101 requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Company's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to the Financial Statements are disclosed in note 3.

Going concern

In assessing the going concern position of the Company for the year ended 31 December 2020, the Directors have considered the Company's cash flows, liquidity and business activities in the light of the COVID-19 pandemic.

The outbreak of COVID-19 and its continuing impact on the economy casts a degree of uncertainty as to the future financial performance and cash flows of the Company and those of the Group, in particular its trading subsidiary The Gym Limited ('TGL') on which the Company is interdependent. When assessing the ability of the Group to continue as a going concern the Directors have considered:

- the Group's financing arrangements;
- the pattern of trading during 2020 when gyms were open between lockdowns; and
- future trading risks including continued regional or nationwide lockdowns and reduced membership levels

on the cashflows, liquidity and bank facility covenants of the Company and TGL over the period to 30 June 2022.

In the first half of 2020 the Company raised additional financing in the form of:

- an equity placing, which raised net proceeds of £39.9 million; plus
- a £30.0 million debt facility extension (the 'New Bank Facility'), which provided incremental liquidity beyond the existing £70.0 million Revolving Credit Facility ('RCF'). The RCF and New Bank Facility are both provided by a consortium of HSBC, NatWest and Banco de Sabadell.

During the periods of trading between lockdowns in the second half of 2020 the Group traded profitably and reduced capital expenditure and other cash outflows. As at 31 December 2020, the Group had Non-Property Net Debt of £47.3 million versus £100.0 million of total borrowing capacity.

Following the phased introduction of Tier 4 restrictions in a number of regions in December 2020, TGL was required to close 162 of its 183 gyms. On 4 January 2021 all remaining gyms were required to close as the UK Government announced a nationwide lockdown and the gyms remain closed as at 18 March 2020. The UK Government has announced that gyms will re-open on 12 April if there is continued progress with the Government's four criteria for monitoring the pandemic.

As at 28 February 2021, the Group had Non-Property Net Debt of £58.2 million and therefore liquidity of £41.8 million versus a total borrowing capacity £100.0 million. In the next 12 months the Company and Group's liquidity will be influenced by (i) the number of months of closure of TGL's gyms and (ii) the trading performance of the business when gyms are permitted to open. Below we set out the financial implications of periods of closure and trading respectively:

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Cash burn when gyms are closed

During the current period of closure, the Company and TGL have no revenue and TGL is operating with a monthly cash burn (excluding new site capital expenditure) of around £5 million. This cash burn rate has been minimised as a result of significant reductions in TGL's operating costs and the following UK Government support:

- £1.1 million per month of Business Rates relief, currently due to end August 2021 due to there being a cap on relief of £2.0 million in H2 2021;
- £1.1 million per month of furlough income support from the Coronavirus Job Retention Scheme ('CJRS'), currently due to end when TGL's gyms reopen in April 2021; and
- £0.5 million per month from Local Restrictions Support Grants ('LRSG') ongoing until TGL's gyms re-open in April 2021.

In addition to the ongoing support, TGL will also benefit from a one-off Government grant of £27,000 per site; these grants have a total one-off benefit of £4.5 million to TGL, of which £2.2 million had been received from the relevant local authorities before 28 February 2021.

While gyms remain closed and with current levels of Government support the business is operating with monthly cash burn of c.£5.0 million. This cash burn assumes c.£2.5 million of rent being paid each month, which is the 'normalised' level of rent per month excluding the impact of rent deferrals. A total of £3.6 million of rent deferred from 2020 is due to be repaid over the course of 2021, in addition to the 'normalised' level of £2.5 million per month. Any further deferrals agreed will improve cash flow in the closure period and extend the period of closure that the Company and TGL would be able to operate.

Trading when gyms are open

As at 28 February 2021 TGL had 547,000 members, all on 'free freeze', down from 578,000 on 31 December 2020. During the ongoing period of closure we expect membership to reduce further at a similar rate to recent weeks; this rate of membership loss is lower than in the first national lockdown from March to July 2020 and the second national lockdown in November 2020.

When gyms open, TGL's subscription revenue starts immediately and in the periods of trading between national lockdowns in 2020 the business operated profitably. The profitability of the Company and TGL after the gyms re-open from the current lockdown will depend on the membership level and level of UK Government financial support. Whilst we continue to receive Business Rates relief, which is anticipated to be until the end of August 2021, the business would require approximately 540,000 members to be break even at the cash flow level. When the benefit of Business Rates relief ends, the cost base of the business would increase by c.£1.1 million per month, increasing the cash flow break-even point to around 610,000 members.

Although there is uncertainty over the level of continued Government support and the speed of recovery in membership once gyms have re-opened, it is the Directors expectation that the business will be close to break even at a cash flow level when gyms re-open and from that point the recovery in membership will improve profitability and cash flow, therefore reducing net debt and increasing liquidity headroom.

In December 2020, the Group amended the New Bank Facility to extend it from 18 months to 24 months (now due to end June 2022 at which point the terms of the original £70 million RCF will apply) and to set new covenants based on a revised business plan. The Group met the covenant test for December 2020. As a result of the extended national lockdown in early 2021 the Group agreed with its lending banks a waiver of the March 2021 covenant test. The June 2021 covenant test is based on cumulative EBITDA for H1 2021 and was set at a level that allowed for up to one month of closure in that six month period; with the current lockdown being at least three months we will not be able to meet the June 2021 covenant test. We have agreed with the banks that discussions regarding future covenant tests will take place during April/May 2021 once there is further visibility on the external environment, levels of government support and whether gyms have reopened.

The Directors have considered a reverse stress test scenario in which it is assumed the current lockdown ends at the end of April 2021 (vs Government target date for re-opening gyms of 12 April 2021) and a new lockdown starts in November 2021 (matching the timing of the winter lockdown in November 2020) and continues indefinitely, with TGL trading in the months between lockdowns on an approximately cash flow neutral basis. In such a scenario the Company and TGL would be able to continue operating until March 2022 before reaching the £100 million borrowing capacity. In such circumstances additional options may be available to mitigate the impact on the Company and TGL's liquidity and cash flow including: (i) further reductions in TGL operating and capital expenditure; (ii) additional support from the UK Government; (iii) extension of debt facilities; (iv) continued deferral of, or reductions in, rent payments to landlords; (v) the potential to raise additional funds from third parties. In the reverse stress test scenario, the closures from November 2021 onwards would result in EBITDA losses in Q4 2021 and as a result the Q4 2021 covenant test would not be met.

Whilst the Company and Group has secured sufficient liquidity, via the raising of equity and additional debt facilities, to finance operations for at least the next twelve months through most reasonable scenarios, it may be necessary in certain downside scenarios to extend the term of the £30.0 million New Bank Facility beyond June 2022. The Directors also consider it to be a plausible risk that current covenant targets in 2021 will not be met due to the impact of further closure or a slower recovery in membership numbers due to changes in members' behaviour. In the event that the Group fails to meet one or more of its 2021 debt covenants, the Directors believe it likely that further agreement could be reached with the lending banks to waive or amend covenants as part of a revised business plan. However, no such commitment for further covenant waivers (beyond the March 2021 waiver already agreed) is currently in place with the lending banks.

The Directors have concluded that the potential impact of COVID-19 described above and uncertainty over possible mitigating actions, including covenant waivers or extending the New Bank Facility, represents a material uncertainty that may cast significant doubt about the Company and TGL's ability to continue as a going concern. However, having assessed the financial forecasts, sensitivities and possible mitigating actions for both the Company and TGL, the Board has a reasonable expectation that the Company has adequate resources to continue in operational existence for the next twelve months and therefore the Directors continue to adopt the going concern basis in preparing these financial statements. Accordingly, these financial statements do not include any adjustments to the carrying amount or classification of assets and liabilities that would result if the Company were unable to continue as a going concern.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

Investments

On initial recognition, investments in subsidiaries are recorded at cost, which is the fair value of the consideration paid. Where consideration is paid by way of shares, the excess of fair value of the shares over nominal value of those shares is recorded in share premium. Investments in subsidiaries are reviewed for impairment at each balance sheet date with any impairment charged to the income statement.

Financial instruments

Financial assets (excluding derivative financial instruments)

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

Financial liabilities (excluding derivative financial instruments)

The Company initially recognises its financial liabilities at fair value and subsequently they are measured at amortised cost using the effective interest method.

Derivative financial instruments and hedging activities

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

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

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

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

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

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

Current taxation

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

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

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.

FINANCIAL STATEMENTS

NOTES TO THE COMPANY FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2020
CONTINUED

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 2019	191,137
Capital contribution to subsidiaries	1,670
At 31 December 2019	192,807
Capital contribution to subsidiaries	801
At 31 December 2020	***193,608***

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 29 to the Consolidated Financial Statements.

The Company's subsidiary undertakings are shown in note 31 to the Consolidated Financial Statements.

5. TRADE AND OTHER RECEIVABLES

	31 December 2020 £'000	31 December 2019 £'000
Prepayments and accrued income	**502**	19
Social security and other taxes	**17**	157
Amounts owed by Group undertakings	**69,645**	33,182
	70,164	33,182
Due in less than one year	**53,164**	16,358
Due in more than one year	**17,000**	17,000
	70,164	33,358

6. TRADE AND OTHER PAYABLES

	31 December 2020 £'000	31 December 2019 £'000
Trade payables	**33**	250
Amounts owed to Group undertakings	**5,035**	7,903
Accruals	**535**	607
	5,603	8,760

7. BORROWINGS

	31 December 2020 £'000	31 December 2019 £'000
Non-current		
Revolving credit facility	**49,798**	50,000
Loan arrangement fees	**(618)**	(884)
	49,180	49,116

8. DERIVATIVES AND HEDGE ACCOUNTING

On 9 November 2018 the Company 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 26 to the Consolidated Financial Statements.

The fair value loss during the year was £12,000 (2019: £156,000). £23,000 (2019: £1,000) has been recognised within Financing Costs and a gain of £11,000 (2019: loss of £155,000) has been recognised directly in equity in the Hedging Reserve.

9. ISSUED CAPITAL AND RESERVES

	31 December 2020 £'000	31 December 2019 £'000
Allotted, called up and fully paid		
Ordinary shares of £0.0001 each	**17**	14
Own shares held		
Deferred Ordinary shares of £1 each	**48**	48

The number of Ordinary shares in issue is as follows:

	31 December 2020	31 December 2019
Ordinary shares of £0.0001 each	**165,751,888**	137,934,293
Deferred Ordinary shares of £1 each	**48,050**	48,050

Refer to note 28 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, non-voting class of shares which is held in treasury and not admitted to trading. The rights attached to the Deferred Shares are set out in the Company's Articles.

Share premium

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

Hedging reserve

The fair value movements on the effective portion of hedging instruments.

Merger reserve

The amount subscribed for share capital in excess of nominal value attracting merger relief under the Companies Act 2006.

Retained earnings

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

FINANCIAL STATEMENTS

FIVE-YEAR RECORD

FOR THE YEAR ENDED 31 DECEMBER 2020

See below for a definition of these non-statutory Key Performance Indicators. The following table sets out a summary of selected key financial information and Key Performance Indicators for the business.

	2020 £'000	2019 £'000	2018 £'000	2017 £'000	2016 £'000
Revenue	**80,470**	153,134	123,884	91,377	73,539
Group Adjusted EBITDA less Normalised Rent	**(10,169)**	48,540	39,131	30,558	25,377
Group Operating Cash Flow	**(16,282)**	39,178	33,972	24,677	24,944
Expansionary Capital Expenditure	**21,828**	30,919	57,551	52,453	20,922
Non-Property Net Debt	**47,264**	47,395	45,973	37,543	5,178
Non-Property Net Debt to Group Adjusted EBITDA	**(4.64)x**	0.98x	1.17x	1.23x	0.20x
Total number of Gyms (number)	**183**	175	159	128	89
Total number of Members ('000)	**578**	794	724	607	448
Average Revenue per Member per Month (£)	**17.20**	16.02	14.89	14.41	14.31
Number of Mature gyms in operation (number)	**155**	109	89	74	55
Mature Gym Site EBITDA	**3,865**	48,113	38,967	32,376	26,589
Return on Invested Capital for Mature Sites	**2%**	31%	30%	30%	32%

KEY PERFORMANCE INDICATORS

DEFINITION OF NON-STATUTORY MEASURES

Group Adjusted EBITDA – is operating profit before depreciation, amortisation, long term employee incentive costs and exceptional items.

Normalised Rent[1] – Normalised Rent is the contractual rent that would have been paid in normal circumstances without any agreed deferments, recognised in the monthly period to which it relates.

Adjusted Profit before Tax – is calculated as profit before tax before non-IT amortisation, exceptional items and modification of bank borrowings.

Adjusted Earnings – is calculated as the Group's profit for the year before non-IT amortisation, exceptional items, modification of bank borrowings and the related tax effect.

Basic Adjusted EPS – is calculated as the Group's profit for the year before non-IT amortisation, exceptional items, modification of bank borrowings and the related tax effect, divided by the basic weighted average number of shares.

Group Operating Cash Flow – is calculated as Group Adjusted EBITDA plus movement in working capital less maintenance capital expenditure.

Free Cash Flow – is calculated as Group Operating Cash Flow less tax, interest and other financing costs and exceptional items.

Non-Property Net Debt – is calculated as borrowings less property finance leases and cash and cash equivalents.

Return On Invested Capital – is calculated as Group Adjusted EBITDA of the Group's mature sites, divided by total capital invested in the sites.

Maintenance capital expenditure – relates to the replacement of gym equipment and premises refurbishment.

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.

1 On adoption of IFRS 16, we revised our adjusted profit measures to deduct cash rent, in lieu of the rent cost that was previously charged under IAS 17. However, we have agreed significant changes in the timing of our rent payments with landlords as a consequence of COVID-19. We have therefore revised our adjusted profit measures to instead deduct normalised rent, to ensure a smoothed notional rent charge in the income statement.

CORPORATE INFORMATION

FOR THE YEAR ENDED 31 DECEMBER 2020

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Katy Tucker

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Bankers
HSBC Bank plc

Solicitors
Allen & Overy LLP

Auditors
Ernst & Young LLP

Joint Brokers
Numis Securities Limited
Peel Hunt LLP

Registrar
Link Group

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