Pinnacle Bidco PLC

Annual report and consolidated financial statements for the year ended 31 December 2021

PUREGYM

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Strategic Report

The Directors present their strategic report for the year ended 31 December 2021

Business Overview

The PureGym Group ("the Group", which includes Pinnacle Bidco PLC and its subsidiaries) is the second largest gym and fitness operator in Europe - with over 500 sites. The Group provides high quality, low cost, flexible physical fitness facilities and has market leading positions across the UK, Denmark and Switzerland operating under the PureGym and Fitness World brands.

In line with the whole industry, the Group's operations have been adversely impacted by the COVID-19 crisis over the past 2 years, but the business has continued to focus on the future and is emerging in a strong position having made significant strategic progress against this challenging backdrop.

The Group has a very robust capital and liquidity position having secured a £300m preferred equity investment from leading global investment firm KKR, which completed shortly after the year end in January 2022. This, coupled with existing strong support of the Group's majority shareholder Leonard Green & Partners LP, puts the Group in an excellent position to fund expansion and investment in its estate whilst taking advantage of market opportunities as they arise.

Strategy and business model

The core vision is to provide members with affordable access to the benefits that activity and exercise can offer. The business does this by focusing investment on what most people want and use in gyms and by putting innovative technology that makes the process of being a member and the experience of activity as easy and straightforward as possible. This focus on affordable, flexible, and "value-for-money" membership has fundamentally changed the gym industry over the past few years and opened up increased access to activity, fitness and exercise for hundreds of thousands more people. We are proud of the environment we have created with our inclusive philosophy and the diversity of our membership across all our gyms.

The Group has a powerful and highly disruptive customer proposition, which is differentiated from traditional gym operators and appeals to a broad range of consumers. The Group's strategy is to occupy market leading positions in the value segment, whilst delivering profitable growth for our stakeholders. Key elements of the proposition include low cost membership fees, no obligation to sign a 'locked in' contract, excellent standards of hygiene and cleanliness and "24x7" access to high quality, well maintained gyms. The proposition is underpinned by the Group's differentiated capital efficient and technology-enabled gym operating model, which enables our gyms to support high levels of membership, operate on low costs, and generate strong unit economics, cash flow conversion, and ROCE.

United Kingdom

PureGym is the UK's largest private gym operator, both by number of gyms and members. As of 31 December 2021 the company operated 296 gyms (2020: 274 gyms; 2019: 263 gyms). Despite the impact of COVID-19 the member volumes have remained robust, with 1,089,000 members at the year end (2020: 965,000; 2019: 1,135,000).

Denmark

Operating under the Fitness World brand, the Group is the leading operator in Denmark, both by number of gyms and members. As of 31 December 2021, having undergone a programme of estate optimisation, the company operated 174 gyms (2020: 179 gyms; 2019: 183 gyms) with 376,000 members (2020: 409,000; 2019: 485,000). Fitness World is a household name, with membership accounting for over 8% of the adult population in Denmark.

Switzerland

The Group successfully completed a rebrand of its Swiss operations to PureGym during 2021. As at 31 December 2021, PureGym operated 39 gyms in Switzerland (2020: 39 gyms; 2019: 38 gyms) with 70,000 members (2020: 77,000; 2019: 79,000) and is the second largest gym operator and the leading high value, low cost operator in the country.

United States of America

Towards the end of 2021 the Group completed development of its first gyms in the USA, with 3 sites opening in early 2022. These bring PureGym's proven blend of affordable and flexible fitness offerings, combined with innovative technology, to a new and potentially lucrative market.

Kingdom of Saudi Arabia

During 2021, the Group launched a franchise model with the first franchised sites opening in Saudi Arabia in the fourth quarter. This model brings an affordable, accessible gym proposition to a population with limited access to such facilities and provides an exciting platform to expand the franchised offering to other territories.

Business Overview continued

While we have been taking a cautious approach during the COVID-19 crisis, we will continue to roll out new gyms in geographies where we can achieve our targeted return on capital, and we will continue to drive the operational and financial performance of our existing gym estate.

Our ability to deliver on this strategy is underpinned by a strong business model:

- The world's population is more aware than ever of the importance of looking after physical and mental health, avoiding conditions such as obesity and ensuring a good immune system. We therefore believe that, in a post COVID-19 world, there will continue to be attractive and resilient fitness markets with significant growth opportunities in the value segment.
- The merit to consumers of having access to a fully-equipped, conveniently-located, always-open, well-maintained, safe and secure, shared use facility is very considerable and this merit is close to impossible for most consumers to replicate at home or in any other way.
- Clear benefits from being a diversified, scale operator with sites spread across countries and continents.
- Strong, differentiated customer proposition supported by technology which both improves the effectiveness from a consumer point of view and reduces operating costs.
- Low cost, capital efficient, technology-enabled operating model.
- A strong and experienced leadership team.
- Significant financial capacity to support ongoing expansion and estate rollout, enhanced by the successful £300m equity fundraise in January 2022.

The fitness market

The Group operates in the value segment of the fitness market, which has grown quickly over the past several years. The expanding footprint of value gyms has increased the availability of fitness facilities to a larger proportion of the population.

The value gym market has demonstrated resilience during periods of economic decline in the past and can also support growth in these conditions as consumers consider cost-conscious alternatives. While the COVID-19 pandemic has caused unprecedented disruption to our everyday way of life, and to our business, we firmly believe we have the right business model, operating in the most attractive segment, to be highly successful as we emerge from the pandemic.

Chief Executive Officer's Statement

Humphrey Cobbold

In 2021, the Group once again showed its resilience in managing the extremely challenging trading environment brought about by COVID-19. The year started out with another total enforced shutdown of the Group's estate with most gyms closed for the first 15 weeks of 2021. Since reopening, I am very pleased with the way the business has recovered with membership, attendance and profits bouncing back robustly.

The confidence in our business and prospects was clearly demonstrated at the end of the year when we agreed a new £300m investment with leading global investment firm, KKR, with the proceeds being received in January 2022. This additional capital will enable us to continue to take advantage of strategic growth opportunities through the opening of more sites in current markets, as well as to sustain investment in our existing estate and to pursue international expansion over the coming years. We consider it to be a mark of the Group's standing and prospects that we have been able to attract an investor of the scale and stature of KKR despite the challenges posed by the pandemic in general and by the Omicron wave which was unfolding at the time of the fund raising.

A strong operational and financial response to Covid-19

I continue to be exceptionally proud of the way the business has responded following a very challenging start to 2021, which saw the governments across our territories once again impose total lockdown measures to control the spread of COVID-19 and in doing so forced the temporary closure of all our gyms. As a management team we were able to use the lessons learned from the first lockdowns and, aided by the continuation of government support across all territories, further improve on the excellent response taken in 2020.

As in 2020, our first priority was the health and wellbeing of our colleagues and our members, ensuring government guidance was followed throughout the pandemic. We also took a respectful and balanced approach to our relationships with suppliers and landlords.

Our estate started re-opening in April and our members again demonstrated their desire to return to the gym as soon as possible, supported by our best practice package of COVID safe operating protocols. By June, membership levels had reached 92% of their equivalent 2019 levels and, despite the impact of the Omicron variant towards the end of 2021, by 28 February 2022, membership had already recovered to 100% of December 2019 levels.

We have continued to demonstrate excellent and finely tuned cash management throughout the year, supported by existing credit facilities and a further €45m private bond placement in March 2021. This financial robustness was enhanced further in December 2021 when we exchanged contracts with KKR on a £300m investment, with the proceeds being received in January 2022.

KKR are one of the world's leading investment firms and to have them as a minority shareholder, as well as our excellent and highly supportive majority shareholder, Leonard Green and Partners LP, is both a privilege and testament to the extraordinary efforts of every single colleague across our enterprise.

Embracing the sustainability and ESG challenge as an opportunity to be better

The Group exists to provide a social good. Our core purpose - to provide accessible, flexible and affordable fitness and activity to all - plays a vital role in not only improving people's health and wellbeing, but also as a route to addressing obesity, helping to prevent illness through COVID-19, and improving mental health.

Notwithstanding this position, we accept our responsibility as a large and growing organisation to do more in support of the goals of society with respect to climate-related issues, societal progress and good corporate governance.

Sustainability, and more broadly environmental, social, and governance ("ESG"), is an important area of focus for the Group. We have embarked on a journey to formalise our approach to sustainability and are committed to being transparent with our stakeholders on our progress. The Group has been working with a market leading sustainability strategy consultant to define its ambition and agree focus areas most material to the business model and operations. We are developing a core set of ESG metrics, by which our performance will be measured, and will look to build capacity in these areas to improve the people and communities in which we live and work.

Our people and members

The Group has continued to deal with the impact of COVID-19 and I would like to commend the resilience shown by our colleagues and members throughout the year. Our recovery plans to encourage people back to our gyms are in full swing. The evidence for the positive role that activity and fitness plays in people's lives is undeniable for both physical and mental health, and we are rightly proud of the role we play in supporting millions live healthier lives.

As a leading gym operator, we recognise our responsibility to look after the physical and emotional safety of our members and staff. We want our gyms to be safe places to work and safe places to work out.

Chief Executive Officer's Statement continued

Our safety framework, TrainSafe, launched in 2020 in response to COVID-19, has been expanded to three key areas: cleanliness & hygiene, physical safety & security, and the welcoming, judgement-free treatment for all. With over 60 million member visits through 2021, our commitment to providing a safe and welcoming place for everybody is a top priority.

In 2021, the Group launched its Diversity, Inclusion and Belonging Strategy ("DIB") in order to promote an inclusive and belonging environment for all our employees. The Group has a strong culture and as we grow in size and maturity it is important we ensure everyone feels welcome. Our DIB strategy focuses on a range of areas including launching a programme of education and training for all staff. Highlights from the year have included launching our new DIB policy and hosting our inaugural Employee Network Group meetings.

Our communities and the environment

The Group endeavours to go beyond its service provision and has encouraged a wide range of activities by its individual gyms and regions as well as empowering management teams in the gyms to do what they feel makes a difference in their local communities.

Although more fulsome charitable initiatives have been difficult to arrange (in part because of restrictions related to furlough arrangements), the Group was involved in helping society with the pandemic. For example, the Group made a number of offers to the UK Government for our sites to be used as potential medical facilities (before the Nightingale Hospitals were built) and vaccination centres, following which, the Group's Nuneaton gym was used - free of charge - by a local pharmacy group as a vaccination centre where over 5,000 COVID 19 vaccines were delivered between March and June 2021.

We continue to focus on ways to manage, and reduce where possible, energy consumption, waste, and emissions of our operations, and have placed emphasis on designing the gyms with a number of "green" features. This includes mechanical and electrical systems that comply with government energy-saving schemes, LED lighting and water saving bathroom facilities and user-generated fitness equipment. A structured assessment of the Group's carbon footprint for Scope 1, 2 and 3 is well underway and several trials have begun to improve energy usage and broader environmental impact across the Group's estate.

Looking forward

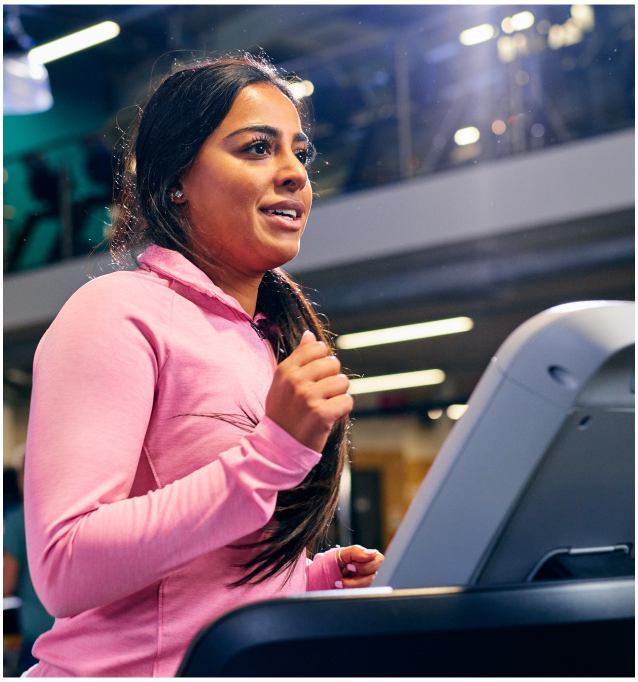
Despite the challenges that the last two years has presented us with, the Group has emerged from the COVID-19 pandemic in good health. Revenue, member numbers and visits are rebounding promisingly across the Group's territories and the completion of a £300m equity issuance in January 2022 has set the Group up well for an exciting 2022 and beyond.

While our focus remains, as ever, on supporting and driving forward the existing business, the significant level of capital now at our disposal will allow the Group to take advantage of an array of opportunities that are already presenting themselves within the fitness market. I am very excited about the franchising model which, while in its early stages, offers us an intriguing opportunity to access markets and members which are new to our flexible model of high quality, low cost gym provision.

In our existing markets too, our access to capital will allow us to take advantage of the growing popularity of the value end of the gym market, particularly in the UK and Switzerland, with good opportunities to embed our operating model to improve margins in the more mature Danish market.

Finally, I would like to thank our colleagues, on whom the success of our Group is based. Their unwavering dedication to the business throughout the most challenging of times is admirable and I have no doubt that it is thanks to them that we find ourselves in such a strong and robust position to continue our growth going forward.

Humphrey Cobbold
Chief Executive Officer



Chief Financial Officer's Statement

Alex Wood

Our trading results for 2021 were severely impacted by the effects of COVID-19, in particular the lockdown which closed our entire estate for over 3 months at the start of the year. However, despite this, we have rebounded admirably across all territories and the path to recovery is clear and well underway.

I'm also very pleased that we successfully concluded a £300m fundraise in January 2022, which marks a key milestone in our careful navigation through the pandemic chapter. The Group is now in an excellent financial position to deliver on its growth plans.

Experienced and focused management underpin the financial performance

In spite of the challenges experienced during 2021, I am extremely proud that we have ended the year with a very robust financial position.

During the enforced closures we once again demonstrated strong cash control across the business, taking advantage of both cost saving measures and available government support, and then, when allowed to trade again, combined focused operational management with measured deployment of capital to ensure the ongoing future strategic development of the Group.

The agreement of a £300m preferred equity issuance at the end of the year provides us with an extremely healthy financial platform as we emerge from the pandemic, with the £177m of liquidity as at 31 December 2021 increasing materially by £300m shortly after the year end, giving close to £0.5 billion of available liquidity by the end of January 2022.

Proven and robust underlying business model

As demonstrated on a number of occasions since the start of the pandemic in early 2020, we have two key commercial benefits that underpin the robustness of the business model and allow for quick rebound as gyms open back up; we operate a membership revenue model and our underlying member base is generally young in age. These factors combine and deliver a rapid return to revenue generation, as proven in the strong post-lockdown trajectories across both 2020 and 2021.

A solid platform for growth

The strong underlying trading metrics, combined with our robust capital position, provides long term confidence, financial security and significant potential for an accelerated and well controlled rollout in both existing and new markets. I am very thankful for the support of our investors and lenders over the last two years and their ongoing commitment is testament to the strength in our business model and strategic plans.

Finally, our colleagues have been incredible throughout the crisis and I would like to thank them for their ongoing commitment and support.

Alex Wood
Chief Financial Officer

£177m
Available liquidity[1]

1.5m
Closing members

512
Gyms[2]

Note
[1] Liquidity increased by £300m in January 2022 following receipt of an equity investment from KKR
[2] Includes 3 franchised sites

2021 Financial Results

COVID-19 has had a material impact on our performance in 2021, distorting both financial and other key performance indicators ("KPIs") normally utilised by management to evaluate the results of the Group. As a result, although certain KPIs within this strategic report are included for completeness, management believe that they provide limited insight into the true underlying performance of the business when trading, no comparability against past performance nor useful reference points for future expectations.

Fitness World results have been included in the Group's 2020 results since the acquisition on 14 January 2020. Given the scale and contribution from Fitness World operations to the total Group performance, the 2019 comparatives in this section have therefore been set out to include Fitness World on a proforma basis. This provides better visibility of the true underlying business, albeit distorted significantly in the 2020 and 2021 results by the impact of COVID-19. The 2019 proforma Group results are based on an aggregation of the underlying 2019 separately audited accounts but that aggregation, which include expected synergies of the combined Group, has not been audited as part of these financial statements.

For the twelve months ended 31 Dec £m	2021 Group	2020 Group	2019 Proforma Group
Members (number 000's)	1,535	1,451	1,699
Gyms (number)	512[1]	492	484
Revenue (£m)	307.7	269.9	442.0
Group Reported EBITDA[2] (£m)	118.2	87.5	206.9
Group Adjusted EBITDA[2,3,4] (£m)	39.8	11.4	131.1
Group RR Adjusted EBITDA[2,3,4] (£m)	**59.1**	**38.1**	**160.6**

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020. The unaudited 2019 proforma Group comparatives in this table include Fitness World on a proforma basis and exclude the results from discontinued operations.

[1] Includes 3 franchised sites

[2] Group Reported EBITDA is defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, impairment, profit/loss on lease modifications and exceptional items. A reconciliation to operating profit is set out on page 11.

[3] Group Adjusted EBITDA is defined as Group Reported EBITDA less Share Based Payments, Pre-Opening Expenses, Other Adjustments and the Cash Rent Adjustment. 2020 Adjusted EBITDA is presented after the impact of property rent deferments agreed with landlords due to COVID-19 gym closures. 2021 Adjusted EBITDA is presented before the impact of property rent deferments. This is a relevant measure as it is an alternative performance measure defined within the Group's facility agreements. A reconciliation and further detail on the approach is set out on page 11.

[4] Group Run-Rate Adjusted EBITDA is defined as Group Adjusted EBITDA plus the Run-Rate adjustment which reflects the expected performance improvement from the maturity of those gyms which are less than three years old at the end of the reporting period. A reconciliation and further detail on the approach is set out on page 11.

Summary KPIs

The consolidated statement of comprehensive income on page 34 shows our results for the year ended 31 December 2021. The Group made an operating loss of £40 million and a loss for the year of £146 million (2020: operating loss of £86 million and loss for the year of £198 million; 2019: proforma unaudited operating profit of £76 million and loss for the year of £40 million).

Group Reported EBITDA adjusts operating profit for non-trading items including depreciation, amortisation, impairment and exceptional items, but does not take account of contractual cash rental costs.

Adjusted EBITDA and Run-Rate Adjusted EBITDA are KPIs typically used within the industry as they better represent the underlying results of the Group's trade from ongoing gyms.

Adjusted EBITDA takes account of contractual cash rental costs and adds back new site pre-opening costs, as well as adjusting for other non-recurring items in line with definitions set out in the Group's financing facility agreements. Run-Rate Adjusted EBITDA reflects the expected maturation of new and immature gyms (less than 3 years old).

In a normal trading environment, the Adjusted EBITDA and Run-Rate Adjusted EBITDA measures are a key focus of our stakeholders, including our investors, our bondholders, and our banking partners. Both KPIs are derived from operating profit and provide consistent measures that are not impacted by recent changes in accounting standards (including IFRS16). A full reconciliation from operating profit is set out in more detail on page 11.

Further KPIs are available in the Group's results presentations at corporate.puregym.com/investors/results-reports-and-presentations.

2021 Financial Results continued

Operating results

£m	2021 Group	2020 Group	2019 Proforma Group
Revenue	307.7	269.9	442.0
Operating expenses (exc. separately disclosed items)	(189.4)	(182.4)	(235.1)
Group Reported EBITDA (exc. discontinued ops)	**118.2**	**87.5**	**206.9**
Depreciation, amortisation and impairment	(148.0)	(167.3)	(118.8)
Loss on disposal of PPE	(3.3)	(2.5)	(0.1)
Profit on lease modifications	0.2	0.1	0.4
Exceptional items	(6.9)	(3.8)	(11.6)
Operating (loss) / profit	**(39.7)**	**(86.1)**	**76.7**
Net finance cost	(126.2)	(128.5)	(101.5)
Loss before tax	(165.9)	(214.6)	(24.8)
Income tax credit / (charge)	19.7	20.8	(3.7)
Loss for the year from continuing operations	(146.3)	(193.8)	(28.5)
Loss from discontinued operation	-	(4.6)	(0.6)
Loss for the year	**(146.3)**	**(198.4)**	**(29.1)**

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020. The unaudited 2019 proforma Group comparatives in this table include Fitness World on a proforma basis and exclude the results from discontinued operations.

Revenue

Revenue was materially impacted by the closure of the gyms at various times across both 2021 and 2020. Overall, the Group's gyms were closed for 30% of trading days in 2021, compared to 37% in 2020. Alongside improvements in average revenue per member, this increase in trading days resulted in a £38 million (14%) increase in revenue year on year. Of the 2021 revenue figure of £308 million, membership income comprised £274 million, vending and consumables income was £16 million and income from the sale of day passes, personal trainers and promotional income was £18 million.

Operating Expenses (exc. separately disclosed items)

Operating expenses were up £7 million (4%) year on year reflecting the higher number of trading days in 2021. Expenses were down £49 million (20%) compared to 2019 on a pro forma basis which reflects the benefits of Government support across all territories and the hard work of our colleagues in minimising costs during periods of gym closure and re-opening.

In 2021, UK Government payroll support (Job Retention Scheme benefits) of £6 million (2020: £8 million) has been offset against payroll, and £9 million of UK property-related grants (2020:£nil) have been offset against operating expenses, while Business Rates Relief savings of £12 million (2020: £17 million) provided a direct reduction in normal costs. In Denmark the government support consisted of a combination of payroll support of £10 million (2020: £7 million) and contribution towards fixed costs of £14 million (2020: £15 million). Payroll support in Switzerland totalled £2 million (2020: £1 million). More details are provided in note 25.

Depreciation, amortization and impairment

Depreciation, amortisation and impairment of £148 million is down £19 million on the prior year, primarily due to impairment losses of £31 million recognised in 2020 versus £15 million in 2021.

An impairment loss of £4 million has been recognised in 2021 in relation to the Swiss brand. The Swiss business was re-branded from Basefit.ch to PureGym during 2021 and in doing so the Basefit brand was fully impaired. Impairment losses of £9 million have also been recognised in relation to the assets of certain gyms in the estate which have naturally seen a greater impact of the COVID-19 gym closures such as 'worker' gyms in certain city centres. While some city centre gyms have been impacted, this has been countered by members transferring to gyms closer to their homes while they are out of the office.

Also included within depreciation, amortisation and impairment in 2021 is £60 million of depreciation on the Group's leased properties (2020: £60 million), and £18 million of amortisation of customer lists and brands recognised following the Group's acquisitions (2020: £19 million).

2021 Financial Results continued

Exceptional items

Net exceptional items of £7 million in 2021 primarily relate to costs incurred in the exploration of a number of capital raising opportunities (£11 million). This concluded in December with the agreement for a £300 million equity investment from global investment firm, KKR, which completed in January 2022. Exceptional items also includes £2 million of restructuring costs incurred in relation to a reset of the Danish head office cost base, and £1 million incurred through the exploration of expansion opportunities in the USA.

These costs are partially offset by the benefit arising on settlement of a break lease at one of our sites (£6 million). More details are provided in note 7.

Net finance costs

Net finance costs comprise £52 million of interest and commitment fees on the Group's borrowing facilities (2020: £49 million) and £4 million of amortisation of arrangement fees incurred in entering into these arrangements (2020: £12 million). A further £47 million relates to costs associated with the Group's property rentals (2020: £45 million). A proportion of property rental costs are recorded as interest under IFRS 16 with the remaining expense recognised as depreciation.

Also included within net finance costs is a £16 million foreign exchange gain (2020: £13 million foreign exchange loss), primarily due to a £26 million favourable exchange movement on the Group's Euro-denominated borrowings, offset by an £11 million adverse exchange movement on the Group's intercompany Danish Krone-denominated loans. The Euro and Danish Krone denominated balances act as a natural partial hedge against the translated value of the Group's non-UK subsidiaries.

A further £35 million (2020: £30 million) of finance cost relates to interest accruing on the Group's borrowings from its ultimate parent Pinnacle Topco Limited. These borrowings act as a pass through of equity investments raised by Pinnacle Topco and therefore the interest is not expected to be repaid until at least 2027.

Tax charge

Our income tax credit of £20 million (2020: £21 million) is primarily a result of the large losses made in the year.

2021 Financial Results continued

Reconciliation of Operating (Loss) / Profit to Run-Rate Adjusted EBITDA

£m	2021 Group	2020 Group	2019 Proforma Group
Operating (Loss) / Profit	**(39.7)**	**(86.1)**	**76.7**
Deprecation and impairment of PPE	118.7	120.6	99.1
Amortisation and impairment of intangible assets	29.3	49.0	19.7
Loss on disposal of PPE	3.3	2.5	0.1
Profit on lease modifications	(0.2)	(0.1)	(0.4)
Exceptional items	6.9	3.8	11.6
Group Reported EBITDA [1]	**118.2**	**87.5**	**206.9**
Other extraordinary items [2]	6.9	-	0.8
Pre-opening costs [3]	3.3	1.6	3.6
Cash rent adjustment [4]	(89.1)	(78.0)	(80.4)
Share based payment charge [5]	0.4	0.4	0.3
Adjusted EBITDA [6,7]	**39.8**	**11.4**	**131.1**
Fitness World pre-acquisition Adjusted EBITDA [8]	-	1.4	-
Synergies on acquisition [9]	-	-	4.6
Run-Rate adjustment [10]	19.3	25.3	24.9
Run-Rate Adjusted EBITDA	**59.1**	**38.1**	**160.6**

[1] Group Reported EBITDA is earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment and intangible assets, impairment, profit/loss on lease modifications and exceptional items.
[2] Other adjustments include the net impact of various one-off items not included in "Exceptional items". In 2021, the Group incurred costs of £3.2 million in relation to the wind up of a Fitness World IT project resulting from convergence of the Group's IT infrastructure following the Fitness World acquisition. This amount is added back in reaching Adjusted EBITDA to align with the treatment of the remaining costs for the IT project which were also added back in reaching Adjusted EBITDA as part of "Impairment of property, plant and equipment and intangible assets" in the year ended 31 December 2020.
Also in 2021, £3.6 million of costs have been incurred in relation to a management "lock-in" bonus scheme. This amount is added back in reaching Adjusted EBITDA because it has not been incurred in the ordinary course of business.
[3] Pre-opening costs represent the total of all gym site operating costs incurred prior to the opening of a new gym and primarily consist of staff costs, and marketing.
[4] Represents the deduction of the cash rent payable during the period which otherwise was not reflected in EBITDA (as reported on a post IFRS 16 basis). The Directors believe that adjusting EBITDA to reflect cash rent is a better reflection of the performance of the business.
[5] The share based payment charge relates to shares in the ultimate parent company, Pinnacle Topco Limited, issued to directors and certain employees. See note 9 of the financial statements.
[6] Adjusted EBITDA is a non-IFRS measure derived from Group Reported EBITDA and adjusted by the items described in footnotes 2 to 5. This is a relevant measure as it is an alternative performance measure defined within the Group's facility agreements.
[7] 2020 Adjusted EBITDA is presented after the impact of property rent deferments agreed with landlords due to COVID-19 gym closures. 2021 Adjusted EBITDA is presented before the impact of property rent deferments.
[8] Fitness World pre-acquisition Adjusted EBITDA represents Adjusted EBITDA for the Fitness World Group for the period 1 January 2020 to 13 January 2020, prior to the acquisition by the Group. This is added to Run-Rate Adjusted EBITDA as it represents the proforma "last 12 months" results of the Group.
[9] The 2019 proforma Group Run-Rate EBITDA includes £4.6million of synergy benefits. Management still believe that these synergies will be delivered but in the context of reporting on the COVID impacted year cannot be separated out from the underlying operations of the combined Group in 2020 and 2021.
[10] The Run-Rate adjustment reflects the impact of those gyms which are less than three years old at the end of the reporting period. These adjustments replace the Adjusted EBITDA earned by these sites in the last twelve month period with the projected Adjusted EBITDA for their third year of operation. Run-Rate Adjusted EBITDA therefore seeks to reflect the anticipated mature Adjusted EBITDA potential of those gyms which were trading at the end of the relevant period. Management forecasts EBITDA on a gym-specific basis and updates forecasts quarterly based on current and anticipated performance, taking into account seasonality and location-specific factors.

2021 Financial Results continued

Cashflow and Liquidity

£m	2021 Group	2020 Group
Net cash used in operating activities	**(8.5)**	**(18.0)**
Net cash used in investing activities	(47.5)	(271.2)
Net cash (used in) / generating from financing activities	(1.4)	327.2
Net (decrease) / increase in cash and cash equivalents	**(57.5)**	**38.0**
Cash and cash equivalents on the first day of the period	91.1	51.6
Effect of exchange rates on cash held	(1.7)	1.5
Cash and cash equivalents at end of period	**31.9**	**91.1**
Undrawn RCF Facility (including overdraft)	145.0	145.0
Available liquidity at 31 December[2]	**176.9[1]**	**236.1**

Note: Fitness World results have been included in the 2020 Group results since the acquisition on 14 January 2020.
[1] Available liquidity of £176.9 million has increased materially from the year end position following the receipt of £300 million from KKR in January 2022.
[2] Subject to a £30 million minimum liquidity test at each quarter end.

Net cash (used in) / generated from operating activities

Net cash used in operating activities totalled £9 million, which represents a £10 million favourable movement versus 2020. The £31 million improvement in Group Reported EBITDA, and £20 million decrease in financing issue costs were offset by a £25 million adverse movement in working capital and £19m of additional payment of interest on the Group's lease liabilities. The change in working capital and lease liability interest has arisen due to the payment of some amounts deferred in 2020 as a result of COVID-19. These lease liabilities primarily related to rent on the Group's gyms, with cash flows on this split between interest payments within cash used in operating activities, and capital payments included in cash used in financing activities.

Net cash used in investing activities

The net cash used in investing activities of £48 million in 2021 consists almost entirely of investments in capital expenditure, which is an increase of £1 million compared to the prior year. In 2020, cash used in investing activities also included a £226 million outflow relating to the Fitness World acquisition.

The level of Capex remains materially below our normal expected levels (£82 million in 2019 on a proforma basis) and reflects the careful approach taken by the Group to minimise cash outflow during the COVID-19 crisis, where not already committed. We opened 23 new PureGyms in the UK in 2021 (2020: 12), a further 1 gym was opened in Denmark (2020: 5) and we continue to invest in technology systems and infrastructure for the long term interests of the business.

Net cash (used in) / generated from financing activities

The Group issued an additional €45 million (£39 million) of Senior Secured Notes in March 2021 with the funds used to support the business through the COVID-19 closure periods and allow for a continuation of the Group's expansion plans. The Danish business also received £7 million in interest-free government loans repayable in instalments between 2021 and 2023.

Offsetting these inflows was £49 million of lease capital payments. These lease capital payments represent a proportion of the property rental costs as accounted for under IFRS 16, with the remaining rental cost accounted for within net cash used in operating activities.

Cash and liquidity

As at 31 December 2021 the Group had cash and cash equivalents of £32 million and access to undrawn facilities of £145 million, providing total liquidity headroom of £177 million at the year end. In December 2021, the Group agreed a £300 million equity investment from global investment firm, KKR which completed in January 2022 and materially increases the Group's available liquidity from this year end position.

Cash flow - capital expenditure

The table shows our cash flows from capital expenditure for the periods indicated.

£m	2021 Group	2020 Group	2019 Proforma Group
Expansionary Capital Expenditure	34.4	36.5	57.6
Maintenance and Refurbishment Capital Expenditure	13.1	9.8	24.5
Total Capital Expenditure	**47.5**	**46.3**	**82.2**

Note: Fitness World results have been included in the Group 2020 results since the acquisition on 14 January 2020. The unaudited 2019 proforma Group comparatives in this table include Fitness World on a proforma basis and exclude the results from discontinued operations.

2021 Financial Results continued

Funding

At the start of the year, the Group had £430 million of Senior Secured Notes ("the Sterling Notes") and €445 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes"). On 4 March 2021, a further €45 million of Euro Notes were issued on the same terms, taking the total Euro Notes in issue to €490 million at the year end.

The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco PLC is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 6.375% and interest on the Euro Notes accrues at a rate of 5.500% both payable at half-yearly intervals. The Notes are due to be repaid in full on 15 February 2025.

In addition, the Group has a £145 million revolving credit facility (the "RCF Facility") with eight international institutions, repayable 15 August 2024. Included within the total RCF Facility is a £10 million overdraft facility. As at 31 December 2021 and 31 December 2020, the facility was undrawn.

Following amendments to the terms of the RCF Facility on 18 September 2020, and further amendments on 7 January 2021, the Lenders granted a waiver of the pre-existing financial covenants on the facility for the remainder of the term. The financial covenant is replaced with a £30 million minimum liquidity test on the last day of March, June, September and December each year.

The RCF Facility and covenant environment provides protection from the impact of ongoing COVID-19 disruption, headroom for the Group's working capital requirements and additional capacity for the roll out of new gyms post COVID-19, in line with the Group's underlying strategy.

Further details are provided in note 18.

Principal Risks and Uncertainties

The ultimate responsibility for risk management of the Group rests with the Board, who delegate responsibility for identifying, monitoring and managing risk through the newly constituted Risk & Sustainability Action Team (RSAT) through to the operational management teams of each of the Group's business units.

The principal risks and uncertainties set out below are those which we believe could have the most material impact on our business and strategic objectives. Mitigating steps aimed at managing and reducing those impacts have been put in place by the Group as summarised below. Additional risks and uncertainties currently unknown to us, or which we currently believe are immaterial, may also have an adverse effect on the Group.

Risk	Description and potential impact	Mitigation
Economic Conditions (including pandemic risk)	Our business may be adversely affected by macro-economic conditions such as increasing interest rates or inflation, uncertainty from the war in Ukraine and other factors affecting levels of disposable income and consumer confidence, which may result in members re-evaluating their spending habits and cancelling memberships, thereby reducing revenue and profits. A pandemic (such as the COVID-19 outbreak) could result in an unprecedented shut down of all our gyms and localised restrictions. This could result in a significant loss of revenue and liquidity and therefore, if not addressed, represents a material threat to the Group. The Group's gym equipment and certain other fixtures and fittings are manufactured overseas and therefore a global pandemic (such as COVID-19) could disrupt the supply chain in certain geographies or cause an increase in cost due to currency movements.	• A robust financial position, with access to £177 million of liquidity as at 31 December 2021, plus an additional £300 million cash received in January 2022 following the KKR equity injection, and very limited financial covenants until August 2024. • As a low priced gym operator, born in a recession, the business is actually well placed to withstand an economic downturn as members typically trade down from mid-market and premium operators in times of such uncertainty. • COVID-19 safety and social distancing policies have been well embedded to enhance both member and staff confidence in the trading environment. • Various short and medium term actions continue to be proactively reviewed to allow the business to react to emerging circumstances as appropriate. • The Group has close supplier and landlord relationships and actively monitors the macro-economic environment for inflationary and supply chain risk. The Group also endeavors to secure "Pandemic Clauses" in new leases.
Capital Management (including funding)	. Capital management risk is the risk that the Group will have sufficient capital and other loss-absorbing debt instruments to operate effectively including operating within the Board's approved risk appetite and supporting its strategic goals. Liquidity consists of assets that can be readily converted into cash. Liquidity risk is the risk of the Group not being able to meet financial obligations as and when they are due. Funding consists of on-balance sheet liabilities that are used to provide cash to finance assets. Funding risk is the risk of the Group not maintaining a diversified, stable and cost-effective funding base.	• Tight management control over cash, with 13-week cash flow forecasting implemented across the Group & closure cash burn rates minimised to under £4.5 million per week during recent lockdowns. • Minimum available liquidity policy approved by the Board to ensure the business has adequate short term reserves in the event of a future lockdown. • Weekly monitoring of performance and sophisticated yield management on a site by site basis. • Monthly financial reporting and quarterly reforecasting of business performance at site level. • Ongoing monitoring of the Group's business plan to assess capital requirements over a 3-5 year horizon. • Regular financial oversight by Management and the Executive Board. • A further £300m of capital secured in Q4 2021 (received in January 2022) to support further growth and strategic development opportunities whilst maintaining a liquidity cushion.

Principal Risks and Uncertainties continued

Risk	Description and potential impact	Mitigation
International Markets	The Group acquired Fitness World (a European operator) in early 2020 and is in the early stages of exploring other markets. Expanding into new markets creates additional challenges and risks which could impact upon overall group performance, growth and profitability.	• Significant international experience on the main Board and high quality, experienced senior leadership teams at Fitness World in Denmark and PureGym in Switzerland. • High quality, experienced senior leadership overseeing franchising operations in the Middle-East and early stage expansion into North America. • Clear focus on the markets in which we operate to ensure the product, proposition, and strategic partnerships (franchisees) are appropriate. • Focused investment in the infrastructure, people, and technology of our international subsidiaries. • Monitoring and detailed diligence of potential new opportunities for growth in strategically identified locations.
Member Experience And Competition	The success of our business depends on our ability to attract and retain members, while maintaining sustainable and profitable memberships. We generate almost all of our revenue from membership fees and if we are unable to attract and retain members, it could result in a reduction in members, revenue and profitability. Similarly, increased competition from other operators taking aggressive pricing action or opening new sites near our existing locations could put pressure on our pricing strategy and result in a reduction in members, revenue and profitability.	• Ongoing monitoring of gym and equipment utilisation to maximise member experience. • Focus on member satisfaction and feedback. • Rigorous focus on selecting the best sites for our gyms. • Continued investment and innovation of our model to provide a premium offering. • Sophisticated and dynamic pricing strategy. • Ongoing and regular market analysis.
Information Technology	Technology is a critical component of our business model. Our ability to sign up new members, process payments and control gym access is wholly reliant on the performance of key IT systems. Disruption to these critical systems could have a negative impact on our reputation and our ability to collect revenue.	• Our websites and apps are hosted in the cloud and designed to be resilient and robust. • High availability of the Website is achieved by distributing traffic across Ireland and Netherlands using active/active configuration. • Data is geolocated and backups are carried out regularly and tested. • The website has 24x7 monitoring with text auto alerting. In 2021, the average uptime of the website was 99.98%. • Software releases are small (feature based) and frequent, up to eight per day. Deployments are fully automated and each deploy runs thousands of tests.
Data Protection (Including Cyber Security)	In the course of business, we collect personal information and maintain a large membership database electronically, which could be subject to a breach of security. Unauthorised access, loss or disclosure of this information may lead to legal claims, regulatory penalties, disruption of operations and reputational damage.	• All member data is held by a secure third-party member management system and subject to ISAE 3402 reporting. • Personnel access to the member management system is reviewed monthly. • All member financial data is encrypted and all documents are stored in 256-bit encryption. • Card payment processing is carried out by PCI-DSS compliant third-party provider, Adyen. • All website pages are HTTPS. • Regular third-party cyber security audits and penetration testing carried out to ensure our systems remain robust.

Principal Risks and Uncertainties continued

Risk	Description and potential impact	Mitigation
Health & Safety	The Group provides over one and a half million members with 24/7 access to fitness facilities that are unsupervised for long periods of time. Gym users come from a variety of backgrounds, physical conditions, and gym experiences. With over 60 million visits per year, there is a risk that a serious incident causing harm to a gym member, member of staff or third party could expose the business to financial or reputational damage.	• Dedicated and experienced Health & Safety team with a clear mandate to improve the robustness of the Group's HSE system for the benefit of its members, employees, and partners. • Health & safety policies across the Group, outline the mandatory requirements within the business. • TrainSafe programme embedded to enhance the Group's commitment to safety. • Internal periodic health and safety assessments supplemented by third party health and safety risks assessments and audits. • Employment and continuous training and development of all operational teams.
Sustainability & ESG	Sustainability – and more broadly environmental, social and governance related issues – are becoming an important area of focus for the Group as concerns about climate change increase and consumers and employees become increasingly engaged with this topic. The Group recognises the risk that if it does not take a proactive stance regarding sustainability, members may choose to look elsewhere for gyms that represent their values. Furthermore, if the business is unable to comply with evolving regulatory and legal requirements it could be exposed to penalties and an impact on its reputation and financial returns.	• Risk & Sustainability Action Team (Governance Committee), chaired by the CEO, established to oversee sustainability-related change across the Group. • Dedicated senior resource hired to lead on sustainability across the Group. • Report written in response to the Taskforce for Climate-Related Financial Disclosures outlining the Group's commitments to be delivered in 2022. • Materiality assessment completed to establish the issues most important to the Group and its stakeholders.
Regulatory Compliance	The Group is exposed to regulatory and legislative requirements, including those relating to the Bribery Act, Modern Slavery Act, prevention of the facilitation of tax evasion, health & safety, employment law, General Data Protection Regulation ("GDPR"), the environment and the Listing Rules of The International Stock Exchange (by virtue of our publicly traded bond securities), planning regulations, noise abatement and advertising and marketing regulations. Failure to comply with regulations could lead to financial penalties and reputational damage.	• The Board has oversight of the management of regulatory risk and compliance, and delegates specific responsibilities to senior management. • A number of policies and codes in place across the Group, including a code of conduct that incorporates an anti-bribery & corruption policy, outlining the mandatory requirements within the business. These policies are communicated to all the staff and made available to anyone joining the Group. • Expert opinion sought where relevant. • Legal advice taken to ensure systems, processes and documentation conform with the Data Protection Act. • Internal periodic health and safety assessments supplemented by third party health and safety risks assessments and audits. • Employment and continuous training and development of appropriately qualified staff.

Going Concern

In light of the on-going impact of Covid-19 on the performance of the Group, the Directors have carefully evaluated the Going Concern basis of preparation.

The Group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, being an RCF facility of £145 million which includes an overdraft of £10 million.

As at 20 April 2022, the date of signing the financial statements, the Group's forecasts and projections (to 30 June 2023) taking account of reasonably possible changes in trading performance and potential future lockdowns, showed that the Group should be able to operate within its existing facilities.

This assessment included the impact of Omicron on early 2022 trading, no extension of Government support and the expectation of continued COVID-19 disruption on core trading across 2022 including, for Going Concern review purposes, a new national lockdown in all geographies.

On an unmitigated basis the Group has a weekly cash burn of approximately £9.0 million per week, including interest and tax. By factoring in historical government mitigation measures across all territories and management mitigation measures, total weekly cash burn (including interest and capex) has historically been reduced to approximately £4.5 million.

Government mitigations include payroll support, fixed cost contributions and grants whilst management mitigations include reducing all unnecessary activity, tight cost control and the delay of planned investments.

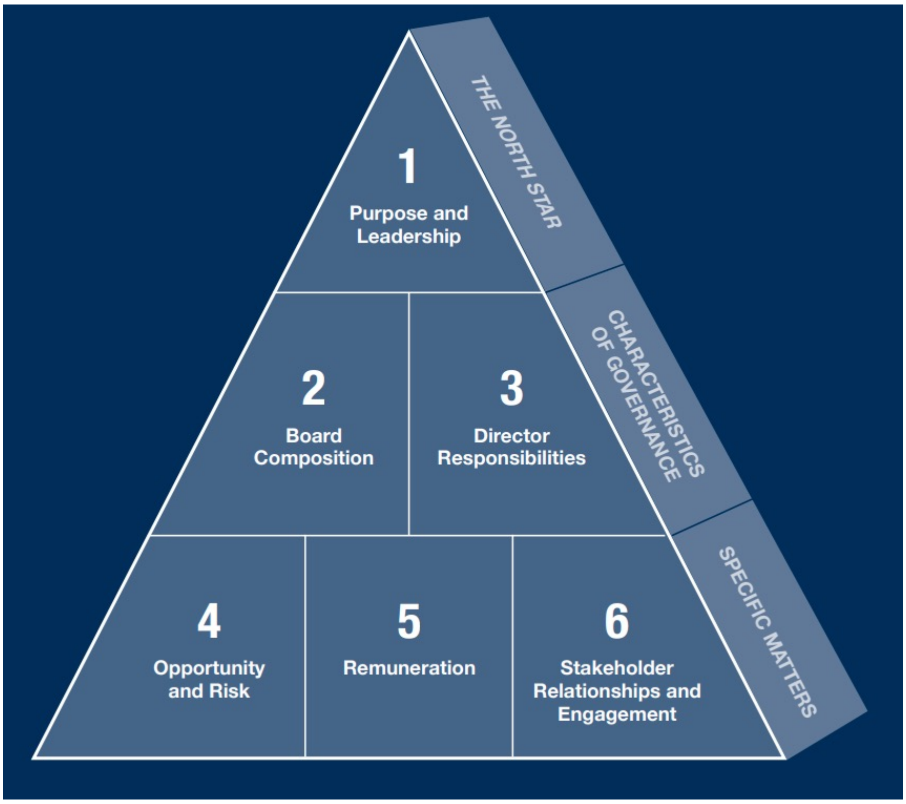
The actions taken have been designed to protect the medium and long term prospects of the business and, with available liquidity of £177 million (as at 31 December 2021), plus an additional £300 million received in January 2022 following investment from KKR, the Directors consider that the Group has sufficient facilities to withstand over 2 years of full Group closure from the start of 2022. Liquidity as at 31 March 2022 stood at £449 million, of which £30 million cash is held by parent company Pinnacle Topco Limited.

Based on these forecasts, and with no leverage or cash flow covenants until 2024, the Directors have concluded that the Group has adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing its financial statements.

Corporate Governance

For the year ended 31 December 2021, under the Companies (Miscellaneous Reporting) Regulations 2018 ('the Regulations'), the Group has applied the Wates Corporate Governance Principles for Large Private Companies ('Wates Principles'). This is the first financial year under which the Group has applied the Wates Principles as the Regulations are applicable from the second year in which a Group meets the qualifying threshold.

The Wates Principles provide a framework for the Group to demonstrate how the Board has made decisions for the long term success of the company and its stakeholders, and the Board is committed to ongoing review and challenge of these decisions to allow for continuous improvement both in the past year and in future periods. Each of the Wates Principles are laid out in the diagram below with explanations as to how the Board has applied each principle during the year included in the proceeding text.



Principle 1: Purpose and Leadership

The Board of Directors ('the Board') are responsible for the long-term strategy, direction and performance of the Group, providing rigorous challenge to those with day to day responsibility and accountability.

It is the aim of the Board that all decisions made and actions taken reflect the Group's values and culture. The Board has established a core vision and clear strategy, as set out on page 3. This, alongside the Group's performance against this strategy, is regularly communicated in the appropriate form throughout the organisation and to relevant external stakeholders with quarterly presentations.

The specific ways in which the Board ensures these aims are met are set out in the other Wates Principles below.

Principle 2: Board Composition

The balance of skills, knowledge, and experience of the Group's directors is continuously evaluated. The size and composition of the Board is considered to be appropriate for the scale and strategy of the Group.

The Board includes the Chief Executive Officer and Chief Financial Officer, two representatives of our majority shareholder, Leonard Green & Partners LP, a representative of our minority shareholder, KKR, and an Independent Non-Executive. The Independent Non-Executive Director brings outside experience and provides constructive challenge and influence.

By virtue of its private equity ownership structure, the composition of the Board is partly determined by the Shareholders' Agreement and it is considered to be in the best interests of the Group for the senior executives and each Shareholder to be represented at meetings. The directors individually and collectively bring a wide variety of relevant industry and wider business experience. Full biographies of the directors can be found on the Group's website at corporate.puregym.com/governance/board-of-directors.

Corporate Governance continued

Principle 3: Director's Responsibilities

The Board has established an array of corporate governance policies and practices which provide the Group with clear lines of accountability and responsibility to support effective decision-making.

The Board met formally 3 times during 2021 but given the challenging nature of the pandemic, held calls and met in whole or in part at least weekly to address and discuss specific strategic, operational and trading issues. While Board oversight is always maintained, the duties of the Board are partially executed through the decisions and actions of individuals and relevant committees which are delegated certain responsibilities in accordance with their knowledge and experience.

The Board delegates day to day management of the Group to the Group Management Board which meets formally on a monthly basis and maintains a high level of ad-hoc communication outside of the formal process. As well as the Chief Executive Officer and Chief Financial Officer who sit on the Board, the Group Management Board includes the Managing Directors and Finance Directors of the UK and Denmark business units, the Group Commercial Director, Group Chief People Officer, Group Chief Strategic Officer and the Group Chief Technology Officer.

In addition, certain governance responsibilities are delegated to other Board committees including the Audit Committee, the Remuneration Committee and the newly established Risk and Sustainability Committee, with the Board retaining overall responsibility for final decisions.

The Audit Committee meets at least twice a year to discharge its responsibilities around accuracy of financial reporting, adequacy of accounting standards, internal controls and the external audit process.

The Remuneration Committee meets at least annually, but as often as required, with the aim of setting remuneration levels for Board members and senior management as detailed in principle 5, below.

The newly formed Risk and Sustainability Committee will meet at least quarterly to review the Group's risk register and undertake an assessment of the principal risks and uncertainties. This Committee is also responsible for setting the ESG strategy for the Group going forwards and monitoring future performance against measurable KPIs.

In executing its decision making, the Board makes use of an array of financial and non-financial information prepared on a timely basis and presented in an accurate and clear manner in its monthly management accounts and the Board packs. A number of the core financial and non-financial metrics are disclosed through our quarterly public reporting cycle to bondholders and other stakeholders

(see 'Key Performance Indicators' section of the quarterly results presentations available on our website at: corporate.puregym.com/investors/results-reports-and-presentations).

The Board has established a robust framework of internal controls, including review and reconciliation, to ensure a high level of integrity over reporting is maintained. The Group's finance function is appropriately qualified to ensure the integrity of the financial information and the annual accounts are externally audited by PWC.

Principle 4: Opportunity and Risk

The Board aims to promote the long-term sustainable success of the company through identifying opportunities to create and preserve value and establishing oversight for the identification and mitigation of risks.

The Group's underlying operations are simple and assessed as inherently low risk relative to other sectors, with a diversified geographical spread of autonomous gyms offering straightforward services. Despite this, there is still a strong underlying ethos of further risk mitigation across the business, which has been increasingly formalised across 2021. As a result, at the end of the year the Board delegated its risk assessments to the new Risk and Sustainability Committee, which will work closely with the operational teams and functional heads to refine and enhance the Group's risk management framework, as well as reporting back to the Board which will continue its role as overseeing the Group's risk framework.

A detailed overview of the Group's primary risks and uncertainties identified by the Board are included on pages 14 to 16.

Principle 5: Remuneration

The Board has an established Remuneration Committee which maintains responsibility for the Group's remuneration strategy. This strategy is devised with the aim of setting remuneration levels for Board members and senior management at a rate which offers an appropriate level of incentivisation including a significant share-based compensation scheme aligning the motives of this high quality team with the long term objectives of the Group and its shareholders and other key stakeholders, being to grow and expand into current and new markets, significantly increase the number of sites and enhance shareholder value.

Remuneration is set with reference to the market and at a level that will enhance the Group's resources by attracting and retaining quality leaders who can deliver the Group's strategic ambitions in a manner consistent with its values, purpose and the interests of its shareholders.

The Board has established policies over pay and conditions for the wider workforce which are designed to prevent discrimination in respect of sex, religion, race, nationality or sexual orientation. The UK business reports annually on its Gender Pay Gap, with the 2021 report highlighting a reduction in its median pay gap from previous years while also setting out focus areas including increasing the number of women in senior roles.

Corporate Governance continued

Principle 6: Stakeholder Relationships and Engagement

The Group has a wide array of stakeholders and it is the Board's aim to promote accountability and transparency with all stakeholder groups to effectively communicate the Group's performance, position and strategy.

The single largest stakeholder group is the Group's gym members with over 1.5 million members at 31 December 2021. Members' views are taken very seriously by the Group and the member experience is at the heart of many of the key decisions made by the Board. Effective communication with members is established through the Group's websites, its app's, email communication and social media platforms which keep members up to date with the latest developments relevant to their experience. The views of members are also collected regularly through the use of Net Promoter Score metrics which help senior management identify successes and areas for improvement.

The next largest stakeholder group is the Group's workforce. Employees are kept up to date with developments across the Group through both regular and ad-hoc email communications. Important messages are also fed down from the Board to the workforce through the management hierarchy. The views of the workforce are obtained and considered through regular employee surveys (the results of which are fed back to the Board for consideration) and an established one-to-one appraisal process. The Group also has a whistleblowing policy in place to allow our people to speak up without fear of personal consequences.

The Group's other key stakeholders include its shareholders, lenders, landlords and suppliers. Effective communication with these Groups is maintained primarily through regular Board meetings and the Group's quarterly and annual public reporting, including its annual and interim financial statements, which are available on the Group's corporate website. A Group procurement function is also in place to ensure both strong communication and fair treatment of the Group's suppliers.

Streamlined energy and carbon reporting

The Group's business model is inherently sustainable in nature as we form part of the "sharing economy". In effect, our members rent gym equipment from us for the periods when they wish to use it, ensuring a minimal level of wasted time where equipment remains unused. Our model of higher member numbers and 24-hour openings means that the raw material cost to society is much lower than both mid or high-end gym operators or home use gym equipment.

The Group is currently exploring opportunities to improve both our monitoring and levels of emissions of carbon and other greenhouse gases, and has appointed a Head of Strategic Sustainability to lead this charge. The Group expects to be able to report further on this in future reporting periods.

UK Greenhouse gas (GHG) emissions for the year ended 31 December 2021 have been measured as required under the Large and Medium-Sized Companies and Groups (Account and Reports) Regulations 2008 as amended in 2013.

The main activities which release GHG in the UK are the direct consumption of gas and the purchase of consumed electricity to heat and 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.

Consumption and Emissions

	2021 Consumption (KWh 000's)	2021 Emissions tCO_2e	2020 Consumption (KWh 000's)	2020 Emissions tCO_2e
Direct from Operations – Gas (Scope 1)	15,157	2,776	11,186	2,057
Indirect from Energy Purchased – Electricity (Scope 2)	44,350	9,417	38,574	8,993
Direct from Operations – Transport (Scope 3)	777	191	1,719	482
Total	**60,283**	**12,384**	**51,479**	**11,532**
Intensity Metric (tCO_2e per gym)		**42**		**42**

Employees and Diversity

At 31 December 2021 the Group had 7,000 employees (31 December 2020: 7,255) and these are analysed as follows:

	31 December 2021			31 December 2020		
	Male	**Female**	**Total**	Male	Female	Total
Company Directors	**2**	**-**	**2**	2	-	2
Senior Managers	**5**	**3**	**8**	5	3	8
Other employees	**3,531**	**3,459**	**6,990**	3,652	3,593	7,245
Total	**3,538**	**3,462**	**7,000**	3,659	3,596	7,255

Section 172 Statement

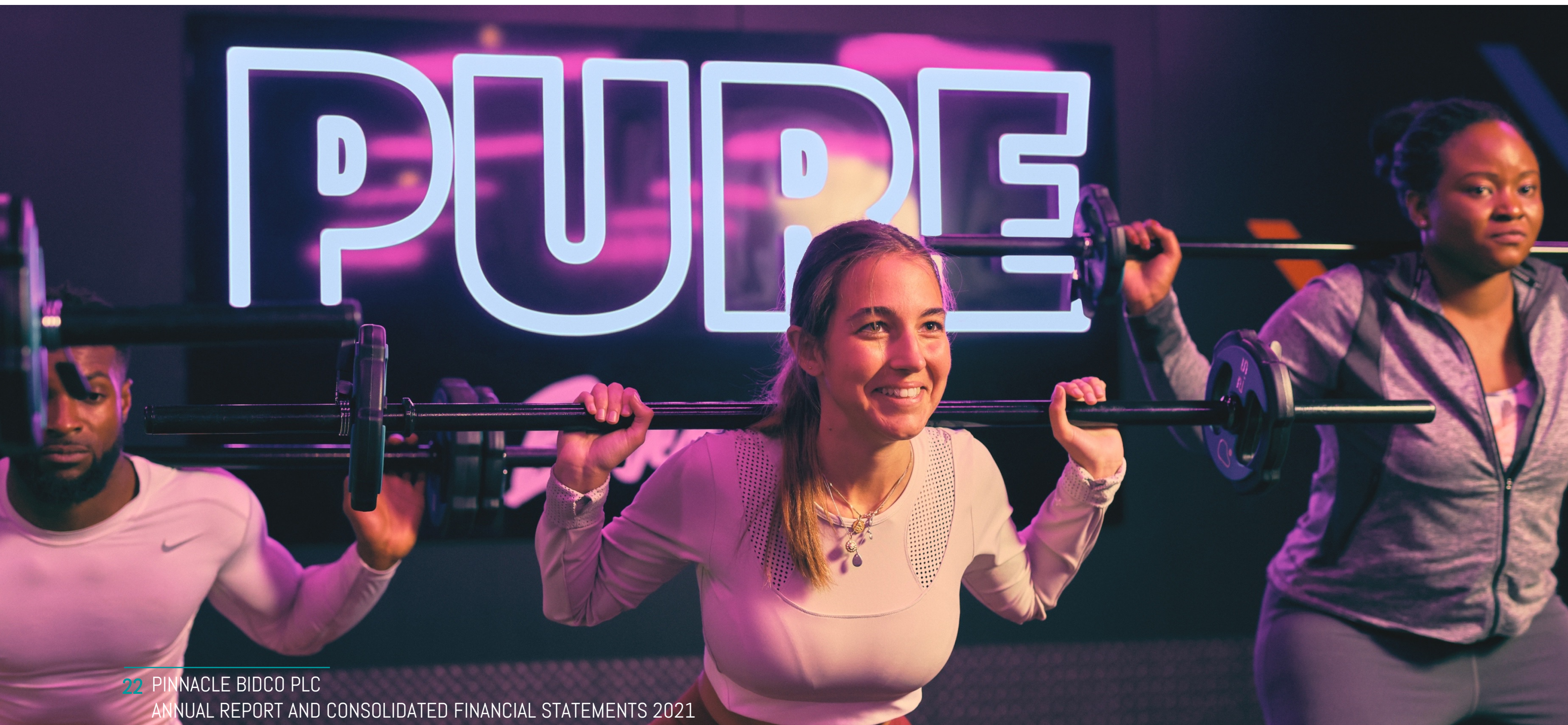
The directors consider, both individually and together, that they have acted in the way they consider, in good faith, would be most likely to promote the success of the company for the benefit of its members as a whole (having regard to the stakeholders and matters set out in s172(1)(a-f) of the Act) in the decisions taken during the year ended 31 December 2021. Those matters include having regard for the following, which are cross-referenced to further details given elsewhere in either the Strategic Report or Directors' Report:

a) the consequences of the decisions we take in the long term (Strategy and business model: page 3)
b) the interests of the Group's employees (Our people and members: page 5 to 6; Principle 6: page 20)
c) the need to foster the Group's business relationships with suppliers, customers and others (Stakeholder engagement: page 23)
d) the impact of the Group's operations on the community and the environment (Our communities and the environment: page 6)
e) maintaining a reputation for high standards of business conduct (throughout Strategic Report); and;
f) the need to act fairly between members of the Company (Stakeholder engagement: page 23)

I would like to extend our thanks to all our employees, both at the gyms and at the support centre, for their support and resilience in a very challenging year.

On behalf of the Board

A Wood
Director
20 April 2022



Directors' Report

The directors present their Annual Report and audited, consolidated financial statements of Pinnacle Bidco PLC and subsidiaries (together "the Group") for the year ended 31 December 2021.

A review of the performance of the Group's business during the year, the principal risks and uncertainties facing the Group and its future prospects are included in the discrete Strategic Report set out on pages 3 to 22 which should be read in conjunction with this 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 3 to 22) as the Board considers them to be of strategic importance.

Disclosures elsewhere in the Annual report and consolidated financial statements are cross-referenced in this Directors' report where appropriate.

Principal activities

Pinnacle Bidco PLC is an intermediate holding company of the Group and is an investee of investment funds controlled by Leonard Green & Partners LP. It is expected to remain as such for the foreseeable future.

The activities of the Group are discussed in the strategic report on pages 3 to 7. The Group made a loss for the year of £146,278,000 (2020: £198,414,000), and had net liabilities at 31 December 2021 of £467,667,000 (2020: £313,734,000). The directors are not able to recommend payment of a dividend (2020: £nil).

Likely future developments of the Group are discussed within the Strategic report on page 6.

Principal risks and uncertainties

Principal risks and uncertainties are discussed within the Strategic report on pages 14 to 16 in accordance with the provisions of s414C (11) of the Companies Act 2006.

Directors

The directors who served the Group during the year and up to signing the financial statements, were as follows:

H Cobbold

A Wood

The directors benefit from qualifying third party indemnity provisions in place during the financial year and at the date of this report.

Going Concern

The Group meets its day to day working capital requirements through its cash reserves and borrowing facilities (as detailed in note 18).

As set out in the Strategic report on page 17, the Directors have a reasonable expectation that the Group has adequate resources to continue to remain a going concern for the foreseeable future and therefore continues to adopt the going concern basis in preparing its financial statements.

Post Balance Sheet Events

On 28 January 2022, the Group's ultimate parent company, Pinnacle Topco Limited, issued £300 million of convertible preference shares to global investment firm, KKR, and subsequently down-streamed £270 million into the Group through the issuance of equity. The proceeds are intended to be used to support and fund the Group's expansion plans.

Political contributions

Neither the Company nor any of its subsidiaries made any political donations or incurred any political expenditure during the year (2020: none).

Financial instruments

Information in respect of the Group's policies on financial risk management objectives including policies to manage credit risk, liquidity risk and foreign currency risk are given in note 21 to the financial statements.

Stakeholder engagement

The Group has multiple stakeholders including its shareholders, lenders, members, suppliers and employees.

The Board regularly engages directly with its shareholders through formal monthly Board meetings and more regular ad hoc interactions in order to maintain strong working relationships and agree on commercial, operational and financial objectives.

The primary method of communication with the Group's lenders, including its bondholders, is through the quarterly reporting cycle which includes interim financial statements prepared in accordance with IAS 34, and a presentation from the Group's CEO and CFO.

Member engagement is at the heart of everything we do and any decision made by the directors is made with full consideration of the impact on the Group's customers.

The Group has a small number of key supply partners with which the directors and senior managers maintain close relationships on an ongoing basis through regular dialogue, formal meetings and conferences. These communications include discussion of ongoing partnerships and an explanation of future plans for the business.

As set out in the Strategic Report, the directors seek to promote a culture of environmental sustainability within the business which is primarily focussed on an energy efficient approach to the design and management of our gyms. This includes fitting out gyms with mechanical and electrical systems that comply with government energy-saving schemes, using LED energy-saving lighting and water-saving bathroom and shower facilities, and using energy-efficient fitness equipment. We also seek to recycle the building materials from the fit out of our gyms.

Throughout 2022 the Board will continue to review and challenge how the Group can improve engagement with its employees and stakeholders.

Directors' Report continued

Employees

Management policies seek to ensure that both the recruitment and career development of employees are determined solely on merit and aptitude regardless of age, sex, ethnic origin, religious belief or disability. The company endeavours to ensure that all employees benefit from its training and career development programmes.

Applications for employment by persons with disabilities are always fully considered, bearing in mind the respective aptitudes and abilities of the applicant concerned. In the event of members of staff becoming disabled every effort is made to ensure that their employment with the company continues and the appropriate training is arranged. It is the policy of the company that the training, career development and promotion of a person with a disability should, as far as possible, be identical to that of a person who does not suffer from a disability.

Consultation with employees or their representatives has continued at all levels, with the aim of ensuring that their views are taken into account when decisions are made that are likely to affect their interests and that all employees are aware of the financial and economic performance of the company as a whole. Communication with all employees continues through company meetings, briefing groups and electronic communications.

Statement of directors' responsibilities

The directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulation.

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors have prepared the Group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and the company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law).

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

- select suitable accounting policies and then apply them consistently;
- state whether applicable international accounting standards in conformity with the requirements of the Companies Act 2006 have been followed for the Group financial statements and United Kingdom Accounting Standards, comprising FRS 101 have been followed for the Company financial statements, subject to any material departures disclosed and explained in the financial statements;
- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Group and Company will continue in business.

The directors are also responsible for safeguarding the assets of the Group and Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's and Company's transactions and disclose with reasonable accuracy at any time the financial position of the Group and Company and enable them to ensure that the financial statements comply with the Companies Act 2006.

The directors are responsible for the maintenance and integrity of the company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Directors' confirmations

In the case of each director in office at the date the Directors' Report is approved:

- so far as the director is aware, there is no relevant audit information of which the Group and Company's auditors are unaware; and
- they have taken all the steps that they ought to have taken as a director in order to make themselves aware of any relevant audit information and to establish that the Group and Company's auditors are aware of that information.

Independent auditors

In the absence of any notice proposing to terminate their appointment, PricewaterhouseCoopers LLP will be deemed to be reappointed for the next financial year. PricewaterhouseCoopers LLP have indicated their willingness to continue in office.

On behalf of the Board

A Wood

Director

20 April 2022

Pinnacle Bidco PLC
Financial Statements
for the year ended 31 December 2021

Independent auditors' report to the members of Pinnacle Bidco PLC

Report on the audit of the financial statements

Opinion

In our opinion:

- Pinnacle Bidco PLC's group financial statements and company financial statements (the "financial statements") give a true and fair view of the state of the Group's and of the Company's affairs as at 31 December 2021 and of the Group's loss and the Group's cash flows for the year then ended;
- the Group financial statements have been properly prepared in accordance with UK-adopted international accounting standards;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 "Reduced Disclosure Framework", and applicable law); and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements, included within the Annual report and consolidated financial statements (the "Annual Report"), which comprise: Consolidated and Company statements of financial position as at 31 December 2021; Consolidated statement of comprehensive income, Consolidated cash flow statement and Consolidated and Company statements of changes in equity for the year then ended; and the notes to the financial statements, which include a description of the significant accounting policies.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

Our audit approach

Overview

Audit scope

- Our significant components were determined in relation to their contribution to the Group's financial result or the Group's financial position
- The Group audit consisted of full scope audits over three significant components; Pinnacle Bidco Plc, Pure Gym Limited and Fitness World A/S and audit procedures over Prepayments and accrued income, Trade debtors, Deferred income, Provisions, Right of use assets and Lease liabilities in PureGym AG
- In addition, centrally managed functions, including the Group consolidation, were audited at the head office by the group engagement team

Key audit matters

- Risk of impairment of right-of-use assets and property, plant and equipment (group)
- Risk of impairment of goodwill and intangible assets in Denmark and Switzerland (group)

- Risk of impairment of investments in subsidiaries and intercompany receivables (company)

Materiality

- Overall group materiality: £3,000,000 (2020: £3,850,000) based on 1% of revenue of Pinnacle Bidco group (2020: 2.5% of a 3-year average EBITDA of the proforma Pinnacle Topco group from 2018 to 2020 i.e. including Fitness World).
- Overall company materiality: £1,500,000 (2020: £1,500,000) based on 1% of total assets, capped below Group materiality as part of our component materiality allocations.
- Performance materiality: £1,875,000 (2020: £2,887,500) (group) and £1,125,000 (2020: £1,312,500) (company).

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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, and any comments we make on the results of our procedures thereon, were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

This is not a complete list of all risks identified by our audit.

Risk of impairment of goodwill and intangible assets in the UK, Risk of misstatement from lease accounting, Risk of misstatement from acquisition accounting, Risk of misstatement from consolidation, and Covid-19, which were key audit matters last year, are no longer included because our assessment of the overall level of risk has reduced in these areas. Specifically our assessment of risk of impairment of UK Goodwill and intangibles has reduced based on the improved performance of the business in the current period and significant headroom within the impairment assessment, reducing the risk of estimation uncertainty. Acquisition accounting was a one-off item in the prior year. The risk of consolidation of the enlarged group related to this acquisition and the related risk from lease accounting also reduced. Covid-19 is now considered to be an ongoing matter impacting upon the trading environment of all entities. Otherwise, the key audit matters below are consistent with last year.

Key audit matter	How our audit addressed the key audit matter
Risk of impairment of right-of-use assets and property, plant and equipment (group) The Group holds a significant amount of right of use ('ROU') assets and other property, plant and equipment ('PPE') on the balance sheet, amounting to a net book value of £677m at the year end (2020: £718m). The challenging trading environment for the gym sector as a result of Covid-19 has meant that there is the possibility of impairment trigger events and therefore the impairment of ROU assets and other PPE remains a significant risk. Each gym is considered an individual cash generating unit ('CGU') and assessed individually for evidence of any impairment triggers, principally by reference to the performance of the individual gyms. The identification of impairment triggers requires management to exercise judgement. For those gyms where an impairment assessment is required management have prepared discounted cash flows to support the carrying value of the associated assets. The discounted cash flows include a number of estimates, with the key assumptions being: • The forecasted cash flows of the individual gym; • The long term growth rate used within the forecasts; and • The discount rate applied to the cash flows.	.• We have reviewed the forecast financial performance of the gyms within each territory and held discussions with management to understand their assessment of potential impairment indicators; • We have understood management's process for budgeting and forecasting and have obtained management's CGU impairment model for each CGU; • We tested the mathematical accuracy of the impairment model and agreed the carrying value of non current assets being assessed for impairment to the underlying accounting records; • We assessed the historical accuracy of management's forecasts by reviewing actual results to previous forecasts taking account of the significant impact Covid-19 has had on performance in the last two years; • We assessed the cash flow projections used in the impairment model in comparison to the

Management have recognised an impairment charge in relation to ROU assets and PPE of £9.3m during the year (2020: £6.9m). See the Critical accounting estimates and judgements policies section within the Group financial statements for disclosure of the related accounting policies, judgements and estimates and Note 13 within the Group financial statements for details of the property, plant and equipment balances including ROU assets.	trading environment and industry reports, and our understanding of performance from other aspects of our audit, including our consideration of the impact of climate change on the business; • We utilised specialists to assess the discount rates and long term growth rates used within the impairment models for each CGU; • We performed sensitivity analyses to ascertain the impact of reasonable possible changes in key assumptions to quantify the downside changes needed to trigger an impairment, or to increase the impairment charges recognised; • We also assessed the disclosures made with respect to the sensitivity of the key assumptions. Based on the procedures performed we did not identify any material adjustments to the carrying value of the Group's ROU assets or PPE at year end.
Risk of impairment of goodwill and intangible assets in Denmark and Switzerland (group) The Group holds £805m of goodwill and intangible assets on the balance sheet at the year end (2020: £847m). Within these balances are amounts relating specifically to the Fitness World Group businesses in Denmark and Switzerland acquired in 2020 (additions on acquisition in 2020 of £347m). Management are required to perform an annual impairment assessment of goodwill and test for impairment of other intangible assets where there are indicators of impairment. Impairment assessments of this nature involve subjective judgements and estimates about the future results and cash flows of the business. We focused specifically on Denmark and Switzerland group's of CGU's due to the relatively lower degree of impairment headroom compared to the UK. For each group of CGUs management have prepared discounted cash flows to support the carrying value of the associated assets. The discounted cash flows include a number of estimates, with the key assumptions being: • The forecasted cash flows of the individual gym; • The long term growth rate used within the forecasts; and • The discount rate applied to the cash flows. Management have recognised an impairment charge in relation to Goodwill and other intangible assets of £5.8m during the year (2020: £24.5m). See the Critical accounting estimates and judgements policies section within the Group financial statements for disclosure of the related accounting policies, judgements and estimates and Note 12 within the Group financial statements for details of the intangible assets balances.	• We have understood management's process for budgeting and forecasting and have obtained management's impairment model for each group of CGUs; • We tested the mathematical accuracy of the impairment model and agreed the carrying value of non current assets being assessed for impairment to the underlying accounting records; • We assessed the historical accuracy of management's forecasts by reviewing actual results to previous forecasts taking account of the significant impact Covid-19 has had on performance in the last two years; • We assessed the cash flow projections used in the impairment model in comparison to the trading environment and industry reports, and our understanding of performance from other aspects of our audit, including our consideration of the impact of climate change on the business; • We utilised specialists to assess the discount rates and long term growth rates used within the impairment models for each CGU; • We performed sensitivity analyses to ascertain the impact of reasonable possible changes in key assumptions to quantify the downside changes needed to trigger an impairment, or to increase the impairment charges recognised. • We also assessed the disclosures made with respect to the sensitivity of the key assumptions. Based on the procedures performed we did not identify any material adjustments to the carrying value of the goodwill and intangible assets in Denmark and Switzerland at year end.
Risk of impairment of investments in subsidiaries and intercompany receivables (company) The Company has investments in subsidiaries amounting to £308.2m (2020: £308.2.m) and amounts due from Group undertakings of £914.2m (2020: £899.3m). Investments are reviewed annually for	• We evaluated management's process for assessing impairment triggers for investment in subsidiaries and management's IFRS 9

impairment indicators. Where necessary, the impairment review in respect of the investment balance is performed in conjunction with the annual impairment review of goodwill and acquired intangible assets at a group level. Amounts due from Group undertakings are considered as part of managements IFRS 9 expected credit loss assessment. We focused on these balances given their size, the performance of the Company's investments in the year and the judgements and estimates required to forecast future financial performance. No impairment charge has been recorded by management in the year (2020: nil). See the Critical accounting estimates and judgements policies section within the Company financial statements for disclosure of the related accounting policies, judgements and estimates and Notes 6 and 7 within the Company financial statements for details of the investments in subsidiary companies and amounts due from group undertakings	expected credit loss model in respect of the intercompany receivables; • As the impairment assessment performed is performed conjunction with the annual impairment review of goodwill and acquired intangible assets at a group level, see procedures set out above in the related key audit matter above; • We have compared the combined output of each of the impairment reviews of goodwill and acquired intangible assets at a group level to the carrying value of investment in subsidiaries; • We have considered managements approach to the expected credit loss assessment of each of the intercompany accounts receivable balances, agreeing inputs to counterparty entity accounting records and considering the risk of default. • We also assessed the disclosures made with respect to the sensitivity of the key assumptions. Based on the procedures performed we did not identify any material adjustments to the carrying value of the Company's investments in subsidiaries and intercompany receivables at year end.

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

We scoped the audit with three significant components. This included the two largest trading entities, Pure Gym Limited (UK) and Fitness World A/S (Denmark), which contribute the majority of the trading results. We also included in our scope one holding company, Pinnacle Bidco Plc, which has issued the Group’s external borrowings, and has the associated interest expense. We also scoped in specific audit procedures over Prepayments and accrued income, Trade debtors, Deferred income, Provisions, Right of use assets and Lease liabilities in PureGym AG (Switzerland). In addition, centrally managed functions, including the Group consolidation, were audited at the head office by the group engagement team.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Financial statements - group	Financial statements - company
Overall materiality	£3,000,000 (2020: £3,850,000).	£1,500,000 (2020: £1,500,000).
How we determined it	1% of revenue of Pinnacle Bidco group (2020: 2.5% of a 3-year average EBITDA of the proforma Pinnacle Topco group from 2018 to 2020 i.e. including Fitness World)	1% of total assets, capped below Group materiality as part of our component materiality allocations
Rationale for benchmark applied	Revenue benchmark has been used as it most closely aligns to three of the Group's Key Performance Indicators (Revenue, Membership Numbers, Number of Gyms). These KPIs are consistent with business growth ambitions through increased membership and improved revenue performance. The 3-year average EBITDA of the proforma Pinnacle Topco group that was used as a benchmark in 2020 is less relevant in the current year due to two years of adverse impact of Covid-19 on EBITDA performance.	We believe that total assets is the primary measure used by the shareholders in assessing the performance of the entity, and is a generally accepted auditing benchmark due to it being a holding company.

For each component in the scope of our group audit, we allocated a materiality that is less than our overall group materiality. The range of materiality allocated across components was between £1,500,000 and £2,850,000. Certain components were audited to a local statutory audit materiality that was also less than our overall group materiality.

We use performance materiality to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds overall materiality. Specifically, we use performance materiality in determining the scope of our audit and the nature and extent of our testing of account balances, classes of transactions and disclosures, for example in determining sample sizes. Our performance materiality was 62.5% (2020: 75%) of overall materiality, amounting to £1,875,000 (2020: £2,887,500) for the Group financial statements and £1,125,000 (2020: £1,312,500) for the Company financial statements.

In determining the performance materiality, we considered a number of factors - the history of misstatements, risk assessment and aggregation risk and the effectiveness of controls - and concluded that an amount in the middle of our normal range was appropriate.

We agreed with those charged with governance that we would report to them misstatements identified during our audit above £ 150,000 (group audit) (2020: £ 192,500) and £ 75,000 (company audit) (2020: £87,500) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Conclusions relating to going concern

Our evaluation of the directors' assessment of the Group's and the Company's ability to continue to adopt the going concern basis of accounting included:

- Obtaining the Directors' Group level going concern assessment paper and cash flow forecasts to June 2023. We tested the cash flow forecasts for mathematical accuracy;
- Performing look back procedures to assess management's forecasting accuracy;
- Evaluating the forecasts against current trading conditions and assessing the reasonableness of the key assumptions driving the cashflows;
- Assessing the Group's banking facilities, associated banking covenant requirements in the going concern assessment period and banking covenant waivers received prior to the year end;
- Challenging management on their contingency plans for potential future lockdowns, and the resilience of the business to withstand additional periods of closure;
- Vouched the post year-end receipt of £300m investment from an equity investor in the Group and reviewed the forecasts and projections in light of this investment.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and the Company's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

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.

However, because not all future events or conditions can be predicted, this conclusion is not a guarantee as to the Group's and the Company's ability to continue as a going concern.

Our responsibilities and the responsibilities of the directors with respect to going concern are described in the relevant sections of this report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If we identify an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on our work undertaken in the course of the audit, the Companies Act 2006 requires us also to report certain opinions and matters as described below.

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the year ended 31 December 2021 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements.

In light of the knowledge and understanding of the Group and the Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report.

Responsibilities for the financial statements and the audit

Responsibilities of the directors for the financial statements

As explained more fully in the Statement of directors' responsibilities, the directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The directors are also responsible for such internal control as they 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's and the 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud, is detailed below.

Based on our understanding of the Group and industry, we identified that the principal risks of non-compliance with laws and regulations related to health and safety legislation, employment law, and data protection legislation, and we considered the extent to which non-compliance might have a material effect on the financial statements. We also considered those laws and regulations that have a direct impact on the financial statements such as tax legislation and the Companies Act 2006. We evaluated management's incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls), and determined that the principal risks were related to posting inappropriate journal entries to increase revenue or EBITDA, and management bias in accounting estimates, specifically those relating to the carrying value of goodwill, intangible assets, right of use assets and property, plant and equipment. The group engagement team shared this risk assessment with the component auditors so that they could include appropriate audit procedures in response to such risks in their work. Audit procedures performed by the group engagement team and/or component auditors included:

- discussions with management including consideration of known or suspected instances of non-compliance with laws and regulation and fraud;
- assessment of compliance with local laws and regulations and relevant tax legislation by each component audit team and the group audit team, as applicable
- identifying and testing journal entries using a risk-based targeting approach for unexpected account combinations, specifically those to increase revenue, reduce costs or reclassify items above or below the EBITDA line to manipulate the financial performance of the business;
- obtaining management's impairment models to assess the carrying value of goodwill, intangible assets, right of use assets and property, plant and equipment;
- reviewing financial statement disclosures and testing to supporting documentation, where appropriate, to assess compliance with applicable laws and regulations.

There are inherent limitations in the audit procedures described above. We are less likely to become aware of instances of non-compliance with laws and regulations that are not closely related to events and transactions reflected in the financial statements. Also, 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.

Our audit testing might include testing complete populations of certain transactions and balances, possibly using data auditing techniques. However, it typically involves selecting a limited number of items for testing, rather than testing complete populations. We will often seek to target particular items for testing based on their size or risk characteristics. In other cases, we will use audit sampling to enable us to draw a conclusion about the population from which the sample is selected.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not obtained all the information and explanations we require for our audit; or

- adequate accounting records have not been kept by the Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of directors' remuneration specified by law are not made; or
- the Company financial statements are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Andy Ward (Senior Statutory Auditor)

for and on behalf of PricewaterhouseCoopers LLP

Chartered Accountants and Statutory Auditors

Leeds
20 April 2022

Consolidated statement of comprehensive income
for the year ended 31 December 2021

	Note	2021 £'000	2020 £'000
Revenue	5	**307,689**	269,941
Cost of sales		**(10,856)**	(9,907)
Other income		**2,757**	-
Other administrative expenses		**(332,388)**	(342,320)
Exceptional administrative expenses	7	**(6,933)**	(3,821)
Administrative expenses		**(339,321)**	(346,141)
Operating loss	6	**(39,731)**	(86,107)
Exceptional finance income	10	**-**	19,961
Other finance income	10	**16,255**	562
Finance income	10	**16,255**	20,523
Finance costs	10	**(142,472)**	(149,037)
Loss before income tax		**(165,948)**	(214,621)
Income tax credit	11	**19,670**	20,832
Loss for the year from continuing operations		**(146,278)**	(193,789)
Loss from discontinued operation	31	**-**	(4,625)
Loss for the year		**(146,278)**	(198,414)
Other comprehensive (expense) / income			
Items that may be reclassified to profit or loss			
Exchange differences on translation of discontinued operation		**-**	(44)
Foreign operations – foreign currency translation differences, net of tax		**(8,552)**	11,779
Items that will not be reclassified to profit or loss			
Remeasurement of defined benefit pension obligations, net of tax (note 19)		**470**	-
Total other comprehensive (expense) / income for the year, net of tax		**(8,082)**	11,735
Total comprehensive expense for the year		**(154,360)**	(186,679)

Consolidated statement of financial position
as at 31 December 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Intangible assets	12	**804,852**	846,913
Property, plant and equipment	13	**677,194**	717,556
Deferred tax assets	11	**41,913**	31,069
Other receivables	15	**6,162**	7,216
		1,530,121	1,602,754
Current assets			
Inventories	14	**3,651**	4,388
Trade and other receivables	15	**27,459**	37,554
Income taxes receivable		**690**	686
Cash and cash equivalents		**31,945**	91,134
		63,745	133,762
TOTAL ASSETS		**1,593,866**	1,736,516
Current liabilities			
Trade and other payables	16	**(116,310)**	(143,646)
Lease liabilities	17	**(85,013)**	(96,430)
Borrowings	18	**(5,780)**	-
Provisions	19	**(162)**	(2,500)
Income taxes payable		**(71)**	(1,290)
		(207,336)	(243,866)
Non-current liabilities			
Deferred tax liabilities	11	**(29,346)**	(37,572)
Other liabilities		**(1,926)**	(2,013)
Lease liabilities	17	**(490,010)**	(491,652)
Borrowings	18	**(1,322,880)**	(1,264,661)
Provisions	19	**(10,035)**	(10,486)
		(1,854,197)	(1,806,384)
TOTAL LIABILITIES		**(2,061,533)**	(2,050,250)
NET LIABILITIES		**(467,667)**	(313,734)
Equity			
Share capital	22	**50**	50
Share premium		**3,863**	3,863
Translation reserve		**3,227**	11,779
Accumulated losses		**(474,807)**	(329,426)
TOTAL EQUITY		**(467,667)**	(313,734)

Consolidated statement of financial position
as at 31 December 2021 (continued)

The notes on pages 39 to 84 are an integral part of these financial statements. The financial statements of Pinnacle Bidco PLC, registered number 11038859, on pages 34 to 84 were approved by the board of directors and authorised for issue on 20 April 2022 and were signed on its behalf by:

A Wood
Director

Consolidated cash flow statement
for the year ended 31 December 2021

	Note	2021 £'000	Restated[1] 2020 £'000
Cash flows from operating activities			
Cash generated from operations	23	**98,364**	96,305
Exceptional costs paid		**(4,942)**	(13,746)
Bank interest and similar charges paid		**(2,429)**	(19,492)
Bank interest received		**190**	680
Senior secured notes interest paid		**(49,765)**	(27,412)
Interest element of lease liability payments		**(49,199)**	(30,671)
Issue costs from borrowings		**(765)**	(20,986)
Corporation tax refund received / (paid)		**6**	(2,524)
Net cash used in operating activities of discontinued operation	31	**-**	(191)
Net cash used in operating activities		**(8,540)**	(18,037)
Cash flows from investing activities			
Purchase of subsidiary undertakings, net of cash acquired	30	**-**	(226,350)
Purchase of property, plant & equipment		**(41,533)**	(35,450)
Purchase of intangible assets		**(6,012)**	(10,823)
Proceeds from disposal of property, plant & equipment		**60**	2,204
Proceeds from disposal of subsidiary undertakings, net of cash disposed		**-**	59
Net cash used in investing activities of discontinued operation	31	**-**	(823)
Net cash used in investing activities		**(47,485)**	(271,183)
Cash flows from financing activities			
Drawdown of bridging loan		**-**	380,911
Repayment of bridging loan		**-**	(379,253)
Issue of senior secured notes		**38,834**	379,253
Drawdown on revolving credit facility		**-**	85,000[1]
Repayment of revolving credit facility		**-**	(85,000)[1]
Capital element of lease liability payments		**(48,976)**	(37,034)
Repayments of bank borrowings		**-**	(117,963)
Proceeds from other borrowings		**8,612**	-
Proceeds from intercompany borrowings		**102**	100,689
Net cash generated from financing activities of discontinued operation	31	**-**	636
Net cash (used in) / generated from financing activities		**(1,428)**	327,239
Net (decrease) / increase in cash and cash equivalents		**(57,453)**	38,019
Cash and cash equivalents at start of period		**91,134**	51,626
Effect of exchange rate changes on cash held		**(1,736)**	1,489
Cash and cash equivalents at end of period		**31,945**	91,134

[1] The prior year drawdown and repayment of the revolving credit facility has been restated. This was incorrectly disclosed as £135,000,000 drawdown and repayment. The net drawdown is not impacted by this restatement.

Consolidated statement of changes in equity
for the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Translation reserve £'000	Accumulated losses £'000	Total £'000
Balance as at 1 January 2020	50	3,863	-	(131,325)	(127,412)
Loss for the year	-	-	-	(198,414)	(198,414)
Other comprehensive income for the year	-	-	11,735	-	11,735
Credit to equity for equity settled share-based payments (note 9)	-	-	-	357	357
Reclassification of translation reserve on disposal of discontinued operation	-	-	44	(44)	-
Balance as at 31 December 2020	**50**	**3,863**	**11,779**	**(329,426)**	**(313,734)**
Loss for the year	**-**	**-**	**-**	**(146,278)**	**(146,278)**
Other comprehensive expense for the year	**-**	**-**	**(8,552)**	**470**	**(8,082)**
Credit to equity for equity settled share-based payments (note 9)	**-**	**-**	**-**	**427**	**427**
Balance as at 31 December 2021	**50**	**3,863**	**3,227**	**(474,807)**	**(467,667)**

Notes to the consolidated financial statements

1 General information

The principal activity of the Group during the year was the provision of facilities for physical fitness and is expected to remain so for the foreseeable future. Pinnacle Bidco PLC ("the Company") and its subsidiaries are limited by shares and are registered, incorporated and domiciled in England, United Kingdom. The address of the Company's registered office is C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY, United Kingdom.

2 Summary of significant accounting policies

Basis of accounting

The Group financial statements have been prepared on the going concern basis and in accordance with UK-adopted International Accounting Standards, in conformity with the requirements of the Companies Act 2006, as applicable to companies reporting under those standards. On 31 December 2020, International Financial Reporting Standards ("IFRS") as adopted by the European Union at that date was brought into UK law and became UK-adopted International Accounting Standards, with future changes being subject to endorsement by the UK Endorsement Board. The Group transitioned to UK-adopted International Accounting Standards in its consolidated financial statements on 1 January 2021. This change constitutes a change in accounting framework. However, there is no impact on recognition, measurement or disclosure in the period reported as a result of the change in framework.

The Group financial statements have been prepared under the historical cost convention, as modified for the revaluation of financial assets and financial liabilities at fair value through profit and loss. The Group financial statements are presented in thousands of pounds sterling ("£'000") except when otherwise indicated. Accounting policies have been consistently applied to all financial periods presented.

The preparation of the Group financial statements in conformity with UK-IFRS requires the use of estimates and assumptions that affect the reported amounts of assets and liabilities and the reported amounts of revenue and expenses during the reporting period. Although these estimates are based on management's reasonable knowledge of the amount, event or actions, actual results may differ from those estimates.

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2021. The results of subsidiaries acquired are consolidated for the period from the date on which control passed. Acquisitions are accounted for using the acquisition method. Uniform accounting policies are applied throughout the Group.

Segmental reporting

Operating segments are reported in a manner consistent with internal reporting provided to the chief operating decision maker, identified as the Executive Management Team of the Group. The Executive Management Team primarily consider the business from a geographical perspective, by country of operation. The Group's operations consist solely of the provision of high quality health and fitness facilities and associated services and consequently, it is not necessary to segregate operating segments by service or product. The Executive Management Team use the measures of Revenue and Adjusted EBITDA as key performance indicators in assessing the performance of the operating segments. A definition of Adjusted EBITDA is included in note 4.

2 Summary of significant accounting policies (continued)

The Group's material reportable segments are the United Kingdom, Denmark and Switzerland. The results from operations in all other countries in which the Group operates are included in "All other segments", as they are deemed to be individually immaterial.

Going Concern

In light of the on-going impact of Covid-19 on the performance of the Group, the Directors have carefully evaluated the Going Concern basis of preparation.

The Group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, being an RCF facility of £145 million which includes an overdraft of £10 million.

As at 20 April 2022, the date of signing the financial statements, the Group's forecasts and projections (to 30 June 2023) taking account of reasonably possible changes in trading performance and potential future lockdowns, showed that the Group should be able to operate within its existing facilities.

This assessment included the impact of Omicron on early 2022 trading, no extension of Government support and the expectation of continued COVID-19 disruption on core trading across 2022 including, for Going Concern review purposes, a new national lockdown in all geographies.

On an unmitigated basis the Group has a weekly cash burn of approximately £9.0 million per week, including interest and tax. By factoring in historical government mitigation measures across all territories and management mitigation measures, total weekly cash burn (including interest and capex) has historically been reduced to approximately £4.5 million.

Government mitigations include payroll support, fixed cost contributions and grants whilst management mitigations include reducing all unnecessary activity, tight cost control and the delay of planned investments.

The actions taken have been designed to protect the medium and long term prospects of the business and, with available liquidity of £177 million (as at 31 December 2021), plus an additional £300 million received in January 2022 following investment from KKR, the Directors consider that the Group has sufficient facilities to withstand over 2 years of full Group closure from the start of 2022. Liquidity as at 31 March 2022 stood at £449 million, of which £30 million cash is held by parent company Pinnacle Topco Limited.

Based on these forecasts, and with no leverage or cash flow covenants until 2024, the Directors have concluded that the Group has adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing its financial statements.

Revenue

Revenue primarily represents sales of services provided in the period and non refundable joining fees received during the period, exclusive of value added tax. Member income includes membership subscriptions and joining fee income. Membership subscriptions are received in advance of the period to which they relate and are recognised as contract liabilities. The performance obligation attached to membership subscriptions is satisfied over time, on a straight line basis over the membership period as this best represents the timing of services provided.

Where there are specific performance obligations attached to joining fees, then the income related to this is recognised in the period in which membership commences since the performance obligation attached to that income is satisfied in that period. Where there are no specific performance obligations attached to joining fees, these are recognised over time, on a straight line basis over the expected duration of the membership.

2 Summary of significant accounting policies (continued)

Vending and consumables income is recognised at a point in time. Other revenue includes revenue from personal trainers, recognised over time to reflect the period over which the personal trainer is operating, and sales of day passes to non-members and personal training services vouchers which are both recognised at a point in time.

Other Income

Other income represents income arising outside of the Group's ordinary activities, being the running of gyms, provision of gym-related services, and the sale of vending and consumable items. It includes income from insurance claims.

Cost of sales

Cost of sales represents the cost arising in connection with the generation of revenue from the "vending and consumables income" and "other revenue" revenue streams, including the cost of inventories sold.

Intangible assets

(a) Goodwill
Goodwill arises on the acquisition of subsidiaries and represents the excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired.

For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the CGUs, or groups of CGUs, expected to benefit from the synergies of the combination. Each CGU or group of CGUs to which the goodwill is allocated represents the lowest level within the Group at which the goodwill is monitored for internal management purposes.

Goodwill is not amortised, instead impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU, or group of CGUs, containing the goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

(b) Intangible assets acquired in business combinations
The Group recognises intangible assets acquired as part of business combinations at fair value at the date of acquisition. The determination of these fair values is based upon management's judgement utilising valuation expertise and includes assumptions on the timing and amount of future incremental cash flows generated by the assets and the selection of an appropriate cost of capital. Furthermore, management must estimate the expected useful life of intangible assets and charge amortisation on these assets accordingly, the value of which is shown within administrative expenses. The useful life estimated for assets acquired in business combinations varies based on the characteristics of the particular asset, and are set out in note 12. Intangible assets acquired in business combinations include customer relationships and brands. For the purpose of impairment testing, intangible assets acquired in a business combination are allocated to each of the CGUs, or groups of CGUs, expected to benefit from the synergies of the combination.

2 Summary of significant accounting policies (continued)

(c) Software
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 where the following criteria are met:

- It is technically feasible to complete the software so that it will be available for use
- Management intends to complete the software and use it in the course of business
- There is an ability to use the software
- It can be demonstrated how the software will generate probable future economic benefits
- Adequate technical, financial and other resources to complete the development and to use the software are available, and
- The expenditure attributable to the software during its development can be reliably measured.

Until the software is ready for use, capitalised development costs are presented within “Development Projects in Progress” and are not amortised. Once the software is ready for use, the capitalised costs are transferred into the “Software” category and amortised over a period of 3 to 5 years.

Inventories

Inventories primarily relate to goods for resale and are valued at the lower of cost and net realisable value, after making due allowance for obsolete and slow moving items. Inventories are valued on a first in, first out basis.

Property, plant and equipment

All property, plant and equipment is initially recorded at cost, including those costs that were directly attributable to bringing the assets into working condition. Any capital contribution by a landlord towards leasehold fitting out works is deducted from the cost of property, plant and equipment within that leasehold. After initial recognition, property, plant and equipment is stated at cost less provisions for depreciation and impairment.

Depreciation is calculated so as to write off the cost of an asset (less residual value) over the useful economic life of that asset as follows:

Right-of-use assets	Straight line over the life of the lease
Leasehold costs	Straight line over the life of the lease
Leasehold improvements	Straight line over the shorter of 3-15 years or remaining lease life
Fixtures and fittings	Straight line over 3-10 years
IT equipment	Straight line over 3-5 years

Residual values are calculated where appropriate based on agreed buyback terms with suppliers.

Leases as a lessee

At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group uses the definition of a lease in IFRS 16.

The Group recognises a right of use asset and a lease liability at the lease commencement date. The right of use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred.

2 Summary of significant accounting policies (continued)

The right of use asset is subsequently depreciated using the straight line method from the commencement date to the end of the lease term. In addition, the right of use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability. More information on the determination of the lease term is included in note 3.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

The Group determines its incremental borrowing rate using the interest rates from recent third party funding, with adjustments appropriate for the lease term and security to make it specific to a particular lease.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in substance fixed payments; and
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date.

The lease liability is measured at amortised cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if the Group changes its assessment of whether it will exercise a purchase, extension or termination option or if there is a revised in substance fixed lease payment.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right of use asset, or is recorded in profit or loss as 'profit on lease modifications' if the carrying amount of the right of use asset has been reduced to zero.

The Group presents right of use assets as part of 'property, plant and equipment' and lease liabilities as a separate line item in the statement of financial position.

A small number of property leases contain variable payment terms that are linked to sales generated from a particular gym. For certain gyms, up to 100% of lease payments are on the basis of variable payment terms with a range of percentages as a proportion of sales. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments occurs.

Leases as a lessor

When the Group acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease.

To classify each lease, the Group makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the Group considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the Group is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right- of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the Group applies the exemption described above, then it classifies the sub-lease as an operating lease.

2 Summary of significant accounting policies (continued)

Financial instruments

Financial liabilities

The Group initially recognises financial liabilities at fair value where applicable (net of any transaction costs) and subsequently they are measured at amortised cost using the effective interest method. Where the Group has borrowings, transaction costs are amortised using the effective interest method over the life of the loan. The Group derecognises a financial liability when its contractual obligations are discharged, cancelled, or expire. Any gain or loss on derecognition is recognised as finance income or finance cost in the statement of comprehensive income.

Derivative financial instruments

The Group sometimes uses derivative financial instruments such as interest rate swaps and caps or foreign currency forward contracts to hedge risks associated with interest rate movements or foreign exchange. The Group initially recognises such instruments at fair value where applicable and subsequently remeasures at each balance sheet date.

Financial assets

The Group classifies its financial assets as ‘those to be measured at amortised cost’ or ‘those to be measured subsequently at fair value’. At initial recognition, the Group measures its financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

Financial assets (continued)

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

Financial assets measured at amortised cost include cash and cash equivalents and trade and other receivables. These assets are 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 assets give rise, on specified dates, to cash flows that are solely payment of principal and interest on the principal amount outstanding. Derivative financial instruments are measured at fair value.

Borrowing costs

Borrowing costs are expensed in the period in which they are incurred.

Impairment of financial assets

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all financial assets. To measure the expected credit losses, financial assets are grouped based on shared credit risk characteristics and the days past due.

The expected loss rates are based on the payment profiles of sales over a period of 36 months before 31 December and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

2 Summary of significant accounting policies (continued)

Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation or depreciation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. This is deemed to occur when the cash generating unit to which the asset belongs is performing below expectation. For property, plant and equipment this is generally deemed to be when the CGU to which it belongs is loss making more than three years after opening.

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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash generating units). The Group's CGUs consist of individual gyms.

Goodwill, customer relationships and brands are assessed at the group of CGUs level, where each gym represents a CGU. No group of CGUs is at a level higher than an operating segment.

Prior impairments of non financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

Property, plant and equipment is tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Where it is not possible to isolate cash flows generated by a specific item of property, plant and equipment, impairment is tested at the CGU level, representing a single gym. 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 of disposal and value in use.

Cash and cash equivalents

In the consolidated cash flow statement, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and bank overdrafts. In the consolidated statement of financial position, bank overdrafts are shown within borrowings in current liabilities.

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. Accounts payable 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.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

2 Summary of significant accounting policies (continued)

On certain of its leases, the Group is required to restore leased premises to their original condition at the end of the respective lease term. Where it is deemed probable that an outflow of resources will be required to settle the restoration obligation, a provision is recognised for the present value of the estimated expenditure required to remove leasehold improvements. The associated cost is capitalised as part of the leasehold improvements and amortised over the shorter of the lease term or the useful life of the assets.

Pension obligations

For defined contribution plans, the Group pays contributions to publicly or privately administered pension insurance plans on a mandatory, contractual or voluntary basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as an employee benefit expense when they are due.

The liability or asset recognised in the balance sheet in respect of defined benefit pension plans is the present value of the defined benefit obligation at the end of the reporting period less the fair value of plan assets. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

The discount rate is determined by reference to market yields at the end of the reporting period on high quality corporate bonds in the currency the benefits are paid. An extrapolation of current market rates along the yield curve takes place to determine the necessary discount rates for the valuation of the pension liabilities.

The net interest cost is calculated by applying the discount rate to the net balance of the defined benefit obligation and the fair value of plan assets. This cost is included in employee benefit expense in the statement of profit or loss.

Remeasurement gains and losses arising from experience adjustments and changes in actuarial assumptions are recognised in the period in which they occur, directly in other comprehensive income. They are included in retained earnings in the statement of changes in equity and in the balance sheet.

Changes in the present value of the defined benefit obligation resulting from plan amendments or curtailments are recognised immediately in profit or loss as past service costs.

Government grants

Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate and recognised in the same line item in the statement of comprehensive income.

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the statement of financial position date.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill; deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

2 Summary of significant accounting policies (continued)

Deferred tax is measured at the tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Capital 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 the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Exceptional items

Exceptional items are disclosed separately in the financial statements where it is necessary to do so to provide further understanding of the financial performance of the Group. They are material items of income or expense that have been shown separately due to the significance of their nature and amount. Examples of items included within exceptional items are restructuring and transformational costs, and costs relating to acquisitions or certain expansion projects. Impairments of intangible assets and property, plant and equipment are not included within exceptional items, but are presented separately in note 6. Management consider, on a case by case basis, whether costs are exceptional based on the specific circumstances.

New and amended standards

No new or amended accounting standards or interpretations had an impact on the financial statements in the current year, and no material impact on the financial statements is expected from known future new or amended accounting standards.

3 Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and judgements that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Estimates

Impairment of non-financial assets

The Group is required to test, on an annual basis, whether goodwill has suffered any impairment based on the recoverable amount of its cash generating units ('CGUs'). The Group also assesses whether any events have occurred which would trigger an impairment review of non-financial assets with finite useful lives such as intangible assets other than goodwill and property, plant and equipment, including the expected impact of COVID 19 on the short to medium term profitability of each CGU.

Where this is the case, the recoverable amount of the CGU being assessed 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.

3 Critical accounting estimates and judgements (continued)

Management also consider whether reasonably possible changes in key assumptions may cause an impairment of the non-financial assets. A summary of the key assumptions used, and the possibility of impairment, should reasonably possible changes in those key assumptions occur, is included in note 12.

Provisions for leasehold dilapidations

Provisions are made for dilapidations of leasehold improvements in leased properties. Management make estimates of the amount and timing of future payments in relation to the restoration of leased properties based on contractual obligations, historic experience and the views of experts. Where it is assessed that the likelihood of an outflow of resources to settle a restoration obligation on leased premises is probable, a provision is made for the expected future outflow, discounted to present value using a discount rate of between 0.5% and 2% to reflect the time value of money. The discount rate is based on risk-free costs of borrowing in the relevant jurisdictions.

As at 31 December 2021, management have determined that a provision is required for 216 out of its 509 leased premises. Details of the provision recorded are included in note 19. If the future cost of restoration for a site where a provision has been recorded were to increase by 10%, the provision at 31 December 2021 would increase by £1,002,000.

Incremental borrowing rate for discounting of lease liabilities

The Group uses its incremental borrowing rate to discount lease payments in the calculation of lease liabilities. The use of this method requires estimates of interest rates which would be available to the Group if it were to borrow funds, over a similar term and with a similar security, necessary to obtain an asset of a similar value to the right of use asset in a similar economic environment. Management utilise internal and external information to determine an appropriate rate. This includes evidence arising from the Group's recent third-party borrowings, publicly available borrowing rates for companies with similar characteristics to the Group, and risk-free interest rates applicable in the relevant geographies in which the Group operates. IBRs applied to leases across the Group range from 4.9% to 9.5%. Details of the lease liabilities recognised are included in note 17.

Recoverability of deferred tax assets

The Group recognises deferred tax assets only if it can be regarded as more likely than not that there will be taxable profits from which the future reversal of the underlying temporary differences can be deducted.

Management makes an estimate of the future taxable profits of the Group and compares this to the available losses, taking into account applicable tax laws in the relevant geographies. In making the estimate, management uses board-approved budgets for a 3 to 4 year period after the end of the reporting period, then assumes no further growth in profits beyond this point in the absence of detailed budgets for that period. Estimation uncertainty increases in later years of the forecast period due to the inherent uncertainty in forecasting future profits. Detail of the tax charge and deferred tax asset are set out in note 11.

3 Critical accounting estimates and judgements

Judgements

Lease terms on leased properties

The Group recognises leased properties in accordance with IFRS 16 'Leases'. The lease term is determined as the non-cancellable period of each lease, together with periods covered by an option to extend the lease if management are reasonably certain to exercise that option. Certain of the Group's leases include clauses which allow the Group to unilaterally extend the lease on a rolling basis. Management exercise significant judgement in determining the period over which they are reasonably certain that they will continue to extend such leases. In making this assessment on a lease-by-lease basis, management consider the following factors:

- The prevailing market conditions relative to the contractual lease terms
- Significant leasehold improvements undertaken that are expected to have a significant economic benefit for the Group
- Costs relating to the termination of the lease
- The importance of the gym to the Group's operations; and
- The Group's past practice on extending leases beyond their contractual terms.

At 31 December 2021, for gyms which include such clauses the average difference between lease term and contractual term is one year (2020: one year).

Classification of exceptional administrative expenses

The Group presents exceptional administrative expenses separately within the statement of comprehensive income. The Group exercises judgement in determining which expenses are categorised as exceptional bearing in mind the size and nature of the expenses and associated projects.

4 Operating segments

The group's material reportable segments in the current period are the United Kingdom, Denmark and Switzerland. The results from operations in all other countries in which the Group operates are included in "All other segments". Segmental information presented to the Executive Management Team for the year is presented in the below table:

	2021				
	United Kingdom £'000	**Denmark £'000**	**Switzerl-and £'000**	**All other segments £'000**	**Total £'000**
Revenue	**193,945**	**89,880**	**23,864**	**-**	**307,689**
Adjusted EBITDA (before rent deferments)	**43,571**	**(4,578)**	**1,077**	**(317)**	**39,753**
Adjusted EBITDA (after rent deferments)	**40,036**	**(5,546)**	**1,174**	**(317)**	**35,347**

4 Operating segments (continued)

	2020				
	United Kingdom £'000	Denmark £'000	Switzerl-and £'000	All other segments £'000	Total £'000
Revenue	142,405	103,232	24,304	-	269,941
Adjusted EBITDA (before rent deferments)	1,177	3,087	(101)	-	4,163
Adjusted EBITDA (after rent deferments)	7,361	4,083	(40)	-	11,404

All operating segments derive revenue from all of the services and products included within note 5. All revenue included in the table above derives from external customers.

Adjusted EBITDA is a non-IFRS measure derived by adjusting operating profit for depreciation, amortisation, profit/loss on disposal of property, plant and equipment, profit/loss on lease modifications, impairment of property, plant and equipment, exceptional costs, share based payment charges, pre opening costs, other adjustments and the cash rent adjustment. The cash rent adjustment includes an add back of any property rent related expenses charged in the statement of comprehensive income (including COVID-related grant income on properties and rent-free concessions agreed) and a deduction of contractual property rent payments due in the period (whether or not paid in cash in the period). Adjusted EBITDA is stated both before and after rent deferments which relate to property rent deferments agreed with landlords due to COVID-19 gym closures.

The Adjusted EBITDA KPI is typically used within the industry as it is more effective than operating profit in representing the performance of the business and, as such, is a key focus of our stakeholders, including our investors, our bondholders and our banking partners. A reconciliation from operating profit to Adjusted EBITDA is included in note 6.

5 Revenue

Revenue is analysed by service or product as follows:

	2021 £'000	2020 £'000
Member income	**273,747**	244,071
Vending and consumables income	**15,931**	14,402
Other revenue	**18,011**	11,468
	307,689	269,941

As a result of the COVID 19 pandemic, the Group was forced to close some or all of its gyms across the estate at varying times throughout both years presented, and this has caused a significant reduction in revenue for the Group during the closure and recovery periods. All gyms in the estate initially closed between 12 and 21 March 2020. By the end of August 2020 all gyms across the estate had re-opened, but a resurgence of COVID 19 infections across Europe in the autumn and winter led to further localised and national lockdowns with associated gym closures lasting until May 2021.

5 Revenue (continued)

For members in the United Kingdom and Denmark, during the closure periods, all memberships were automatically frozen meaning that no payments for gym subscriptions were taken from members during this time.

Prior to and during the closure periods, our Swiss business operated a subscription model. Under this model, amounts paid by members in advance for any closure period were deferred such that revenue for gym subscriptions was only recognised when gyms were open. Where membership renewals fell within the closure period, payment was taken from members as usual, but an extended membership term provided to cover the closure periods.

The majority of member income is recognised over time to reflect the period over which the member receives the services provided. Vending and consumables income is recognised at a point in time. Other revenue includes revenue from personal trainers, recognised over time to reflect the period over which the personal trainer is operating, and sales of day passes to non-members and personal training services which are both recognised at a point in time. Further detail on the timing of revenue recognition is included in the revenue accounting policy in note 2.

6 Operating loss

	2021 **£'000**	2020 £'000
Operating loss is stated after charging / (crediting):		
Amortisation of intangibles	**23,414**	24,234
Depreciation of property, plant & equipment		
- owned assets	**43,274**	47,124
- right of use property assets	**59,725**	59,058
- right of use equipment assets	**6,404**	5,538
Loss on disposal of property, plant & equipment	**3,324**	2,514
Impairment of intangible assets (note 12)	**5,848**	24,491
Impairment of property, plant and equipment (note 13)	**9,298**	6,898
Profit on lease modifications	**(244)**	(120)
Exceptional administrative expense (note 7)	**6,933**	3,821

	2021 **£'000**	2020 £'000
Operating loss from discontinued activities is stated after charging:		
Amortisation of intangibles	**-**	228
Depreciation of property, plant & equipment		
- owned assets	**-**	901
- right of use property assets	**-**	1,110

6 Operating loss (continued)

A reconciliation from operating loss from continuing operations to Group EBITDA and Adjusted EBITDA is included in the table below. Group EBITDA, Adjusted EBITDA (before rent deferments) and Adjusted EBITDA (after rent deferments) are non-IFRS measures and, as such, are unaudited.

	2021 £'000	2020 £'000
Operating loss from continuing operations	**(39,731)**	(86,107)
Amortisation (note 12)	**23,414**	24,234
Depreciation (note 13)	**109,403**	111,720
Loss on disposal of property, plant and equipment	**3,324**	2,514
Impairment of intangible assets (note 12)	**5,848**	24,491
Impairment of property, plant and equipment (note 13)	**9,298**	6,898
Profit on lease modifications	**(244)**	(120)
Exceptional administrative expense (note 7)	**6,933**	3,821
Group EBITDA [1]	**118,245**	87,451
Other adjustments [3]	**6,874**	-
Pre-opening costs [4]	**3,270**	1,550
Cash rent adjustment [5]	**(89,063)**	(85,195)
Share based payment charge [6]	**427**	357
Adjusted EBITDA (before rent deferments) [2]	**39,753**	4,163
Rent deferments [7]	**(4,406)**	7,241
Adjusted EBITDA (after rent deferments)	**35,347**	11,404

[1] *Group Reported EBITDA is a non-IFRS measure defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, impairment, profit/loss on lease modifications and exceptional items.*

[2] *Adjusted EBITDA is a non-IFRS measure derived from Group Reported EBITDA and adjusted by the items described in footnotes 3 to 6. This is a relevant measure as it is an alternative performance measure defined within the Group's facility agreements.*

[3] *Refers to the net impact of various one-off items not included in "exceptional administrative expenses". In 2021, the Group incurred costs of £3.2 million in relation to the wind up of a Fitness World IT project resulting from convergence of the Group's IT infrastructure following the Fitness World acquisition. This amount is added back in reaching Adjusted EBITDA to align with the treatment of the remaining costs for the IT project which were also added back in reaching Adjusted EBITDA as part of "Impairment of property, plant and equipment and intangible assets" in the year ended 31 December 2020.*

Also in 2021, £3.6 million of costs have been incurred in relation to a management "lock-in" bonus scheme. This amount is added back in reaching Adjusted EBITDA because it has not been incurred in the ordinary course of business.

[4] *Pre-opening costs represent the total of all gym site operating costs incurred prior to the opening of a new gym and primarily consist of staff costs, marketing and rent expense.*

[5] *Under IFRS 16, most lease costs are included within interest or depreciation expenses and are therefore excluded from Group Reported EBITDA. To produce a comparable and more relevant EBITDA figure, the contractual property rent payments due during the accounting period are deducted and any property rent related expenses included in Group Reported EBITDA are added back.*

[6] *The share based payment charge relates to shares in the ultimate parent company, Pinnacle Topco Limited, issued to directors and certain employees. See note 9 of the financial statements.*

[7] *Rent deferments relates to property rent deferments agreed with landlords due to COVID-19 gym closures.*

7 Exceptional administrative expenses

Items that are material either because of their size or their nature, and that are non-recurring are considered as exceptional items and are presented within the line items to which they best relate. These items are analysed further below:

	2021	2020
	£'000	£'000
Integration, transition and restructuring costs	**2,069**	4,894
Costs relating to the exploration of capital fund raising	**10,874**	-
One-off costs related to the COVID-19 pandemic	**160**	3,030
Exploration of acquisition and expansion opportunities	**731**	956
Exceptional administrative costs	**13,834**	8,880
Settlement on break of lease	**(5,931)**	(5,019)
Release of an over-accrual for historical VAT liabilities	**(970)**	-
Costs relating to acquisitions	**-**	(40)
Exceptional administrative income	**(6,901)**	(5,059)
Exceptional administrative expense	**6,933**	3,821

Integration, transition and restructuring costs of £2,069,000 (2020: £4,894,000) primarily related to redundancy costs incurred in relation to a reset of the Danish head office cost base. Costs incurred in the prior year include costs relating to the integration of the Fitness World business into the wider group and restructuring costs in Denmark.

£10,874,000 of costs were incurred in the exploration of, and preparation for, capital fund raising options (2020: £nil).

Costs related to the COVID-19 pandemic of £160,000 were incurred during the year (2020: £3,030,000). These costs included one-off deep cleans of gyms at the end of the closure period, fees for consultants engaged to provide advice on safe operation, and reviews of ventilation in gyms to ensure that they comply with our COVID-19 TrainSafe protocols.

Costs of £731,000 were incurred relating to the exploration of expansion opportunities in the USA (2020: £956,000 relating to various expansion and diversification opportunities).

On 3 November 2020, the landlord of a UK site exercised their lease break option and agreed settlement consideration of £10,950,000. The settlement was paid at the break date of the lease on 8 March 2021. The settlement was recognised on a straight line basis over the period from the activation of the break clause to the break date of the lease with a credit of £5,931,000 recognised in 2021 (2020: £5,019,000).

During 2021, a £970,000 over-accrual for historical VAT liabilities was released as it was concluded that the likelihood of the amount being payable was remote.

8 Auditors' remuneration

The remuneration of the auditors is analysed as follows:

	2021 £'000	2020 £'000
Audit of the parent company and Group financial statements	**79**	72
Audit of subsidiary financial statements	**469**	362
Other assurance-related services	**2,911**	526
Legal services	**-**	6
Tax services	**-**	29
Other services	**-**	5
Other services relating to 2019	**-**	50
	3,459	1,050

9 Employees and directors

	2021 £'000	2020 £'000
Wages and salaries	**80,241**	72,920
Social security costs	**4,847**	4,162
Other pension costs	**3,621**	3,039
	88,709	80,121

In reaction to the gym closures required as a result of the COVID-19 pandemic, the Group took advantage of available government support schemes in each of its geographies, including contributions towards wages and salaries of £17,371,000 in the year ended 31 December 2021 (2020: £16,422,000). Grants received have been netted off the related costs in the statement of comprehensive income.

The Group operates defined contribution pension schemes in the United Kingdom and Denmark for all employees in those countries using master trust (occupational trust based) pension schemes. The total cost expensed in the year was £3,129,000 (2020: £2,448,000) and outstanding pension contributions at the year-end were £220,000 (2020: £418,000).

In addition, the Group operates a defined benefit pension scheme for employees in Switzerland. More information is included in note 19.

The Directors and certain employees hold ordinary A1 and A2 shares in the Company, which have service and vesting conditions attached and are therefore in the scope of IFRS 2 'Share based payments'. The directors have applied a valuation model to calculate a grant date fair value of these shares for IFRS 2 purposes as £2.39 per share. Consequently, a charge of £427,000 has been recognised during the year (2020: £357,000) and is included within wages and salaries.

9 Employees and directors (continued)

The average monthly number of persons (including directors) employed by the Group during the period was made up as follows:

	2021 No.	2020 No.
Central support	**594**	**567**
Operations	**6,411**	**6,263**
	7,005	**6,830**

Total emoluments relating to Directors are as follows:

	2021 £'000	2020 £'000
Aggregate emoluments	**2,228**	1,093
Contributions to defined contribution schemes	**7**	10
	2,235	1,103

One director was a member of the defined contribution schemes as at 31 December 2021 (31 December 2020: one).

The amounts set out above include emoluments in respect of the highest paid director totalling £1,352,000 (2020: £688,000). Contributions to defined contribution schemes of the highest paid director were £nil (2020: £nil).

The key management of the Group are deemed to be the same as the directors of the Group, therefore no additional disclosure of key management compensation has been provided.

10 Finance income and costs

	2021 £'000	2020 £'000
Gain on extinguishment of bridging loan	**-**	19,961
Exceptional finance income	**-**	19,961
Bank interest received	**31**	150
Interest income on finance lease receivables	**131**	140
Other interest received	**159**	272
Foreign exchange gain	**15,934**	-
Total finance income	**16,255**	20,523

An exceptional finance income of £19,961,000 was recognised in the year ended 31 December 2020 following the extinguishment of a €445 million Senior Secured Bridge Facility and a subsequent issue of €445 million of Euro Notes. This exceptional finance income represents the difference between the carrying value of the Senior Secured Bridge Facility and the fair value of the Euro Notes issued.

10 Finance income and costs (continued)

	2021 **£'000**	2020 £'000
Interest on bank loans and overdrafts	**395**	18,152
Interest payable on lease liabilities	**46,958**	45,445
Commitment fees	**1,531**	758
Unwind of discount on provisions	**113**	307
Amortisation of capitalised finance costs	**4,064**	11,511
Unwind of discount on issue of senior secured notes	**4,071**	471
Interest on senior secured notes	**50,234**	30,163
Interest payable to Group undertakings	**35,106**	29,530
Foreign exchange loss	**-**	12,700
Total finance costs	**142,472**	149,037

Interest and finance charges paid for financial liabilities not at fair value through profit or loss totalled £142,472,000 (2020: £136,337,000).

11 Income tax credit

	2021 **£'000**	2020 £'000
Current tax:		
- Corporation tax on loss for the period	**198**	(1,186)
- Adjustment in respect of prior periods	**(1,404)**	(240)
Total current tax credit	**(1,206)**	(1,426)
Deferred tax:		
- Origination and reversal of timing differences	**(14,305)**	(17,199)
- Adjustment in respect of prior periods	**238**	(863)
- Effect of changes in tax rates	**(4,397)**	(1,344)
Total deferred tax credit	**(18,464)**	(19,406)
Total tax credit in the consolidated statement of comprehensive income	**(19,670)**	(20,832)

The corporation tax on loss for the period in the year ended 31 December 2020 relates to losses carried back to the year ended 31 December 2019.

11 Income tax credit (continued)

The tax credit for the year is lower (2020: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2021 of 19% (2020: 19%). The differences are explained below:

	2021 £'000	2020 £'000
Loss on continuing activities before tax	(165,948)	(214,621)
Tax on loss on continuing activities at standard UK corporation tax rate of 19% (2020: 19%)	(31,530)	(40,778)
Effects of:		
- Depreciation not deductible for tax purposes	650	106
- Lease expenses not deductible for tax purposes	-	310
- Other expenses not deductible for tax purposes	4,842	7,586
- Adjustment in respect of prior periods	(1,166)	(1,103)
- Income not taxable	(4,701)	(1,042)
- Impact of rate differences	(4,397)	154
- Unrecognised tax losses and other deductions	11,419	8,696
- Group relief surrendered for nil consideration	6,671	5,610
- Capital receipts	-	954
- Overseas tax rate differences	(1,458)	(1,944)
- Disposal of subsidiary	-	623
- Other reliefs	-	(4)
Total tax credit for the period	(19,670)	(20,832)

The standard rate of corporation tax in the UK was 19% throughout the year (2020: 19%) and accordingly the Group's profits for this period are taxed at this rate. Deferred tax has been measured at the rate expected to apply at the time at which the timing differences are expected to reverse. This ranges between 19% and 25%.

11 Income tax credit (continued)

Deferred tax assets

The movement in deferred tax assets is as follows:

	Property, plant and equipment £'000	Leases £'000	Trading Differences £'000	Provisions £'000	Losses £'000	Total £'000
At 1 January 2020	3,216	7,135	-	249	-	10,600
Category transfer	-	-	249	(249)	-	-
Acquired through business combinations	-	2,702	402	680	-	3,784
Adjustment in respect of prior periods	764	(35)	63	(8)	-	784
Foreign exchange movement	-	51	16	14	41	122
Disposal of subsidiary	-	(28)	-	-	-	(28)
Income statement credit from discontinued operation	-	28	-	-	-	28
Income statement credit / (charge) from continuing operations	420	1,074	(636)	1,515	13,406	15,779
At 31 December 2020	**4,400**	**10,927**	**94**	**2,201**	**13,447**	**31,069**
Adjustment in respect of prior periods	**(101)**	**-**	**66**	**-**	**(203)**	**(238)**
Foreign exchange movement	**-**	**(132)**	**3**	**(67)**	**(284)**	**(480)**
Income statement credit / (charge)	**604**	**1,046**	**(8)**	**(643)**	**10,563**	**11,562**
At 31 December 2021	**4,903**	**11,841**	**155**	**1,491**	**23,523**	**41,913**

At the year end, the Group had losses from certain group companies carried forward for which a deferred tax asset has not been recognised. These losses totalled £103,776,000 (2020: £46,258,000) and the unrecognised deferred tax asset totalled £25,427,000 (2020: £8,789,000). The asset has not been recognised as the directors are of the opinion that it is unlikely that suitable taxable profits will arise in those entities in the foreseeable future.

11 Income tax credit (continued)

Deferred tax liabilities

The movement in deferred tax liabilities is as follows:

	Non-qualifying assets acquired through business combinations £'000	Property, plant and equipment £'000	Intangible assets £'000	Total £'000
At 1 January 2020	3,956	-	8,934	12,890
Acquired through business combinations	-	3,450	23,039	26,489
Adjustment in respect of prior periods	-	(42)	(37)	(79)
Foreign exchange movement	-	69	1,137	1,206
Disposal of subsidiary	-	-	(127)	(127)
Income statement credit from discontinued operation	-	-	(42)	(42)
Income statement charge / (credit) from continuing operations	(199)	1,276	(3,842)	(2,765)
At 31 December 2020	**3,757**	**4,753**	**29,062**	**37,572**
Foreign exchange movement	**-**	**-**	**(1,086)**	**(1,086)**
Income statement credit / (charge)	**(563)**	**(4,753)**	**(1,824)**	**(7,140)**
At 31 December 2021	**3,194**	**-**	**26,152**	**29,346**

12 Intangible assets

	Goodwill £'000	Brands £'000	Customer Relationships £'000	Development Projects in Progress £'000	Software £'000	Total £'000
Cost						
1 January 2021	714,894	92,526	77,932	9,200	18,979	913,531
Additions	-	-	-	3,811	1,712	5,523
Transfer from property, plant and equipment (note 13)	-	-	-	-	489	489
Disposals	-	-	-	(837)	-	(837)
Transfers	-	-	-	(2,672)	2,672	-
Foreign exchange differences	(14,227)	(2,035)	(4,075)	(604)	(653)	(21,594)
31 December 2021	700,667	90,491	73,857	8,898	23,199	897,112
Accumulated amortisation						
1 January 2021	13,094	10,988	22,149	9,200	11,187	66,618
Charge for the period	-	4,556	13,367	-	5,491	23,414
Impairment	-	4,086	-	791	971	5,848
Disposals	-	-	-	(791)	-	(791)
Foreign exchange differences	(622)	(76)	(1,051)	(605)	(475)	(2,829)
31 December 2021	12,472	19,554	34,465	8,595	17,174	92,260
Net book value						
1 January 2021	701,800	81,538	55,783	-	7,792	846,913
31 December 2021	**688,195**	**70,937**	**39,392**	**303**	**6,025**	**804,852**

12 Intangible assets (continued)

	Goodwill £'000	Brands £'000	Customer Relationships £'000	Development Projects in Progress £'000	Software £'000	Total £'000
Cost						
1 January 2020	462,772	58,669	8,204	-	-	529,645
Transfer from property, plant and equipment (note 13)	-	-	-	-	5,952	5,952
Acquired through business combinations (note 30)	239,134	32,621	66,527	1,619	7,151	347,052
Additions	-	-	-	7,387	5,496	12,883
Disposals	-	-	-	-	(6)	(6)
Disposal of subsidiary (note 31)	-	(502)	(387)	-	(36)	(925)
Foreign exchange differences	12,988	1,738	3,588	194	422	18,930
31 December 2020	714,894	92,526	77,932	9,200	18,979	913,531
Accumulated amortisation						
1 January 2020	-	6,111	8,204	-	-	14,315
Transfer from property, plant and equipment (note 13)	-	-	-	-	3,013	3,013
Charge for the period	-	4,949	13,889	-	5,624	24,462
Impairment	12,949	-	-	9,070	2,472	24,491
Disposals	-	-	-	-	-	-
Disposal of subsidiary (note 31)	-	(96)	(124)	-	(8)	(228)
Foreign exchange differences	145	24	180	130	86	565
31 December 2020	13,094	10,988	22,149	9,200	11,187	66,618
Net book value						
1 January 2020	462,772	52,558	-	-	-	515,330
31 December 2020	**701,800**	**81,538**	**55,783**	**-**	**7,792**	**846,913**

12 Intangible assets (continued)

Development Projects in Progress and Software consist of capitalised development costs, being an internally generated intangible asset. In the year ended 31 December 2020, Software assets and associated accumulated depreciation were transferred from property, plant and equipment to intangible assets.

Brands encompass the PureGym, Fitness World, and Basefit brands acquired as part of business combinations and valued at fair value at the date of acquisition. In 2021, an impairment charge of £4,086,000 was recognised representing the entire carrying amount of the Basefit brand following a strategic decision to rebrand the Swiss estate under the PureGym brand. The remaining amortisation periods of the brands are:

PureGym: 16 years
Fitness World: 18 years

Customer Relationships represent the fair value of customer relationships held in Denmark and Switzerland at the time of the acquisition of the Fitness World group in January 2020. These assets have a useful life of 5 years and a remaining amortisation period of 3 years.

Goodwill is not amortised, but instead reviewed at least annually for impairment with reference to the group of cash generating units (CGUs) to which it relates. Customer Relationships and Brands are allocated to the group of CGUs to which they relate and tested for impairment at the CGU or group of CGUs level as these assets do not generate cash flows that are largely independent from other assets in each CGU or group of CGUs. The recoverable amount of a cash generating unit (CGU) has been determined based on value-in-use calculations which require the use of assumptions. These have been determined to result in a higher recoverable amount for the CGU than a fair value less costs of disposal valuation. Value-in-use calculations use cash flow projections based on financial budgets approved by management covering a four-year period.

The below table sets out the carrying amount of goodwill allocated to each group of CGUs:

	2021 £'000	2020 £'000
United Kingdom	**462,773**	462,773
Denmark	**171,133**	183,159
Switzerland	**54,289**	55,868
	688,195	701,800

The below table sets out key assumptions applied in the value-in-use calculations for each significant group of CGUs.

	31 December 2021		
	UK	**Denmark**	**Switzerland**
Annual capital expenditure on existing estate (£m)	41	20	4
Long-term growth rate (%)	1.5	1.8	1.6
Pre-tax discount rate (%)	10.0	8.8	8.5

12 Intangible assets (continued)

	31 December 2020		
	UK	**Denmark**	**Switzerland**
Annual capital expenditure on existing estate from 2022 (£m)	24	9	3
Long-term growth rate (%)	2.0	1.8	1.1
Pre-tax discount rate (%)	10.4	10.0	8.9
Months of full lockdown assumed as at 1 January 2021	4	3	3

Average annual capital expenditure is determined based on historical experience of management and current plans for site refurbishments. The pre-tax discount rates reflect specific risks relating to the Group and the markets in which it operates. The long-term growth rates are determined based on a combination of industry and country-level forecasts.

An impairment of the goodwill in Denmark would have been recognised if the pre-tax discount rate were increased by more than 170 basis points to at least 10.5%. An impairment would also have been recognised if revenue in the forecast period were to have been more than 3.1% lower than forecast, with no corresponding fall in costs. No reasonably possible changes in other assumptions would be expected to lead to an impairment of the Denmark goodwill.

An impairment of the goodwill in Switzerland would have been recognised if the pre-tax discount rate were increased by more than 80 basis points to at least 9.3%, or if the long-term growth rate were decreased by more than 100 basis points to 0.6% or less. An impairment would also have been recognised if revenue in the forecast period were to have been more than 2.6% lower than forecast, with no corresponding fall in costs. No reasonably possible changes in other assumptions would be expected to lead to an impairment of the Switzerland goodwill.

There are no reasonably possible changes in assumptions which would result in an impairment to the UK CGU in either the current or prior year.

The below table sets out the amount of impairment loss recognised in each operating segment:

	2021 £'000	2020 £'000
United Kingdom	**791**	-
Denmark	**971**	18,164
Switzerland	**4,086**	6,327
Total impairment loss	**5,848**	24,491

13 Property, plant and equipment

	Right of use assets	Leasehold costs	Leasehold improv-ements	Assets under constru-ction	Fixtures & fittings	IT equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
1 January 2021	545,812	11,228	228,402	3,353	108,479	6,829	904,103
Additions	59,026	4,694	18,784	561	14,334	274	97,673
Transfer to intangible assets (note 12)	-	-	-	-	-	(489)	(489)
Transfers	-	-	3,405	(3,405)	-	-	-
Disposals	(4,691)	-	(4,104)	-	(1,419)	(5)	(10,219)
Foreign exchange differences	(14,110)	70	(1,451)	(184)	(1,353)	(51)	(17,079)
31 December 2021	**586,037**	**15,992**	**245,036**	**325**	**120,041**	**6,558**	**973,989**
Accumulated depreciation							
1 January 2021	90,375	2,044	51,609	-	39,902	2,617	186,547
Charge for the year	66,129	892	23,180	-	17,937	1,265	109,403
Impairment	6,167	67	1,833	-	1,226	5	9,298
Disposals	(1,954)	-	(1,860)	-	(704)	(5)	(4,523)
Foreign exchange differences	(3,366)	-	(316)	-	(240)	(8)	(3,930)
31 December 2021	**157,351**	**3,003**	**74,446**	**-**	**58,121**	**3,874**	**296,795**
Net book value							
1 January 2021	455,437	9,184	176,793	3,353	68,577	4,212	717,556
31 December 2021	**428,686**	**12,989**	**170,590**	**325**	**61,920**	**2,684**	**677,194**

13 Property, plant and equipment (continued)

	Right of use assets	Leasehold costs	Leasehold improv-ements	Assets under constru-ction	Fixtures & fittings	IT equipment	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost							
1 January 2020	269,580	9,661	189,062	-	74,712	9,038	552,053
Transfer to intangible assets (note 12)	-	-	-	-	-	(5,952)	(5,952)
Additions	48,468	1,730	23,456	3,306	14,148	2,023	93,131
Transfers	-	-	1,702	(1,702)	-	-	-
Acquired through business combinations (note 30)	221,981	-	21,843	1,702	24,698	1,670	271,894
Disposals	(708)	(117)	(5,652)	-	(4,641)	(39)	(11,157)
Disposal of subsidiary (note 31)	(5,164)	-	(3,131)	-	(1,696)	-	(9,991)
Foreign exchange differences	11,655	(46)	1,122	47	1,258	89	14,125
31 December 2020	**545,812**	**11,228**	**228,402**	**3,353**	**108,479**	**6,829**	**904,103**
Accumulated depreciation							
1 January 2020	20,782	1,277	28,275	-	22,697	3,685	76,716
Transfer to intangible assets (note 12)	-	-	-	-	-	(3,013)	(3,013)
Charge for the year	65,706	765	25,068	-	20,222	1,970	113,731
Impairment	5,104	45	1,569	-	175	5	6,898
Disposals	(686)	(43)	(3,030)	-	(2,652)	(32)	(6,443)
Disposal of subsidiary (note 31)	(1,110)	-	(319)	-	(582)	-	(2,011)
Foreign exchange differences	579	-	46	-	42	2	669
31 December 2020	**90,375**	**2,044**	**51,609**	**-**	**39,902**	**2,617**	**186,547**
Net book value							
1 January 2020	248,798	8,384	160,787	-	52,015	5,353	475,337
31 December 2020	**455,437**	**9,184**	**176,793**	**3,353**	**68,577**	**4,212**	**717,556**

13 Property, plant and equipment (continued)

In the years ended 31 December 2021 and 31 December 2020, Software assets and associated accumulated depreciation, if any, were transferred from property, plant and equipment to intangible assets.

An impairment loss of £9,298,000 has been recognised for the year (2020: £6,898,000) which is included within administrative expenses in the consolidated statement of comprehensive income. The below table sets out the amount of impairment loss recognised in each operating segment:

	2021 £'000	2020 £'000
United Kingdom	**5,282**	2,997
Denmark	**-**	3,901
Switzerland	**4,016**	-
Total impairment loss	**9,298**	6,898

This impairment has been allocated proportionately across asset classes and relates to a small number of gyms across the Group that have a value in use below the carrying amount of their non-financial assets. The values in use for the impaired CGUs of £31,152,000 (2020: £12,209,000) have been determined to result in higher recoverable amounts than using fair value less costs of disposal valuations. An impairment indicator was identified during the year for less profitable gyms which had been impacted significantly by the COVID-19 lockdowns. The value in use of these gyms is based on estimated cashflows forecast to be generated post 1 January 2022.

Discount rates and long-term growth rates applied in the value in use calculations are determined at a country level, and are as disclosed in note 12. If revenue for those gyms identified as being at risk of impairment were to be 3% below forecasted levels with no corresponding reduction in costs, an additional impairment of £3,573,000 would have been recognised. If the discount rate applied in the calculations were to be 100 basis points higher, an additional impairment of £1,495,000 would have been recognised.

The recognised right-of-use assets relate to the following types of assets:

	2021 £'000	2020 £'000
Properties	**415,802**	435,767
Equipment	**12,884**	19,670
Total net book value	**428,686**	455,437

The depreciation charge on right-of-use assets relates to the following types of assets:

	2021 £'000	2020 £'000
Properties	**59,725**	60,168
Equipment	**6,404**	5,538
Total	**66,129**	65,706

14 Inventories

	2021 **£'000**	2020 £'000
Finished goods and goods for resale	**3,651**	4,388

Inventories recognised as an expense during the year ended 31 December 2021 amounted to £9,778,000 (2020: £8,778,000). These were included in cost of sales. Inventories written off during the year ended 31 December 2021 totalled £425,000 (2020: £534,000).

15 Trade and other receivables

Current

	2021 **£'000**	2020 £'000
Trade receivables	**6,656**	8,997
Loss allowance	**(268)**	(287)
Trade receivables – net	**6,388**	8,710
Prepayments	**16,582**	7,056
Other debtors (gross and net)	**4,489**	21,686
Finance lease receivable	**487**	102
Loss allowance	**(487)**	-
Finance lease receivable - net	**-**	102
	27,459	37,554

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all financial assets.

To measure the expected credit losses, financial assets have been grouped based on shared credit risk characteristics and the days past due. The expected loss rates are based on historical experience of credit losses in the relevant geography.

On that basis, the loss allowance on trade and other receivables (excluding finance lease receivables) as at 31 December 2021 is £268,000 (2020: £287,000) as all trade receivables and other debtors are current and the expected loss rate for the Group as a whole is 2% (2020: 3%). Trade receivables written off in the year totalled £nil (2020: £nil).

15 Trade and other receivables (continued)

Non-current

	2021 £'000	2020 £'000
Finance lease receivable	**1,251**	1,350
Loss allowance	**(1,251)**	-
Finance lease receivable – net	**-**	1,350
Other debtors (gross and net)	**6,162**	5,866
	6,162	7,216

Lease receivables

Lease receivables arise where the Group has sub-leased property as a lessor which is presented as part of right of use assets (note 13) and where that sub-lease has been classified as a finance lease. The following table sets out a maturity analysis of lease receivables showing the undiscounted lease payments to be received after the reporting date. Income receivable from finance leases is presented within finance income (note 10).

	2021 £'000	2020 £'000
Less than one year	**616**	231
One to two years	**231**	231
Two to three years	**231**	231
Three to four years	**241**	231
Four to five years	**243**	231
More than five years	**776**	1,028
Total undiscounted lease receivable	**2,338**	2,183
Unearned finance income	**(600)**	(731)
Net investment in the lease	**1,738**	1,452
Loss allowance	**(1,738)**	-
Net investment in the lease - net	**-**	1,452

16 Trade and other payables

	2021 £'000	2020 £'000
Trade creditors	**24,813**	29,515
Other taxation and social security	**2,644**	6,839
Other liabilities	**2,189**	2,519
Accrued expenses	**41,839**	39,211
Interest and commitment fee accruals	**13,410**	13,482
Contract liabilities – membership income	**28,922**	49,337
VAT payable	**2,493**	2,743
	116,310	143,646

Revenue recognised during 2021 that was included in the contract liabilities balance at the beginning of the period totalled £36,301,000 (2020: £13,704,000). The amounts included in contract liabilities at 31 December 2021 are expected to be recognised in revenue during the next reporting period.

Contract liabilities – membership income has decreased by £20,415,000 between 31 December 2020 and 31 December 2021 as the balance returned to a more normal level following the re-opening of the gyms and reduction in the number of frozen members compared to the position at 31 December 2020 when many of the Group's gyms were closed due to COVID 19.

17 Lease liabilities

	2021 £'000	2020 £'000
Current lease liabilities	**85,013**	96,430
Non-current lease liabilities	**490,010**	491,652
	575,023	588,082

The Group's leases primarily relate to its gym premises, as well as offices, equipment and vehicles. Leases for properties are typically made for fixed periods of 10 to 20 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

The Group is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the right-of-use asset.

The total cash outflow for leases during the year was £98,175,000 (2020: £67,705,000).

During the year, the Group has applied the practical expedient to rent concessions as permitted in the COVID-19-Related Rent Concessions amendment to IFRS 16. Included within administrative expenses for the period is a credit of £17,828,000 (2020: £13,926,000) relating to Danish government contributions towards rent received in the year and rent concessions agreed in the year.

17 Lease liabilities (continued)

Included within note 13 are additions to right-of-use assets during the year, the depreciation charge for right-of-use assets by class of underlying assets incurred during the year, and the carrying amount of right-of-use assets by class of underlying assets at the end of the year.

A maturity of analysis of lease liabilities as at the end of the year is included in note 21.

18 Borrowings

Current

	2021 £'000	2020 £'000
Government loans	**3,813**	-
Other short-term financing	**1,967**	-
	5,780	-

Non-current

	2021 £'000	2020 £'000
€490m / €445m 5.500% Senior Secured Notes at principal value	**411,288**	399,899
Discount on issue of Senior Secured Notes	**(14,266)**	(19,524)
€490m / €445m 5.500% Senior Secured Notes	**397,022**	380,375
£430m 6.375% Senior Secured Notes	**430,000**	430,000
Capitalised issue costs	**(13,134)**	(16,837)
Senior Secured Notes net of issue costs	**813,888**	793,538
Amounts owed to Group undertakings	**506,331**	471,123
Government loans	**2,661**	-
	1,322,880	1,264,661

Of the amounts owed to Group undertakings, £399,527,000 (2020: £368,908,000) accrue interest at 8% and £106,445,000 (2020: £101,957,000) accrue interest at 4.375%. These amounts are repayable on 30 November 2027. Also within amounts owed to Group undertakings is £359,000 (2020: £258,000) which is interest free and repayable on demand.

Financing

At the start of the year, the Group had £430 million of Senior Secured Notes ("the Sterling Notes") and €445 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes"). On 4 March 2021, a further €45 million of Euro Notes were issued on the same terms, taking the total Euro Notes in issue to €490 million at the year end.

18 Borrowings (continued)

The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco PLC is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 6.375% and interest on the Euro Notes accrues at a rate of 5.500% both payable at half-yearly intervals. The Notes are due to be repaid in full on 15 February 2025.

On issue of the Euro Notes in 2020, these were recognised at fair value of €422,750,000 representing a discount on issue of €22,250,000. The Euro Notes are subsequently held at amortised cost with changes in the carrying amount recognised within finance cost as an unwind of discount on issue of senior secured notes.

Capitalised issue costs are amortised over the period to the repayment date of the Notes.

In addition, the Group has a revolving credit facility (the “RCF”) with eight international institutions (Barclays Bank PLC, Jefferies Finance LLC, Royal Bank of Canada, Credit Suisse AG, Credit Suisse International, ING Bank N.V. Lloyds Bank plc and Danske Bank A/S, collectively "the Lenders"), repayable 15 August 2024. Included within the total RCF is a £10 million overdraft facility. As at 31 December 2021 and 31 December 2020, the facility was undrawn.

Following amendments to the terms of the RCF on 18 September 2020, and further amendments on 7 January 2021, the Lenders granted a waiver of the pre-existing financial covenants on the RCF for the remainder of the term. The financial covenant is replaced with a £30 million minimum liquidity test on the last day of March, June, September and December each year.

The Group has been in compliance with all such covenants and tests during the current and previous financial years.

During 2021, the Group obtained loan financing totalling £6,474,000 from the Danish government to support the Danish business as a result of the COVID-19 lockdown. The loan is interest free and the outstanding balance is repayable in instalments between April 2022 and May 2023.

19 Provisions

	Non-current		**Current**	
	2021 £’000	2020 £’000	**2021 £’000**	2020 £’000
Dilapidations provision	**9,790**	9,903	**162**	-
Other provisions	**-**	-	**-**	2,500
Total (excluding pensions)	**9,790**	9,903	**162**	2,500
Defined pension benefits	**245**	583	**-**	-
Total	**10,035**	10,486	**162**	2,500

19 Provisions (continued)

Movements in each class of provision other than defined pension benefits during the current and prior year are set out below:

	Dilapidations provision £'000	Other provisions £'000	Total (excluding pensions) £'000
Carrying amount at 1 January 2020	-	-	-
Acquired through business combinations	4,937	3,231	8,168
Additions during the year	4,466	-	4,466
Unwind of discount	307	-	307
Utilisations during the year	(101)	(914)	(1,015)
Foreign exchange movements	294	183	477
Carrying amount at 1 January 2021	**9,903**	**2,500**	**12,403**
Additions during the year	**602**	**-**	**602**
Unwind of discount	**113**	**-**	**113**
Release during the year	**(313)**	**(242)**	**(555)**
Utilisations during the year	**-**	**(2,151)**	**(2,151)**
Foreign exchange movements	**(353)**	**(107)**	**(460)**
Carrying amount at 31 December 2021	**9,952**	-	**9,952**

Dilapidations provisions relate to the requirement for the Group to restore leased premises to their original condition at the end of the respective lease term. Other provisions related to future obligations for other matters such as outstanding litigation. Outflows related to Dilapidations provisions are expected to materialise over the next 2 to 25 years, depending on the length of the Group's lease terms. In estimating the timing of outflows, the Group has assumed that leases will be exited at the end of the lease terms, but there is uncertainty over whether leases will be extended or exited early which would alter the timing of the outflow.

Defined pension benefits

The Group operates a defined benefit pension plan in Switzerland, which pays benefits as per the Federal Law on Occupational Benefits. The plan is organised as a contribution-based scheme as per Article 15 of the Swiss Federal Law on Vesting in Pension Plans. Retirement benefits of active participants accrue over a notional account as the sum of retirement credits (retirement credit rate multiplied by pensionable salary) and interests. The Group mitigates the risks of a pension deficit by insuring the liability with the pension foundation Allianz.

19 Provisions (continued)

The amounts recognised in the balance sheet and the movements in the net defined benefit obligation over the relevant periods are as follows:

	Present value of obligation £'000	Fair value of plan assets £'000	Total £'000
As at 1 January 2020	-	-	-
Acquired through business combinations	(1,590)	1,297	(293)
Current service cost	(526)	-	(526)
Past service cost	(41)	-	(41)
Interest (expense) / income	(6)	6	-
Administration expenses	-	(24)	(24)
Amounts recognised in P&L	(573)	(18)	(591)
Actuarial loss	(50)	-	(50)
Return on assets	-	50	50
Amounts recognised in other comprehensive income	(50)	50	-
Employee contributions	(280)	280	-
Employer contributions	-	320	320
Benefit payments	171	(171)	-
Foreign exchange movements	(93)	74	(19)
At 31 December 2020 and 1 January 2021	**(2,415)**	**1,832**	**(583)**
Current service cost	(511)	-	(511)
Past service cost	46	-	46
Interest (expense) / income	-	-	-
Administration expenses	-	(27)	(27)
Amounts recognised in P&L	(465)	(27)	(492)
Actuarial gain	520	-	520
Return on assets	-	(50)	(50)
Amounts recognised in other comprehensive income	520	(50)	470
Employee contributions	(295)	295	-
Employer contributions	-	339	339
Benefit payments	377	(377)	-
Foreign exchange movements	70	(49)	21
At 31 December 2021	**(2,208)**	**1,963**	**(245)**

All of the plan assets relate to unquoted instruments in all years.

19 Provisions (continued)

The significant actuarial assumptions used were as follows:

	2021 £'000	2020 £'000
Discount rate	**0.30%**	0.05%
Interest credit on retirement savings	**1%**	1%
Salary growth rate	**1%**	1%
Pension growth rate	**0%**	0%

The following table sets out the percentage change in the defined benefit obligation resulting from the changes in the significant assumptions as set out below:

	2021 £'000	2020 £'000
0.25% increase in discount rate	**(3%)**	(3%)
0.25% decrease in discount rate	**3%**	4%
0.25% increase in salary	**1%**	1%
0.25% decrease in salary	**(1%)**	(1%)
0.25% increase in pension	**1%**	2%

20 Financial instruments

	2021 £'000	2020 £'000
Financial assets measured at amortised cost		
Cash and cash equivalents	**31,945**	91,134
Trade receivables	**6,388**	8,710
Other debtors	**10,651**	27,552
Finance lease receivable	**-**	1,452
	48,984	128,848
Financial liabilities measured at amortised cost		
Trade creditors	**24,813**	29,515
Other liabilities (current)	**2,189**	2,519
Other liabilities (non-current)	**1,926**	2,013
Accrued expenses	**41,839**	39,211
Interest and commitment fee accruals	**13,410**	13,482
Government loans	**6,474**	-
Other short term financing	**1,967**	-
Lease liabilities	**575,023**	588,082
Amounts owed to Group undertakings	**506,331**	471,123
Senior secured notes	**827,022**	810,375
	2,000,994	1,956,320

Set out below is a comparison of carrying amounts and fair values of all the financial instruments as carried in the financial statements, other than lease liabilities and those for which the fair value approximates closely with their carrying value. The fair value of senior secured notes is taken from the quoted market price. This is a Level 1 valuation. The fair value of all other borrowings are calculated by discounting the future cash flows at prevailing market interest rates, categorised as a Level 2 valuation.

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

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

20 Financial instruments (continued)

	Carrying value		Fair value	
	2021 £'000	2020 £'000	**2021 £'000**	2020 £'000
Financial liabilities				
€490m / €445m 5.500% Senior Secured Notes	**397,022**	380,375	**419,925**	396,220
£430m 6.375% Senior Secured Notes	**430,000**	430,000	**435,246**	425,657

21 Financial risk management objectives and policies

The Group has exposure to the following risks from its use of financial instruments: liquidity risk, credit risk, and market risk arising from interest rate and foreign exchange risk.

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

Market risk

Market risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market prices. The key market risks affecting the Group are interest rate risk and foreign exchange rate risk. Financial instruments affected by market risk include certain borrowings and deposits. Financial instruments affected by exchange rate risk include the Euro Notes. At 31 December 2021, the €490 million Euro Notes had a carrying amount of £397,022,000 based on an amortised cost of €473,003,000 and an exchange rate of 0.839. At 31 December 2020, the Group has €445 million Euro Notes with a carrying amount of £380,375,000 based on an amortised cost of €423,274,000 and an exchange rate of 0.899. Had the exchange rate at 31 December 2021 been 10% higher, then the Group's loss for the year would have increased by £39,512,000. Foreign exchange risk on the Group's Euro Notes is partially mitigated through the cash flows and value of the Group's investments in subsidiaries denominated in Danish Krone. Danish Krone is pegged against the Euro. The effectiveness of this mitigation depends on the relative value of the Group's Danish operations.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

As at 31 December 2021 and 31 December 2020, the Group had 100% of its borrowings in fixed rate instruments by way of senior secured notes, amounts owed to group undertakings, and lease liabilities. The Group has access to a £145m revolving credit facility with floating interest rates but was not drawn down on this facility at the end of the period.

Liquidity risk

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

21 Financial risk management objectives and policies (continued)

	2021				
	Within 1 year £'000	**Between 1-5 years £'000**	**More than 5 years £'000**	**Total contractual cash flows £'000**	**Carrying amount £'000**
Trade and other payables	82,251	1,926	-	**84,177**	**84,177**
Lease liabilities	121,636	330,371	418,139	**870,146**	**575,023**
Borrowings	42,579	963,497	778,493	**1,784,569**	**1,341,794**
Total financial liabilities	**246,466**	**1,295,794**	**1,196,632**	**2,738,892**	**2,000,994**

	2020				
	Within 1 year £'000	Between 1-5 years £'000	More than 5 years £'000	Total contractual cash flows £'000	Carrying amount £'000
Trade and other payables	84,727	2,013	-	86,740	86,740
Lease liabilities	124,201	336,805	438,248	899,254	588,082
Borrowings	49,285	977,801	778,455	1,805,541	1,281,498
Total financial liabilities	258,213	1,316,619	1,216,703	2,791,535	1,956,320

Credit risk

The Group's principal financial assets are bank balances and cash, and trade receivables. The Group's credit risk is low as it has limited trade receivables. The credit risk on liquid funds 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. Quantitative data is included in the consolidated statement of financial position and in note 16.

22 Called up share capital

	2021 £'000	**2021 No.**	2020 £'000	2020 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**50**	**5,000,002**	50	5,000,002

Each ordinary share entitles the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote.

23 Reconciliation of loss before tax to cash generated from operations

	2021 £'000	2020 £'000
Loss before income tax from continuing operations	**(165,948)**	(214,621)
Adjustments for:		
Net finance cost	**126,217**	128,514
Depreciation	**109,403**	111,720
Amortisation	**23,414**	24,234
Impairment of property, plant and equipment	**9,298**	6,898
Impairment of intangible assets	**5,848**	24,491
Share based payments charge	**427**	357
Loss on disposal of property, plant and equipment	**3,324**	2,514
Profit on lease modifications	**(244)**	(120)
Non-cash adjustment to lease liabilities due to rent concessions	**(5,015)**	(1,100)
Exceptional costs	**6,933**	3,821
Changes in working capital		
Decrease in inventories	**578**	1,638
Decrease in trade and other receivables	**3,731**	4,205
(Decrease) / increase in trade and other payables	**(19,854)**	4,274
Increase / (decrease) in provisions	**252**	(520)
Cash generated from operations	**98,364**	96,305

24 Analysis of net debt

	1 January 2021 £'000	**Cash flow £'000**	**Non-cash £'000**	**31 December 2021 £'000**
Cash at bank and in hand	91,134	(57,453)	(1,736)	**31,945**
Lease liabilities – property	(567,485)	41,267	(36,052)	**(562,270)**
Lease liabilities – equipment	(20,597)	7,709	135	**(12,753)**
Sterling Notes	(430,000)	-	-	**(430,000)**
Euro Notes	(380,375)	(38,834)	22,187	**(397,022)**
Government loans	-	(6,645)	171	**(6,474)**
Other short term financing	-	(1,967)	-	**(1,967)**
Intercompany loans capital	(389,422)	(102)	-	**(389,524)**
Intercompany loans accrued interest	(81,701)	-	(35,106)	**(116,807)**
	(1,778,446)	**(56,025)**	**(50,401)**	**(1,884,872)**

24 Analysis of net debt (continued)

	1 January 2020 £'000	Acqui-sitions £'000	Dispo-sals £'000	Cash flow (continuing) £'000	Cash flow (discon-tinued) £'000	Non-cash £'000	31 December 2020 £'000
Cash at bank and in hand	51,626	7,000	-	31,397	(378)	1,489	91,134
Lease liabilities – property	(334,270)	(203,675)	4,316	30,720	903	(65,479)	(567,485)
Lease liabilities – equipment	(2,694)	(16,767)	87	6,314	8	(7,545)	(20,597)
Sterling Notes	(430,000)	-	-	-	-	-	(430,000)
Euro Notes	-	-	-	(379,253)	-	(1,122)	(380,375)
Bridging loan	-	-	-	(1,658)	-	1,658	-
Term loan	-	(117,963)	-	117,963	-	-	-
Intercompany loans capital	(288,733)	-	-	(100,689)	-	-	(389,422)
Intercompany loans accrued interest	(52,171)	-	-	-	-	(29,530)	(81,701)
	(1,056,242)	(331,405)	4,403	(295,206)	533	(100,529)	(1,778,446)

Non-cash movements in net debt relate to interest accruals, and foreign exchange differences.

25 Government grants

Government grants recognised in the statement of comprehensive income during the year are as follows:

	2021 £'000	2020 £'000
Government contributions towards wages and salaries	**17,371**	16,422
Government compensation towards fixed costs	**23,846**	14,885
Other government grants	**-**	267
	41,217	31,574

Government compensation towards fixed costs was provided to compensate the Danish and UK businesses for non salary related costs incurred while gyms were closed.

Grants related to property rental costs are recognised as a credit in administrative expenses in the statement of comprehensive income. All other grants received are recognised as a credit to the related expense in the statement of comprehensive income.

In addition to the grants included in the above table, the Group received relief from payment of business rates, resulting in a total benefit for the year ended 31 December 2021 of £12,166,000 (2020: £16,624,000).

26 Capital and other commitments

At 31 December, the Group had the following capital commitments:

	2021 **£'000**	2020 £'000
Contracts for future capital expenditure not provided	**1,053**	2,791

27 Controlling party

The immediate parent company of Pinnacle Bidco PLC is Pinnacle Midco 2 Limited, and the ultimate parent company is Pinnacle Topco Limited.

The largest Group into which the results of this Group are consolidated for the year ended 31 December 2021 are those headed by Pinnacle Topco Limited, a company incorporated in the UK. These financial statements, which are publicly available, can be obtained from the registered office: C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

The ultimate controlling party is Leonard Green & Partners LP, 11111 Santa Monica Boulevard, Suite 2000, Los Angeles, California 90025, United States of America.

28 Interests in other entities

In the opinion of the directors, the Group has three principal subsidiaries at 31 December 2021 and 31 December 2020 being Pure Gym Limited, Fitness World A/S and PureGym AG. The subsidiaries are 100% owned by the Group, are incorporated in the United Kingdom, Denmark and Switzerland respectively, and all have the principal activity of the provision of facilities for physical fitness.

A full list of the Group's subsidiaries is included in note 6 of the company financial statements.

29 Related party transactions

As at 31 December 2021, amounts owed to fellow Group companies includes £505,972,000 owed to the immediate parent company, Pinnacle Midco 2 Limited, repayable on 30 November 2027 (31 December 2020: £470,865,000), and £359,000 owed to the ultimate UK parent company, Pinnacle Topco Limited (2020: £258,000). Associated interest charged to the income statement in the year totalled £35,106,000 (2020: £29,530,000).

30 Business combinations

Year ended 31 December 2020

On 14 January 2020, the Group acquired 100% of the issued share capital of Forward Topco A/S (known, together with its subsidiaries, as "the Fitness World group") for DKK 2,037,110,000 (£233,350,000). The principal activity of the Fitness World group is the provision of physical fitness facilities in Denmark and Switzerland.

The goodwill of £239,134,000 arising from the acquisition is attributable to the acquired workforce, and anticipated future earnings from future new customers. None of the goodwill recognised is expected to be deductible for income tax purposes.

30 Business combinations (continued)

The following table summarises the consideration paid for Forward Topco A/S and the fair value of assets and liabilities acquired:

	14 January 2020 Fair value £'000
Cash paid	233,350
Total consideration	**233,350**

Recognised fair value of identifiable assets acquired and liabilities assumed	
Cash and cash equivalents	7,000
Property, plant and equipment	271,894
Intangibles (software, customer relationships and brands)	107,918
Other non-current assets	5,685
Inventories	3,954
Trade and other receivables	16,881
Trade and other payables	(48,841)
Provisions	(8,461)
Borrowings	(117,963)
Lease liabilities	(220,442)
Other non-current liabilities	(704)
Net deferred tax liabilities	(22,705)
Total identifiable net liabilities	**(5,784)**
Residual goodwill arising on acquisition	**239,134**

Revenue included in the Consolidated Statement of Comprehensive Income for the year contributed by the Fitness World group was £127,536,000 and loss for the period from continuing operations was £69,104,000 over the same period. Loss from discontinued operations contributed by the Fitness World group was £4,625,000.

Had the Fitness World group been consolidated from 1 January 2020 then the Consolidated Statement of Comprehensive Income would include revenue of £134,661,000, loss for the period from continuing operations of £74,152,000 and loss from discontinued operations of £4,628,000.

Acquisition-related costs charged to administrative expenses in the Consolidated Statement of Comprehensive Income for the year were a credit of £40,000, and acquisition-related costs of £4,507,000 were charged to administrative expenses in the Consolidated Statement of Comprehensive Income in the year ended 31 December 2020.

31 Discontinued operation in 2020

Year ended 31 December 2020

On 15 December 2020, the Group sold its Polish subsidiary, Fitness World sp. z o. o. following a strategic decision by the Group to withdraw from the Polish market. The results of the subsidiary, which was acquired as part of the Fitness World acquisition on 14 January 2020, are reported as a discontinued operation.

The financial performance and cash flow information set out below relates to the period from 14 January 2020 to 15 December 2020. No comparative information is provided as the operation was not part of the Group in the prior year.

	2020 £'000
Revenue	**3,352**
Administrative Expenses	**(5,115)**
Operating loss	**(1,763)**
Finance costs	**(358)**
Loss before income tax	**(2,121)**
Income tax credit	**70**
Loss after income tax of discontinued operation	**(2,051)**
Loss on sale of the subsidiary after income tax	**(2,574)**
Loss from discontinued operation	**(4,625)**
Exchange differences on translation of discontinued operation	**(44)**
Total comprehensive expense for the period	**(4,669)**
Net cash used in operating activities	**(191)**
Net cash used in investing activities	**(823)**
Net cash generated from financing activities	**636**
Net cash used by the subsidiary	**(378)**

31 Discontinued operation in 2020 (continued)

Financial information related to the sale of the subsidiary is detailed below.

	2020 £'000
Consideration received in cash	-
Carrying amount of net assets sold	(1,271)
Impairment of amount receivable from discontinued operation	(941)
Expenses incurred on sale of discontinued operation	(362)
Loss on sale before income tax and reclassification of foreign currency translation reserve	(2,574)
Reclassification of foreign currency translation reserve	44
Income tax credit on loss	-
Loss on sale after income tax	(2,530)

The carrying amounts of assets and liabilities as at the date of sale were:

	15 December 2020 £'000
Intangible assets	697
Property, plant and equipment	7,980
Inventories	114
Trade and other receivables	714
Cash	-
Total assets	9,505
Borrowings	(2,720)
Deferred tax liability	(99)
Lease liabilities	(4,403)
Trade and other payables	(1,012)
Total liabilities	(8,234)
Net assets	1,271

32 Events after the end of the reporting period

On 28 January 2022, the Group's ultimate parent company, Pinnacle Topco Limited, issued £300 million of convertible preference shares to global investment firm, KKR, and subsequently down-streamed £270 million into the Group through issuances of equity. The proceeds are intended to be used to support and fund the Group's expansion plans.

At the date of signing these financial statements, there are no other events which occurred after the reporting period which require the attention of the users of the financial statements.

Company statement of financial position
as at 31 December 2021

	Note	2021 £'000	2020 £'000
Non-current assets			
Investments	6	**308,236**	308,236
Other receivables	7	**954,617**	899,284
Deferred tax asset		**829**	-
		1,263,682	1,207,520
Current assets			
Other receivables	7	**54**	39
Cash at bank		**4**	-
		58	39
TOTAL ASSETS		**1,263,740**	1,207,559
Current liabilities			
Other payables	8	**(14,114)**	(14,537)
		(14,114)	(14,537)
Non-current liabilities			
Borrowings	9	**(1,360,252)**	(1,264,403)
		(1,360,252)	(1,264,403)
TOTAL LIABILITIES		**(1,374,366)**	(1,278,940)
NET LIABILITIES		**(110,626)**	(71,381)
Equity			
Called up share capital	10	**50**	50
Share premium account		**3,863**	3,863
Accumulated losses		**(114,539)**	(75,294)
TOTAL EQUITY		**(110,626)**	(71,381)

Loss and total comprehensive expense for the year is £39,245,000 (2020: £17,315,000).

The notes on pages 87 to 94 are an integral part of these financial statements. The financial statements of Pinnacle Bidco PLC, registered number 11038859, on pages 85 to 94 were approved by the board of directors and authorised for issue on 20 April 2022 and were signed on its behalf by:

A Wood

Director

Company statement of changes in equity
for the year ended 31 December 2021

	Share capital £'000	Share premium £'000	Accumulated losses £'000	Total £'000
Balance as at 1 January 2020	50	3,863	(57,979)	(54,066)
Loss and total comprehensive expense for the year	-	-	(17,315)	(17,315)
Balance as at 31 December 2020	**50**	**3,863**	**(75,294)**	**(71,381)**
Loss and total comprehensive expense for the year	-	-	**(39,245)**	**(39,245)**
Balance as at 31 December 2021	**50**	**3,863**	**(114,539)**	**(110,626)**

Notes to the company financial statements

1 General Information

Pinnacle Bidco PLC is an intermediate holding company within the Pinnacle Topco Limited group and is expected to remain as such for the foreseeable future. The Company is a private company limited by shares and is incorporated and domiciled in England, UK. The address of its registered office is C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY, United Kingdom.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

Basis of preparation

The financial statements are presented in sterling, rounded to the nearest thousand. They are prepared on a going concern basis and under the historical cost convention. The principal accounting policies applied in the preparation of these financial statements are set out below, and, unless otherwise stated, these policies have been consistently applied to all the periods presented.

These financial statements have been prepared in accordance with United Kingdom Accounting Standards, in particular, Financial Reporting Standard 101 "Reduced Disclosure Framework (FRS 101) and, the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a "qualifying entity" as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of International Accounting Standards, in conformity with the requirements of the Companies Act 2006.

In accordance with the exemption allowed by Section 408 of the Companies Act 2006, the Company has not presented its own profit and loss account, however has made a loss for the financial year of £39,245,000 (2020: £17,315,000).

The principle disclosure exemptions adopted by the Company in accordance with FRS 101 are as follows:

- IFRS 7 financial instrument disclosures;
- IAS 1 information on management of capital;
- IAS 8 disclosures in respect of new standards and interpretations that have been issued but which are not yet effective;
- IAS 24 disclosure of key management personnel compensation;
- IAS 24 disclosures in respect of related party transactions entered into between fellow group companies;
- Roll-forward reconciliations in respect of share capital (IAS 1) and property, plant and equipment (IAS 16); and
- IAS 7 and IAS 1 exemption from preparing a cash flow statement and related notes.

Investments

Investments in subsidiaries are held at cost, less provision for impairment. Gains and losses are recognised in the income statement as and when the investments are impaired.

Notes to the company financial statements (continued)

2 Summary of significant accounting policies (continued)

Taxation

Current tax is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date where transactions or events that result in an obligation to pay more tax in the future or a right to pay less tax in the future have occurred at the balance sheet date. Timing differences are differences between the Company's taxable profits and its results as stated in the financial statements that arise from the inclusion of gains and losses in tax assessments in years different from those in which they are recognised in the financial statements.

Deferred tax is measured at the average tax rates that are expected to apply in the years in which the timing differences are expected to reverse, based on tax rates and laws that have been enacted or substantively enacted by the balance sheet date.

Financial assets

The Company classifies its financial assets as 'those to be measured at amortised cost' or 'those to be measured subsequently at fair value'. At initial recognition, the Company measures its financial assets at fair value plus, in the case of financial assets not at fair value through profit or loss (FVPL), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in the profit or loss.

For assets measured at fair value, gains and losses will either be recorded in profit or loss or OCI.

Impairment of financial assets

The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all intercompany balances. To measure the expected credit losses, intercompany receivables are grouped based on shared credit risk characteristics and the days past due.

Going concern

In light of the on-going impact of Covid-19 on the performance of the PureGym Group ("the Group"), of which the Company is a part, the Directors have carefully evaluated the Going Concern basis of preparation.

The Group meets its day to day working capital requirements, capex and funding of new sites through its cash reserves and credit facilities, being an RCF facility of £145 million which includes an overdraft of £10 million.

As at 20 April 2022, the date of signing the financial statements, the Group's forecasts and projections (to 30 June 2023) taking account of reasonably possible changes in trading performance and potential future lockdowns, showed that the Group should be able to operate within its existing facilities.

This assessment included the impact of Omicron on early 2022 trading, no extension of Government support and the risk of continued COVID-19 disruption on core trading across 2022 including, for Going Concern review purposes, a new national lockdown in all geographies.

On an unmitigated basis the Group has a weekly cash burn of approximately £9.0 million per week, including interest and tax. By factoring in historical government mitigation measures across all territories and management mitigation measures, total weekly cash burn (including interest and capex) has historically been reduced to approximately £4.5 million.

Notes to the company financial statements (continued)

2 Summary of significant accounting policies (continued)

Government mitigations received historically include payroll support, fixed cost contributions and grants whilst management mitigations include reducing all unnecessary activity, tight cost control and the delay of planned investments.

The actions taken have been designed to protect the medium and long term prospects of the business and, with available liquidity of £177 million (as at 31 December 2021), plus an additional £300 million received in January 2022 following investment from KKR, the Directors consider that the Group and Company have sufficient facilities to withstand over 2 years of full Group closure from the start of 2022. Liquidity as at 31 March 2022 stood at £449 million, of which £30 million cash is held by parent company Pinnacle Topco Limited.

Based on these forecasts, and with no leverage or cash flow covenants until 2024, the Directors have concluded that the Group and Company have adequate resources to continue to remain a going concern for the foreseeable future and have therefore adopted the going concern basis in preparing its financial statements.

3 Critical accounting estimates and judgements

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Company makes estimates and judgements concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Impairment of investments

The Company considers on an annual basis, if there are any indicators of impairment to investments and if so, considers whether investments have suffered any impairment based on the recoverable amount of its cash-generating units ('CGUs'). The recoverable amount is determined based on value in use calculations. The use of this method requires the estimation of future cash flows and the determination of a pre-tax discount rate in order to calculate the present value of the cash flows. More information, including carrying values of investments, is included in note 6.

(b) Expected credit losses on amounts owed by group undertakings

The Company applies the IFRS 9 simplified approach to measuring expected credit losses on amounts owed by group undertakings. Under this approach, management exercise judgement in determining whether there has been a significant increase in credit risk over the life of the loan. Where there has not been a significant increase in credit risk, a 12-month expected credit loss is calculated. Conversely, where there has been a significant increase in credit risk, a lifetime expected credit loss is calculated.

In calculating the expected credit loss on amounts owed by group undertakings, management take into account the probability of default assigned to the Group's external debt, where this is deemed to be closely related to the probability of default on the intra-group loans. In addition, management consider the historical rate of default on intra-group loans. More information, including the expected credit losses applied to amounts owed by group undertakings, is included in note 7.

Notes to the company financial statements (continued)

4 Auditors' remuneration

Fees payable to the Company's auditors for the audit of the annual statutory financial statements were £79,000 (2020: £72,000). These are borne by Pure Gym Limited.

Fees payable to the Company's auditors (and its associates) for non-audit services can be found in the consolidated financial statements.

5 Employees and directors

Employees

The Company had no employees throughout the year (2020: nil), and directors are remunerated for their services by fellow group undertakings.

Directors

No directors received any remuneration in respect of their services to the Company (2020: nil). The key management of the Group are deemed to be the same as the directors of the Group, therefore no additional disclosure of key management compensation has been provided.

6 Investments

	2021 £'000	2020 £'000
At 1 January and 31 December	**308,236**	308,236

The directors believe that the carrying amount of the investment is supported by both the underlying net assets of the subsidiaries and the cash flows to be generated from operations. Given the significant headroom in the recoverable amount, there are no reasonably possible changes in the assumptions used for determining the recoverable amount that would cause a material change to the carrying amount of the investments at the next balance sheet date.

The below table sets out the name, principal activity and registered office address of all of the Company's subsidiaries. The Company, either directly or indirectly, owns 100% of the ordinary shares of all companies listed.

Company name	Principal activity	Registered office address
Gym Topco Limited *	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Midco Limited	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Midco 2 Limited	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Gym Bidco Limited	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pure Gym Limited	Provision of physical fitness facilities	Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pinnacle Europe Holdings Limited	Intermediate holding company	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK

Notes to the company financial statements (continued)

6 Investments (continued)

Company name	Principal activity	Registered office address
Ovalhouse Limited	Property holding subsidiary	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pure Gym (Dudley) Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Tolmers Newco 1 Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Tolmers Newco 2 Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
LA Fitness Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
LA Leisure Limited	Property holding subsidiary	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
LA Westminster Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
CS Leisure Limited	Dormant	C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, LS2 8LY, UK
Pinnacle US Holdings LLC	Intermediate holding company	1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA
PureFitness LLC	Provision of physical fitness facilities	1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA
PureFitness Franchising LLC	Franchisor for physical fitness facilities	1209 Orange Street, County of Newcastle, Wilmington, Delaware, 19801, USA
Forward TopCo A/S	Intermediate holding company	Egegårdsvej 61, 2610 Rødovre, Denmark
Fitness World Group A/S	Intermediate holding company	Egegårdsvej 61, 2610 Rødovre, Denmark
Fitness World A/S	Provision of physical fitness facilities	Egegårdsvej 61, 2610 Rødovre, Denmark
Functional Supply A/S	Development and resale of sports nutrition products	Egegårdsvej 61, 2610 Rødovre, Denmark
Fitness Institute ApS	Provision of training and development services	C.F. Richs Vej 107, 3., 2000 Frederiksberg, Denmark
PureGym AG	Provision of physical fitness facilities	Grabenwisstrasee 5, 8604 Volketswil, Switzerland

** Denotes subsidiaries that are directly owned by Pinnacle Bidco PLC.*

Notes to the company financial statements (continued)

7 Other receivables

Non-current

	2021 £'000	2020 £'000
Amounts due from group undertakings	**954,617**	899,284
Loss allowance	**-**	-
Amounts due from group undertakings - net	**954,617**	899,284

Of the amounts due from group undertakings £461,941,000 accrue interest at 8% (2020: £403,657,000) and are due for repayment on 30 November 2027, £386,218,000 accrue interest at 4.375% (2020: £395,830,000) and are due for repayment on 30 November 2027, £106,447,000 (2020: £99,797,000) accrue interest at 4.375% and are due for repayment on 14 January 2030, and £11,000 (2020: £nil) are interest free and repayable on demand. The Company applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all amounts due from group undertakings. Through reference to credit rating agency ratings of the Pinnacle Bidco Group throughout the life of the loans, the Company was able to conclude that for £568,399,000 of loans there has not been a significant increase in credit risk since the loans were initially recognised. As such, for these loans, the Company has determined an expected credit loss rate of 0%.

A loan of £386,218,000 due from Pinnacle Europe Holdings Limited was determined to have experienced a significant increase in credit risk between the loan's inception in January 2020 and the year end of 31 December 2021 as a direct consequence of the impact of the COVID-19 pandemic on the Group's operations. However, the Company determined that an expected credit loss rate of 0% was appropriate as they expect that the loan could be repaid ahead of its due date using cash generated by Pinnacle Europe Holdings.

Current

	2021 £'000	2020 £'000
Prepayments	**54**	39

8 Other payables

	2021 £'000	2020 £'000
Accruals	**13,601**	13,862
Other creditors	**513**	675
	14,114	14,537

Notes to the company financial statements (continued)

9 Borrowings

	2021 **£'000**	2020 £'000
€490m / €445m 5.500% Senior Secured Notes at principal value	**411,288**	399,899
Discount on issue of Senior Secured Notes	**(14,266)**	(19,524)
€490m / €445m 5.500% Senior Secured Notes	**397,022**	380,375
£430m 6.375% Senior Secured Notes	**430,000**	430,000
Capitalised issue costs	**(13,134)**	(16,837)
Senior secured notes net of issue costs	**813,888**	793,538
Amounts owed to Group undertakings	**546,364**	470,865
	1,360,252	1,264,403

Of the amounts owed to Group undertakings, £437,734,000 (2020: £368,908,000) accrue interest at 8% and £106,445,000 (2020: £101,957,000) accrue interest at 4.375%. These amounts are repayable on 30 November 2027. A further £2,185,000 (2020: £nil) accrues interest at 4.375% and is repayable on 14 January 2030.

Financing

At the start of the year, the Group, of which the Company is a part, had £430 million of Senior Secured Notes ("the Sterling Notes") and €445 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes"). On 4 March 2021, a further €45 million of Euro Notes were issued on the same terms, taking the total Euro Notes in issue to €490 million at the year end.

The Notes are listed on The International Stock Exchange, for which Pinnacle Bidco PLC is the Issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 6.375% and interest on the Euro Notes accrues at a rate of 5.500% both payable at half-yearly intervals. The Notes are due to be repaid in full on 15 February 2025.

On issue of the Euro Notes in 2020, these were recognised at fair value of €422,750,000 representing a discount on issue of €22,250,000. The Euro Notes are subsequently held at amortised cost with changes in the carrying amount recognised within finance cost as an unwind of discount on issue of senior secured notes.

Capitalised issue costs are amortised over the period to the repayment date of the Notes.

In addition, the Group has a revolving credit facility (the "RCF") with eight international institutions (Barclays Bank PLC, Jefferies Finance LLC, Royal Bank of Canada, Credit Suisse AG, Credit Suisse International, ING Bank N.V. Lloyds Bank plc and Danske Bank A/S, collectively "the Lenders"), repayable 15 August 2024. Included within the total RCF is a £10 million overdraft facility. As at 31 December 2021 and 31 December 2020, the facility was undrawn.

Following amendments to the terms of the RCF on 18 September 2020, and further amendments on 7 January 2021, the Lenders granted a waiver of the pre-existing financial covenants on the RCF for the remainder of the term. The financial covenant is replaced with a £30 million minimum liquidity test on the last day of March, June, September and December each year.

The Group has been in compliance with all such covenants and tests during the current and previous financial years.

Notes to the company financial statements (continued)

10 Called up share capital

	2021 £'000	**2021 No.**	2020 £'000	2020 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**50**	**5,000,002**	50	5,000,002

Each ordinary share entitles the holder to participate in dividends, and to share in the proceeds of winding up the Company in proportion to the number of and amounts paid on the shares held. Each ordinary share entitles the holder to one vote.

11 Related party transactions

Advantage has been taken of the exemption in IAS 24 not to disclose transactions between Pinnacle Topco Limited and its subsidiaries.

12 Controlling party

The immediate parent company of Pinnacle Bidco PLC is Pinnacle Midco 2 Limited. The ultimate UK parent company is Pinnacle Topco Limited.

The largest Group into which the results of this Group are consolidated for the year ended 31 December 2021 is that headed by Pinnacle Topco Limited, a company incorporated in the UK. These financial statements, which are publicly available, can be obtained from the registered office: C/O Pure Gym Limited, Town Centre House, Merrion Centre, Leeds, West Yorkshire, LS2 8LY.

The ultimate controlling party is Leonard Green & Partners LP, 11111 Santa Monica Boulevard, Suite 2000, Los Angeles, California 90025, United States of America.

13 Events after the end of the reporting period

On 28 January 2022, the Group's ultimate parent company, Pinnacle Topco Limited, issued £300 million of convertible preference shares to global investment firm, KKR, and subsequently down-streamed £270 million into the Group through issuances of equity. The proceeds are intended to be used to support and fund the Group's expansion plans.

At the date of signing these financial statements, there are no other events which occurred after the reporting period which require the attention of the users of the financial statements.

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