Pinnacle Bidco PLC

Annual report and consolidated financial statements for the year ended 31 December 2022

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Strategic Report

The Directors present their strategic report for the year ended 31 December 2022

Business Overview

The PureGym Group ("the Group", being 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.

The current macro-economic environment continues to be a challenging time for all, but the business has continued to perform well against this backdrop and has made significant strategic progress against its objectives.

The Group has a robust capital and liquidity position having secured a £300m preferred equity investment into the parent, Pinnacle Topco Limited, from leading global investment firm KKR in the year, of which £270m has been passed down into the Group to date. This, coupled with existing strong support of the Group's majority shareholder Leonard Green & Partners LP, puts the Group in a good 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 2022 the Group operated 333 UK gyms (2021: 296 gyms) with 1,207,000 members at the year end (2021: 1,089,000).

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 2022, with a programme of estate optimisation under way, the Group operated 169 gyms in Denmark (2021: 174 gyms) with 371,000 members (2021: 376,000).

Switzerland

The Group successfully completed a rebrand of its Swiss operations to PureGym during 2021. As at 31 December 2022, PureGym operated 41 gyms in Switzerland (2021: 39 gyms) with 77,000 members (2021: 70,000) and is the second largest gym operator and the leading high value, low cost operator in the country.

United States of America

The Group opened its first three gyms in the USA during the year, with a total of 10,000 members as at 31 December 2022. This brings 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 ("KSA")

The Group recently launched a franchise model with the first franchised sites opening in KSA in 2021. As at 31 December 2022, there are 9 franchised gyms in operation (2021: 3 gyms) with a total of 24,000 members (2021: 7,000). 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

We will continue to roll out new gyms in the UK and Switzerland in a measured and controlled way, where we can achieve our targeted return on capital, to progress our estate optimisation programme in Denmark, and to drive the operational and financial performance of our existing gym estate across all of our geographies.

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 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. Whilst it's clear that the current macro-economic environment and cost of living crisis is challenging for consumers and for operators, we firmly believe the long-run outlook for our business remains bright – we have the right business model, operating in the most attractive segment, to be highly successful.

Chief Executive Officer's Statement

Humphrey Cobbold

Once again, I am proud of the achievements of the Group in what has been a very challenging macroeconomic environment. Despite these headwinds, the business has demonstrated resilience and continued progression in key operating metrics, whilst also continuing to make progress with its longer-term strategic growth plans.

Confidence in the business and its prospects was clearly demonstrated with a new £300m investment from leading global investment firm KKR, which was secured at the start of the year. This additional capital puts the business in a good position to take advantage of 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.

Continued progression despite the challenges

The macroeconomic environment has proved challenging for many businesses with pressure from general inflation, interest rates, energy costs and political uncertainty, to name a few. In general, consumers are acting more cautiously when managing their household budgets and are increasingly seeking value for money. The business has continued to progress in this tougher consumer environment, with total members increasing to 1.7 million (2021: 1.5 million).

Along with all other businesses, cost inflation has been a key challenge and the management team are very focused on minimising this impact, with significant work underway in all areas of the business including procurement, energy consumption and improved ways of working to ensure our average return on investment remains attractive.

We have opened 45 new owned gyms in the year, primarily across the UK, and these are performing in line with or, in many cases, ahead of our expectations. This underscores the strength of our best-in-class product and validates our strategy of continuing to deploy capital in a measured and controlled way to open new sites in quality locations. We have closed 8 gyms in the year, primarily in Denmark, as we continue to progress with our programme of estate optimisation.

Good progress has been made on developing the franchising arm of the business during the year with a further 6 new gyms opened, taking the franchised estate to a total of 9 gyms by the year end (2021: 3 gyms). Performance of these franchise gyms has, in general, been in line with or ahead of expectations and we are delighted that our first franchise partner has signed a contract that commits them to opening a minimum of 130 sites across the Middle East. This will bring an affordable, accessible gym proposition to a population with limited access to such facilities and provides an exciting platform to expand the franchise offering to other territories.

We were delighted to have secured the £300m investment from KKR. This additional capital enables us 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. KKR are one of the world's leading investment firms and to have them as a minority shareholder, alongside our excellent and highly supportive majority shareholder, Leonard Green and Partners LP, is both a privilege and testament to the standing of the Group and the extraordinary efforts of every single colleague across our enterprise.

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

First and foremost, 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 and improving mental health.

Notwithstanding this position, we have a 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 and this year has seen good progress in this respect.

Sustainability, and more broadly environmental, social, and governance ("ESG"), is an important area of focus for the Group. The energy crisis, due to disruption in supply caused by the Russia and Ukraine conflict, provided the Group with a particular opportunity to fast-track its decarbonisation plans. The Group has been working with a market leading operational improvement consultant to identify and pursue opportunities to significantly reduce energy usage per site. In doing so, PureGym is in the process of establishing a new "green" standard by which its operations are run. This includes new gym environment/ temperature setpoints; upgrades to LED lighting specification; control systems for better management of heating, ventilation, and air-conditioning; and in some cases/where feasible on-site renewable power generation. A structured implementation programme is underway with the objective of delivering improved energy performance and broader environmental impact across the Group's estate in FY23.

Governance within the Group has been strengthened with the implementation of a new Enterprise Risk Management Framework ("ERM") across all major geographies during the year. This has successfully formalised the process for identifying, evaluating and managing the principal risks faced by the business. Furthermore, a number of new key roles have been appointed including Group General Counsel and Head of Internal Audit to strengthen the Group's compliance and control environment.

Chief Executive Officer's Statement continued

Our people and members

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. Our safety framework, TrainSafe, covers three key areas: cleanliness & hygiene, physical safety & security, and welcoming, judgement-free treatment for all. With over 100 million member visits through 2022, our commitment to providing a safe and welcoming place for everybody is a top priority.

The Group's Diversity, Inclusion and Belonging Strategy ("DIB") has been fully embedded in the business during the year, promoting an inclusive and belonging environment for all our employees and our members. The Group has a strong culture and as we grow in size and maturity it is important that we ensure everyone feels welcome. Our DIB strategy focuses on a range of areas including a programme of education and training for all staff.

Our communities and the environment

The Group endeavours to go beyond its service provision, encouraging and empowering management teams within individual gyms, across all geographies, to carry out a wide range of activities and to do what they feel makes a difference in their local communities throughout the year. Activities are many and varied, but include for example, local charity fundraising or outreach events to help those in the local community.

In addition to these local activities, the Group was delighted to organise a national UK fundraiser event in the year, the "PureGym Hearts and Minds Relay". At a time when health has never been so important, we are proud to partner with The British Heart Foundation and Mental Health UK. It is well proven that exercise benefits both our physical and mental wellbeing and both of these charities do great work to support those living with heart and circulatory diseases and mental health related issues. Together as one PureGym team, we raised over £100,000 with over 2,000 PureGym team members taking part in over 500 events across the UK, covering a total of 4,000 miles in seven days. The efforts of our team members have been inspirational, and I am honoured to be part of a team that has brought so much energy, passion and commitment to such a valuable cause.

Looking forward

Despite the many challenges that the macro environment presents, the Group remains resilient and in good health. Inherently we are a low-cost operator and, with fixed interest rates for the near term plus fixed utility contracts in the UK until September 2023, the business has a good degree of protection from the current inflationary environment. This, combined with management's ongoing focus on combatting other areas of cost pressure and its robust member base, leaves me feeling confident that we are well placed to navigate these challenges.

The KKR investment has set the Group up well for an exciting 2023 and beyond. This capital will be deployed in a measured and controlled way, to expand our existing estates in the UK and Switzerland with high quality sites capable of delivering a minimum 30% ROCE[1] and to refurbish and rebrand our estate in Denmark. Alongside this, our international franchise progress in the Middle East is paving the way for the future – the opportunity to provide accessible fitness on an international scale through franchising is clear and has the potential to be very large.

Finally, I would like to thank our colleagues, on whom the success of our Group is based. I continue to be very proud of the unwavering dedication they have shown to the business throughout these challenging times 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

Note
[1] ROCE is Returned on Capital Employed, defined as Adjusted EBITDA (as defined on page 8, footnote 3), excluding head office costs, divided by the initial capital investment on a gym

2022 Financial Review

Alex Wood

2022 has been a year of recovery for the Group, being the first year in the last 3 without enforced closures due to COVID-19. At the same time, it has been a year with new challenges from the current macro-economic climate. The business has remained resilient in the face of these new challenges, the Group has continued to deliver progress in its key financial metrics and I'm pleased to report a strong set of results for the year.

I'm also very pleased that we successfully concluded a £300m fundraise at the start of the year, which puts us in a robust liquidity and capital position to navigate the current environment and keep our growth ambitions on course.

Continued progression in our key financial metrics

The Group's key performance indicators ("KPIs") show significant improvement in 2022 compared with the prior year, and this reflects the continued recovery in our existing business and strong performance in newly opened sites.

Closing members of 1.7 million (+8% vs 2021)

As a market leading high value, low price operator, the Group is well placed in periods of such macro-economic uncertainty. Consumers increasingly look for good value with their buying decisions and the Group's best in class product and brand delivers this at a time when we are more aware than ever of the importance of fitness and wellbeing activity. Demand in our existing sites has held firm over the period and our new sites have performed extremely well, such that total membership has grown 8% during the year, closing at 1.7 million (2021: 1.5 million).

51 new gym openings (+82% vs 2021)

The Group opened 45 new corporate owned gyms in the year (2021: 25), primarily in the UK, taking the total number of corporate owned sites to 546 at the year-end (2021: 509 gyms). Alongside these, a further 6 franchise sites were opened in the KSA (2021: 3) taking the total franchise estate to 9 at the year end (2021: 3).

Revenue for the year of £476 million (+58% vs 2021)

Alongside volume, our sophisticated approach to revenue management, applied in a disciplined and targeted manner, has delivered an increase in ARPM[1] of +4% when compared with 2021 (after adjusting for closure periods). This growth in ARPM, together with membership recovery, has delivered continued progression and recovery in the top line, with revenue for the year reaching £476 million (2021: £302m).

Adjusted EBITDA[2] for the year of £95 million (+177% vs 2021)

A strong focus on cost control has never been more important than in the current climate. Our teams have been working hard to protect the business from inflationary pressures and have made excellent progress to date – "like for like"[3] gym costs have remained flat from 2019 through to 2022, achieved though systematic operational and procurement led savings, including fixing utility contracts at the bottom of the market. The Group therefore entered this inflationary period in a more resilient position than most and this has contributed to continued recovery in profitability with Adjusted EBITDA increasing +177% to £95 million for the year (2021: £34 million).

Note
[1] ARPM defined as revenue divided by 12 months, divided by the average number of members over the year
[2] As defined on page 8, footnote 3
[3] Like for like gyms which opened in 2017 & prior

£380m Available liquidity[1]

1.7m Closing members

555 Gyms[2]

Note
[1] Liquidity defined as cash plus available RCF facilities & includes £30m held by the parent, Pinnacle Topco Limited.
[2] Gyms in estate includes 546 corporate-owned & 9 franchise gyms in KSA.

2022 Financial Review continued

Summary KPIs

The below tables include results for 2022 and 2021. We have also continued to include some information from 2019 for comparative purposes. 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, have not been audited as part of these financial statements.

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.

For the twelve months ended 31 Dec £m	2022 Group	2021 Group Restated[5]	2019 Proforma Group
Members (number 000's)	1,665	1,535	1,699
Gyms (number)[1]	555	512	484
Revenue (£m)	476.4	302.4	442.0
ARPM (£)	23.84	16.51	22.16
Group Reported EBITDA[2] (£m)	183.5	113.0	206.9
Group Adjusted EBITDA[2,3] (£m)	95.1	34.4	131.1
Group RR Adjusted EBITDA[2,3,4] (£m)	**114.2**	**54.2**	**160.6**

Note: 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 9 franchised sites at 31 December 2022 (2021: 3, 2019: nil).
[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. 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.
[5] See note 30 of the financial statements for details of the restatement of revenue, Group Reported EBITDA, Group Adjusted EBITDA and Group Run-Rate Adjusted EBITDA.

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

2022 Financial Review continued

Operating results

£m	2022 Group	2021 Group Restated	2019 Proforma Group
Revenue	476.4	302.4	442.0
Operating expenses (exc. separately disclosed items)	(292.9)	(189.4)	(235.1)
Group Reported EBITDA	**183.5**	**113.0**	**206.9**
Depreciation, amortisation and impairment	(180.4)	(149.1)	(118.8)
Loss on disposal of PPE	(1.3)	(3.3)	(0.1)
Profit on lease modifications	1.8	0.2	0.4
Exceptional items	1.0	(6.9)	(11.6)
Operating profit / (loss)	**4.6**	**(46.1)**	**(76.8)**
Net finance cost	(151.1)	(126.4)	(101.6)
Loss before tax	(146.5)	(172.5)	(24.8)
Income tax credit / (charge)	34.0	19.7	3.7
Loss for the year	**(112.5)**	**(152.8)**	**(28.5)**

Note: The unaudited 2019 proforma Group comparatives in this table include Fitness World on a proforma basis and exclude the results from discontinued operations. See note 30 of the financial statements for details of the restatement to 2021 operating results.

The consolidated statement of comprehensive income on page 34 shows our results for the year ended 31 December 2022 in full. The Group made an operating profit of £5 million and a loss for the year of £113 million (2021: operating loss of £46 million and loss for the year of £153 million), as summarised in the table above.

Revenue

Revenue is up £174 million (58%) year on year owing to a full year of gym operations, the opening and maturation of newer gyms, and an improvement in average revenue per member. Revenue in the 2021 comparative year was materially impacted by the closure of the gyms at various times across the year due to COVID-19 restrictions. Overall, the Group's gyms were closed for 30% of trading days in 2021. Of the 2022 revenue figure of £476 million, membership income comprised £424 million, vending and consumables income was £22 million and income from other revenue streams including the sale of day passes, and income from personal trainers was £30 million.

Operating Expenses (exc. separately disclosed items)

Operating expenses were up £104 million (55%) year on year reflecting a full year of operations in 2022, an increase in site numbers and scaling of central costs to support future growth. Despite inflationary pressures in the second half of the year, the Group has managed to keep costs under control through effective management cost-saving action, and thanks to utility costs being fixed at prices set in 2021 or earlier across most of the estate.

Depreciation, amortisation and impairment

Depreciation, amortisation and impairment of £180 million is up £31 million on the prior year, primarily due to impairment losses of £45 million recognised in 2022 versus £16 million in 2021. The 2022 impairment includes a £23 million charge in relation to the Fitness World brand, in connection with the refurbishment and rebrand our Danish estate.

The remaining impairment loss of £22 million relates to right-of-use, and other, assets for a small number of gyms across the estate which have not yet returned to pre-pandemic profitability.

Also included within depreciation, amortisation and impairment in 2022 is £61 million depreciation on the Group's leased properties (2021: £60 million), and £18 million amortisation of customer lists and brands recognised following the Group's acquisitions (2021: £18 million).

Exceptional items

Net exceptional income of £1 million has been recognised in 2022, primarily due to the recognition of £1 million of recoverable VAT income. This was recognised in the current year but relates to exceptional expenses incurred in previous years being originally assumed to be non-recoverable for VAT purposes.

2022 Financial Review continued

Net finance costs

Net finance costs comprise £52 million of interest and commitment fees on the Group's borrowing facilities (2021: £52 million) and £4 million of amortisation of arrangement fees incurred in entering into these arrangements (2021: £4 million). A further £47 million relates to costs associated with the Group's property rentals (2021: £47 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 an £8 million foreign exchange loss (2021: £16 million foreign exchange gain), primarily due to a £22 million adverse exchange movement on the Group's Euro-denominated borrowings, offset by a £13 million favourable 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 £38 million (2021: £35 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 Limited and therefore the interest is not expected to be repaid until at least 2027.

Tax credit

Our income tax credit of £34 million (2021: £20 million) is primarily a result of the losses made in the year.

2022 Financial Review continued

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

£m	2022 Group	2021 Group Restated	2019 Proforma Group
Operating Profit / (Loss)	**4.6**	**(46.1)**	**76.7**
Depreciation and impairment of PPE	134.6	119.9	99.1
Amortisation and impairment of intangible assets	45.8	29.2	19.7
Loss on disposal of PPE and intangible assets	1.3	3.3	0.1
Profit on lease modifications	(1.8)	(0.2)	(0.4)
Exceptional items	(1.0)	6.9	11.6
Group Reported EBITDA [1]	**183.5**	**113.0**	**206.8**
Other adjustments [2]	6.4	6.9	0.8
Pre-opening costs [3]	4.8	3.3	3.6
Cash rent adjustment [4]	(99.7)	(89.2)	(80.4)
Share based payment charge [5]	0.1	0.4	0.3
Adjusted EBITDA [6,7]	**95.1**	**34.4**	**131.1**
Synergies on acquisition [8]	-	-	4.6
Run-Rate adjustment [9]	19.1	19.8	24.9
Run-Rate Adjusted EBITDA	**114.2**	**54.2**	**160.6**

Note: The unaudited 2019 proforma Group comparatives in this table include Fitness World on a proforma basis and exclude the results from discontinued operations. See note 30 of the financial statements for details of the restatement to 2021 operating results.

[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". These are recognised in accordance with the Group's banking facility agreements. In 2022, the Group incurred costs of £3.6 million in relation to consulting on strategic initiatives aimed at reducing the Group's cost base and integrating the Group's operations.

Also in 2022, £2.7 million (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, relating to the impact of COVID-19 on the business during 2020 and 2021.

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 2021.

[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 year 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] Adjusted EBITDA is presented before the impact of property rent deferments.

[8] The 2019 proforma Group Run-Rate EBITDA includes £4.6million of synergy benefits from the acquisition of the Fitness World group.

[9] 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.

2022 Financial Review continued

Cashflow and Liquidity

£m	2022 Group	2021 Group
Net cash generated from / (used in) operating activities	**60.0**	**(8.5)**
Net cash used in investing activities	(87.7)	(47.4)
Net cash generated from / (used in) financing activities	198.8	(1.5)
Net increase / (decrease) / in cash and cash equivalents	**171.1**	**(57.4)**
Cash and cash equivalents on the first day of the year	31.9	91.1
Effect of exchange rates on cash held	1.6	(1.8)
Cash and cash equivalents at end of the year	**204.6**	**31.9**
Undrawn RCF Facility (including overdraft)	145.0	145.0
***Available liquidity at 31 December*[1]**	**349.6**	**176.9**

[1] Subject to a £30 million minimum liquidity test at each quarter end and excludes £30 million held by the parent, Pinnacle Topco Limited.

Net cash generated from / used in operating activities

Net cash generated from operating activities totalled £60 million, which represents a £69 million favourable movement versus 2021. This is primarily explained by the £71 million improvement in Group Reported EBITDA year on year. A £7 million increase in cash outflows related to the interest element of lease liabilities has been offset by a £6 million decrease in exceptional costs paid and a £3 million increase in interest income owing to the Group's improved cash reserves and higher market interest rates in 2022 versus 2021. The remaining movement of £6 million relates to changes in working capital cash flows.

Net cash used in investing activities

The net cash used in investing activities of £88 million in 2022 consists almost entirely of investments in capital expenditure, which is an increase of £40 million compared to the prior year.

Net cash generated from / used in financing activities

The Group's parent company, Pinnacle Topco Limited issued £300 million of preference shares to leading global investment firm, KKR, at the start of the year. Of this, £270 million has been passed down through the Group as an equity injection in 2022.

This equity inflow is offset by £61 million (2021: £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. Lease capital payments have increased by £12 million compared to 2021 due to the expansion of the estate, repayment of rent amounts deferred during gym closures, and following on from the rent free periods negotiated with landlords for the 2021 closure periods.

Cash and liquidity

As at 31 December 2022 the Group had cash and cash equivalents of £205 million and access to undrawn facilities of £145 million, providing total liquidity headroom of £350 million at the year end. The Group's parent company, Pinnacle Topco Limited, has a further £30 million of cash on balance sheet bringing liquidity headroom of the wider Group to £380 million.

Cash flow - capital expenditure

The level of capital expenditure has increased significantly compared to 2021, reflecting both the opening of new gyms and significant investment to improve the quality of the existing estate. The Group opened 40 new PureGyms in the UK in 2022 (2021: 23), 2 in Switzerland (2021: nil), and also opened the first 3 sites in the USA. We also continue to invest in technology systems and infrastructure for the long term interests of the business.

£m	2022 Group	2021 Group	2019 Proforma Group
Expansionary Capital Expenditure	62.8	34.4	57.6
Maintenance and Refurbishment Capital Expenditure	27.1	13.1	24.5
Total Capital Expenditure Cash Flow	**89.9**	**47.5**	**82.1**

Note: The unaudited 2019 proforma Group comparatives in this table include Fitness World on a proforma basis and exclude the results from discontinued operations

2022 Financial Review continued

Funding

The Group has £430 million of Senior Secured Notes ("the Sterling Notes") and €490 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes").

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 seven international institutions, repayable 15 August 2024. Included within the total RCF Facility is a £10 million overdraft facility. As at 31 December 2022 and 31 December 2021, 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-light environment provides headroom for the Group's working capital requirements, additional capacity for the roll out of new gyms, and downside protection from the unexpected impact of macroeconomic factors including cost and utility price inflation.

Further details are provided in note 18.

Alex Wood
Chief Financial Officer

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 Risk & Sustainability Action Team (Governance Committee) 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	Our business may be adversely affected by macro-economic conditions such as increasing interest rates or inflation (including energy price 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 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.	• A robust financial position, with access to £380 million of liquidity as at 31 December 2022, 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. • The Group has undertaken a project during the year to reduce energy consumption, and also closely monitors market prices to assess the optimum time to enter energy contracts. • 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.
Supply Chain Resilience	The Group's gym equipment and certain other fixtures and fittings are manufactured overseas. The global supply chain may be impacted by events such as international conflicts (for example, the war in Ukraine or conflict between China and Taiwan), or global pandemics. Disruption to the supply chain could cause shortages in supplies or increase in prices due to demand outweighing supply of certain items, or due to changes in exchange rates.	• The Group's core operations in existing gyms have a low level of reliance on imported goods and services, therefore the business could continue to operate in a time of supply chain crisis. • The Group has undertaken a supply chain review during the year to ensure that there is sufficient diversity in both the suppliers and their geographical locations, to avoid any over-reliance on the stability of one supplier or region.
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. The Group's revolving credit facility is due to mature in August 2024 and its Senior Secured Notes are due to mature in February 2025. Whilst management do not anticipate any issues with respect to refinancing these instruments, there is a risk that appropriate finance may not be available on suitable terms.	• 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 regular 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. • Management work closely with advisors and monitor capital markets to ensure the Group's financing needs are appropriately met.

Principal Risks and Uncertainties continued

Risk	Description and potential impact	Mitigation
International Markets (including franchising)	The Group has a well-established market presence in the United Kingdom, Denmark and Switzerland, and is continuing the expansion of its franchised operations in the Middle East. The Group also continues to explore opportunities for further expansion of its franchised operations in 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 in Denmark and Switzerland. • High quality, experienced senior leadership overseeing franchising operations in the Middle-East and elsewhere. • 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 2022, the average uptime of the website was 99.99%. • 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. • Compulsory user education programmes in places to educate system users on the risk of phishing, and how to safeguard against this. • 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 100 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 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, oversees sustainability-related change across the Group. • Dedicated senior resource in place to lead on sustainability across the Group. • Climate risk register in use which documents and analyses the Group's risk in relation to the environment and sustainability. • Readiness review ongoing ahead of full reporting in the 2023 annual report in line with the Taskforce on Climate-Related Financial Disclosures.
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

The Directors have carefully evaluated the Going Concern basis of the Group. In doing so, they have taken account of the Group's ongoing recovery from COVID-19 and the impact of the inflationary environment and cost-of-living pressures affecting the countries in which the Group operates at the time of signing these accounts.

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 25 April 2023, the date of signing the financial statements, the Group's forecasts and projections (to 30 April 2024) 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.

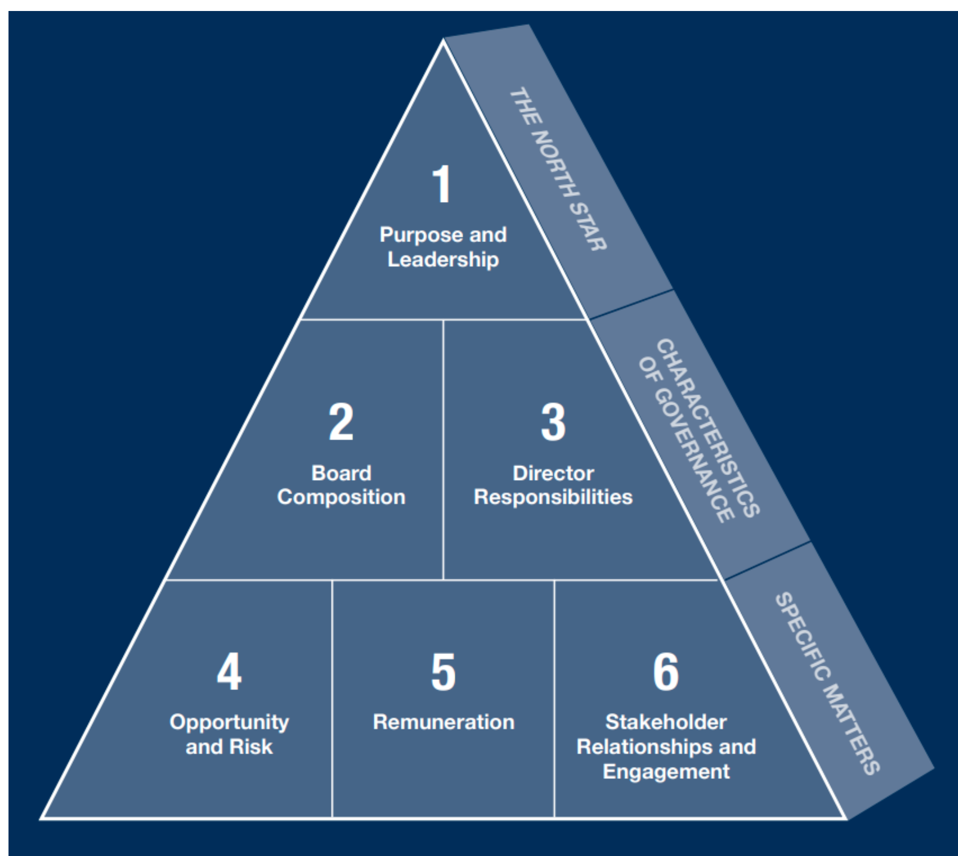
This assessment included consideration of severe but plausible downside scenarios including a threefold increase in utility prices, and a 10% inflationary uplift in other costs.

The Group had cash reserves at 31 December 2022 of £205 million, as well as a further £30 million cash in the parent company, Pinnacle Topco Limited. Combining these with the available RCF facility gives a total liquidity position of £380 million at 31 December 2022. Under the severe but plausible downside scenarios modelled, the Group would maintain a minimum liquidity of £210 million for the entire forecast period to April 2024.

Based on these forecasts, and with no leverage or cash flow covenants until at least August 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

The Group applies the Wates Corporate Governance Principles for Large Private Companies ('Wates Principles'). The Wates Principles provide a framework for the Group to demonstrate how the Board has made decisions for the long term success of the Group 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 of Pinnacle Bidco PLC are led by the board of directors of the Group's parent company, Pinnacle Topco Limited ('the Board'). The Board is 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 all 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 directors on the Board 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 of Pinnacle Bidco PLC, 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 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 4 times during 2022. 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 Group Managing Director, Denmark Managing Director, UK Finance Director, Group Chief Commercial Officer, Group Chief People Officer, Group Chief Strategic Officer, Group Chief Information Officer, and the Group General Counsel.

In addition, certain governance responsibilities are delegated to other Board committees including the Audit Committee, the Remuneration Committee and the 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 Risk and Sustainability Committee meets 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. In order to monitor this the Committee has prepared a climate risk register which is regularly reviewed, and is developing ESG KPIs for both internal monitoring and for use in reporting under the Taskforce on Climate-Related Financial Disclosures in the next annual report.

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.

Principle 4: Opportunity and Risk

The Board aims to promote the long-term sustainable success of the Group 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. Risk assessments have been delegated by the Board to the Group's Risk and Sustainability Committee, which 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 provides oversight of 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 covering 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 2022 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 1.7 million members at 31 December 2022. 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.

UK Greenhouse gas (GHG) emissions for the year ended 31 December 2022 have been measured as required under the Large and Medium-Sized Companies and Groups (Account and Reports) Regulations 2008 as amended in 2013. Reports are produced by an independent expert in accordance with the GHG Corporate Reporting and Accounting Standard, using 2022 UK Government Reporting and Conversion methodology and conversion factors, and applying a financial control organisational boundary approach.

The main activities which release GHG in the UK are the direct consumption of gas and the purchase of electricity to heat and power our gyms. The Group has been working with a market leading operational improvement consultant to realise a targeted 30% reduction of energy intensity per site. A new "green" standard has been adopted in 2022. This includes new gym environment setpoints, upgrade of LED lighting specification, the implementation of systems to enable better management and control of heating, ventilation, and air-conditioning, and on-site renewable power generation. A structured implementation programme is well underway delivering improved energy performance and broader environmental impact across the Group's estate. The Group anticipates most of the benefits to be realised in FY23.

The Group has expanded its reporting of Scope 3 emissions to include Business Travel (Trains & Air travel) and Energy transmission and distribution. The performance for the year ended 31 December 2021 has also been updated to reflect this change to ensure a meaningful comparison.

To further enhance the clarity of reporting, the Group has changed the designation of energy consumption controlled by landlords to Scope 3 (Upstream leased assets). In the 2021 annual report, this consumption had been included in Scope 1 and Scope 2 alongside energy consumption controlled by the Group. The 2021 data has been restated to be consistent with this approach.

The data included in the table below relates only to the UK operating segment. All other operating segments are excluded. The Group plans to further expand its reporting beyond the UK to all major markets and is developing data capability to increase its boundaries for Scope 3 in the 2023 annual report.

The intensity metric of emissions per gym is included for both years for clarity, but the years are not directly comparable due to the impact of gym closures in 2021 during COVID-19 enforced lockdowns.

Consumption and Emissions

	2022 Consumption (KWh 000's)	2022 Emissions (tCO_2e)	2021 Consumption (KWh 000's)	2021 Emissions (tCO_2e)
Direct from Operations – Gas (Scope 1)	13,638	2,489	14,547	2,664
Indirect from Purchased Electricity (Scope 2)	56,198	10,868	42,106	8,940
Direct from Operations – Car Fuel (Scope 3)	1,114	278	777	191
Indirect from Services Purchased: Upstream leased assets (Scope 3)	5,799	1,110	2,854	588
Indirect from Services Purchased: Other transport (Scope 3)	-	88	-	24
Total	**76,749**	**14,833**	**60,284**	**12,407**
Average number of gyms in UK		**310**		**284**
Intensity Metric (tCO_2e per gym)		**48**		**44**

Employees and Diversity

At 31 December 2022 the Group had 6,838 employees (31 December 2021: 7,000) and these are analysed as follows:

	31 December 2022			31 December 2021		
	Male	**Female**	**Total**	Male	Female	Total
Directors	2	-	2	2	-	2
Senior Managers	4	4	8	5	3	8
Other employees	3,493	3,335	6,828	3,531	3,459	6,990
Total	**3,499**	**3,339**	**6,838**	3,538	3,462	7,000

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 Group 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 2022. 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 6; Principle 6: page 20)

c) the need to foster the Group's business relationships with suppliers, customers and others (Principle 6: page 20; Employees: page 24)

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 Group (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 continued hard work throughout a very successful year.

On behalf of the Board

A Wood
Director
25 April 2023

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 2022.

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 5 to 7. The Group made a loss for the year of £112.5m (2021: £152.8m), and had net liabilities at 31 December 2022 of £314.8m (2021: £477.1m). The directors are not able to recommend payment of a dividend (2021: £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.

Political contributions

The Group did not make any political donations or incurred any political expenditure during the year (2021: 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 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 2023 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 Group 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 Group continues and the appropriate training is arranged. It is the policy of the Group 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 Group as a whole. Communication with all employees continues through Group meetings, briefing groups and electronic communications.

Statement of directors' responsibilities in respect of the financial statemetns

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 year. 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;
- 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 Group'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
25 April 2023

Pinnacle Bidco PLC
Financial Statements
for the year ended 31 December 2022

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 2022 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 as applied in accordance with the provisions of the Companies Act 2006;
- the company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, including 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: the Consolidated and Company statements of financial position as at 31 December 2022; the Consolidated statement of comprehensive income, the Consolidated cash flow statement and the Consolidated and Company statements of changes in equity for the year then ended; and the notes to the consolidated and company 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 four components comprising; two financially significant components, being Pure Gym Limited (UK) and Fitness World A/S (Denmark), and two other significant components, being Pure Gym AG (Switzerland) due to the prior year revenue misstatement identified by management (see further detail in the Key audit matters section below), and Pinnacle Bidco PLC (UK) due to the entity holding the group's listed debt. Audit procedures were also performed over Foreign Exchange Gains and Losses in Pinnacle Europe Holdings Limited (UK), and over Cash, Cost of Sales and Inventory in Functional Supply A/S (Denmark).
- 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 material misstatement in revenue recognition in Switzerland (group)
- Risk of incorrect classification of current lease liabilities in the UK (group)
- Risk of impairment of investments in subsidiaries and amounts due from group undertakings (company)

Materiality

- Overall group materiality: £4,600,000 (2021: £3,000,000) based on 2.5% of group EBITDA (2021: 1% of group revenue).
- Overall company materiality: £2,500,000 (2021: £1,500,000) based on 1% of total assets, capped below group materiality as part of our component materiality allocations.
- Performance materiality: £2,920,000 (2021: £1,875,000) (group) and £1,875,000 (2021: £1,125,000) (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.

The risk of material misstatement in revenue recognition in Switzerland (group) and the risk of incorrect classification of current lease liabilities in the UK (group) are new key audit matters this year. 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 £681.0m at the year end (2021: £676.0m). The group's recovery from the impact of the Covid-19 pandemic on the gym sector, as well as the macroeconomic situation in the second half of 2022 which caused government bond yields to rise, 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. Management has recognised an impairment charge in relation to ROU assets and PPE of £21.4m during the year (2021: £10.5m). See the Critical accounting estimates and judgements policies	• We 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 understood management's process for budgeting and forecasting and obtained management's impairment model for each gym which had impairment triggers identified; • 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 recent 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

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.	of our audit, including our consideration of the impact of climate change on the business; • We utilised our internal valuation experts to assess the reasonableness of 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 and our challenge of management an additional material impairment expense has been recognised against 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 £783.3m of goodwill and intangible assets on the balance sheet at the year end (2021: £804.9m). 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 is 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 the Denmark and Switzerland groups of CGUs due to the relatively lower degree of impairment headroom compared to the UK and the respective trading results of these components. Management prepared discounted cash flows for each CGU 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 territory; the long term growth rate used within the forecasts; and the discount rate applied to the cash flows. Management recognised an impairment charge in relation to Goodwill and other intangible assets of £23.7m during the year (2021: £5.8m). 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 reviewed the forecast financial performance of the CGUs and held discussions with management to understand their assessment of potential impairment; • We understood management's process for budgeting and forecasting and 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 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 recent 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 our internal valuation experts 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, and concluded management's impairment assessment was reasonable.
Risk of material misstatement in revenue recognition in Switzerland (group) The group recognised revenue from its Switzerland operations of £29.4m for the year ended 31 December 2022 (2021: £18.6m). In 2022, management identified an error in the way in which revenue was being calculated in the Swiss operating segment, impacting 2021 and previous financial years. The error resulted in an overstatement of revenue, and a corresponding overstatement	• We held discussions with management to understand the cause of the prior year misstatement; • We obtained management's workings behind the misstatement and agreed these to the group financial statements disclosures;

of prepayments and trade receivables and understatement of contract liabilities. Over the post-acquisition period, an accumulated error was identified of which £5.3m was reported in the financial year ended 31 December 2021. As the prior year misstatement is material we deemed it appropriate to bring the Swiss trading subsidiary into full scope for group reporting purposes on a risk basis. See Note 30 within the Group financial statements for disclosure of the correction of prior period error.	• We instructed our component auditor to test the corrected revenue and associated balance sheet accounts to underlying supporting information, including member data and cash receipts; • We challenged management on the potential impact of the misstatement identified on prior year Goodwill and Intangible asset and PPE and ROU asset impairment assessments relating to Switzerland; • We assessed whether there could be a similar material misstatement in the UK or Denmark. Based on the procedures performed we did not identify any further material adjustments as a result of the restatement made in the Group financial statements.
Risk of incorrect classification of current lease liabilities in the UK (group) The Group had current lease liabilities of £74.4m (2021: £85.0m) as at 31 December 2022. As a result of the unusual and fast-paced nature of changes to lease agreements during the Covid-19 pandemic, there has been a high volume of balance sheet reclassifications to establish the correct accounting for leases under IFRS 16. Whilst there is a net nil impact to liabilities overall, these adjustments are important to derive the correct classification of the balance sheet entries. Our testing in previous audits identified a number of errors resulting in material adjustments to accounts payable and lease liabilities under IFRS 16 in the UK. Management continues to maintain ledgers on the basis of the old IAS 17 standard and the process of adjusting for IFRS 16 accounting remains manual and therefore could be prone to material error. See Note 17 within the Group financial statements for details of the lease liabilities balance.	• We performed classification testing over the accounts payable and lease liability balances; • We also tested balances remaining on the accounts payable ledger to ensure completeness of the current liability and that lease related balances did not remain on the payables ledger; • We substantively tested the adjustments in the reconciliation from the leases model to the ledger and recalculated the lease liability accordingly. Based on the procedures performed we did not identify any material adjustments in the Group financial statements.
Risk of impairment of investments in subsidiaries and amounts due from group undertakings (company) The Company has investments in subsidiaries amounting to £309.2m (2021: £308.2m) and amounts due from group undertakings of £976.0m (2021: £954.6m). Investments in subsidiaries are reviewed annually for 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 management's 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. An impairment expense of £269.0m (2021: £Nil) against the carrying value of investments in subsidiaries and an expected credit loss allowance of £61.2m (2021: £Nil) against amounts due from group undertakings have been recorded by management in the year. 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 subsidiaries and amounts due from group undertakings.	• We assessed management's assessment of triggers for impairment in investment in subsidiaries and management's IFRS 9 expected credit loss model in respect of the amounts due from group undertakings; • As the impairment assessment is performed conjunction with the annual impairment review of goodwill and acquired intangible assets at a group level, see the procedures set out above in the related key audit matter above; • We 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 management's approach to the expected credit loss assessment of each of the amounts due from group undertakings, agreeing inputs to counterparty entity accounting records and considering the risk of default. • We also assessed the disclosures made in the company financial statements. Based on the procedures performed we did not identify any material adjustments to the carrying value of the Company's investments in subsidiaries and amounts due from group undertakings 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.

The group comprises 27 components of which 4 are main trading entities and 23 are holding companies. We scoped the audit with five 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 included in our scope Pinnacle Bidco PLC which has issued the group's external borrowings, and has the associated interest expense. Pure Gym AG (Switzerland) has been fully scoped in this year due to a prior year adjustment identified in revenue recognition. In addition, audit procedures were also performed over Foreign Exchange Gains and Losses in Pinnacle Europe Holdings Limited (UK), over Cash, Cost of Sales and Inventory in Functional Supply A/S (Denmark). Finally, centrally managed functions, including the group consolidation, were audited at the head office by the group engagement team. In establishing the overall approach to the group audit, we determined the type of work that needed to be performed by us, as the group engagement team, or component auditors from the PwC network operating under our instruction. Where work was performed by component auditors, we determined the level of involvement we needed to have in this work to be able to conclude that sufficient appropriate audit evidence had been obtained.

The impact of climate risk on our audit

As part of our audit we made enquiries of management to understand the extent of the potential impact of climate risk on the group's and company's financial statements, and we remained alert when performing our audit procedures for any indicators of the impact of climate risk. Our procedures did not identify any material impact as a result of climate risk on the group's and company's financial statements.

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	£4,600,000 (2021: £3,000,000).	£2,500,000 (2021: £1,500,000).
How we determined it	2.5% of group EBITDA (2021: 1% of group revenue)	1% of total assets, capped below group materiality as part of our component materiality allocations
Rationale for benchmark applied	EBITDA is considered to be an appropriate benchmark as this is considered to be the key performance indicator (KPI) of the Group after recovering from the impact of the Covid-19 pandemic. Revenue as a benchmark was considered the appropriate benchmark in the prior year given the significant impact of enforced gym closures during the Covid-19 pandemic 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 from £1,750,000 to £4,100,000. 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% (2021: 62.5%) of overall materiality, amounting to £2,920,000 (2021: £1,875,000) for the group financial statements and £1,875,000 (2021: £1,125,000) 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 £230,000 (group audit) (2021: £150,000) and £125,000 (company audit) (2021: £75,000) 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 in the going concern review period. 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 cash flows;
- Vouched the £300m investment in the group from an equity investor to cash receipt in the bank statements and reviewed the forecasts and projections in light of this investment.
- Assessing the group's banking facilities, associated banking covenant requirements in the going concern assessment period and banking covenant waivers received in the prior year;
- Challenging management on their severe but plausible downside scenarios, and assessing the resilience of the business to withstand these.

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 2022 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 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 in respect of the financial statements, 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, property, plant and equipment, investments in subsidiaries, and amounts owed by group undertakings. 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, 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, property, plant and equipment, investments in subsidiaries and amounts owed by group undertakings and challenging the assumptions and judgements made by management by agreeing to supporting information and evidence; and
- 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
25 April 2023

Consolidated statement of comprehensive income

for the year ended 31 December 2022

	Note	2022 £m	2021 Restated £m
Revenue	5	**476.4**	302.4
Cost of sales		**(15.4)**	(10.9)
Other income		**1.8**	2.8
Other administrative expenses		**(459.2)**	(333.5)
Exceptional administrative income / (expenses)	7	**1.0**	(6.9)
Administrative expenses		**(458.2)**	(340.4)
Operating profit / (loss)	6	**4.6**	(46.1)
Finance income	10	**2.9**	16.2
Finance costs	10	**(154.0)**	(142.6)
Loss before income tax		**(146.5)**	(172.5)
Income tax credit	11	**34.0**	19.7
Loss for the year		**(112.5)**	(152.8)

	2022 £m	2021 Restated £m
Other comprehensive income / (expense)		
Items that may be reclassified to profit or loss:		
Foreign operations – foreign currency translation differences, net of tax	**4.2**	(8.6)
Items that will not be reclassified to profit or loss:		
Remeasurement of defined benefit pension obligations, net of tax (note 19)	**0.5**	0.5
Total other comprehensive income / (expense) for the year, net of tax	**4.7**	(8.1)
Total comprehensive expense for the year	**(107.8)**	(160.9)

See note 30 for details of the restatement to the 2021 consolidated statement of comprehensive income.

Consolidated statement of financial position

as at 31 December 2022

	Note	**2022 £m**	2021 Restated £m	2020 Restated £m
Non-current assets				
Intangible assets	12	**783.3**	804.9	846.9
Property, plant and equipment	13	**681.0**	676.0	717.6
Deferred tax assets	11	**65.8**	41.9	31.1
Other receivables	15	**7.2**	6.2	7.2
		1,537.3	1,529.0	1,602.8
Current assets				
Inventories	14	**5.0**	3.7	4.4
Trade and other receivables	15	**28.7**	19.3	33.2
Income taxes receivable		**0.8**	0.7	0.7
Cash and cash equivalents		**204.6**	31.9	91.1
		239.1	55.6	129.4
TOTAL ASSETS		**1,776.4**	1,584.6	1,732.2
Current liabilities				
Trade and other payables	16	**(132.6)**	(116.4)	(142.1)
Lease liabilities	17	**(74.4)**	(85.0)	(96.4)
Borrowings	18	**-**	(5.8)	-
Provisions	19	**(4.5)**	(0.2)	(2.5)
Income taxes payable		**(0.1)**	(0.1)	(1.3)
		(211.6)	(207.5)	(242.3)
Non-current liabilities				
Deferred tax liabilities	11	**(19.2)**	(29.3)	(37.6)
Other liabilities		**(2.0)**	(1.9)	(2.0)
Lease liabilities	17	**(455.2)**	(490.0)	(491.7)
Borrowings	18	**(1,388.5)**	(1,323.0)	(1,264.7)
Provisions	19	**(14.7)**	(10.0)	(10.5)
		(1,879.6)	(1,854.2)	(1,806.5)
TOTAL LIABILITIES		**(2,091.2)**	(2,061.7)	(2,048.8)
NET LIABILITIES		**(314.8)**	(477.1)	(316.6)
Equity				
Share capital	22	**2.8**	0.1	0.1
Share premium		**271.2**	3.9	3.9
Translation reserve		**7.4**	3.2	11.8
Accumulated losses		**(596.2)**	(484.3)	(332.4)
TOTAL EQUITY		**(314.8)**	(477.1)	(316.6)

Consolidated statement of financial position
as at 31 December 2022 (continued)

See note 30 for details of the restatement to the 2020 and 2021 consolidated statements of financial position.

The notes on pages 39 to 78 are an integral part of these financial statements. The financial statements of Pinnacle Bidco PLC, registered number 11038859, on pages 34 to 78 were approved by the board of directors and authorised for issue on 25 April 2023 and were signed on its behalf by:

A Wood
Director

Consolidated cash flow statement
for the year ended 31 December 2022

	Note	**2022 £m**	2021 £m
Cash flows from operating activities			
Cash generated from operations	23	**165.3**	98.4
Exceptional income received / (costs paid)		**0.8**	(4.9)
Bank interest and similar charges paid		**(2.1)**	(2.4)
Bank interest received		**2.9**	0.2
Senior secured notes interest paid		**(50.7)**	(49.8)
Interest element of lease liability payments		**(56.3)**	(49.2)
Issue costs from borrowings		**-**	(0.8)
Corporation tax refund received / (paid)		**0.1**	-
Net cash generated from / (used in) operating activities		**60.0**	(8.5)
Cash flows from investing activities			
Purchase of property, plant & equipment		**(83.5)**	(41.5)
Purchase of intangible assets		**(6.4)**	(6.0)
Proceeds from disposal of property, plant & equipment		**2.2**	0.1
Net cash used in investing activities		**(87.7)**	(47.4)
Cash flows from financing activities			
Issue of ordinary share capital		**270.0**	-
Issue of senior secured notes		**-**	38.8
Capital element of lease liability payments		**(61.2)**	(49.0)
Repayments of other borrowings		**(8.6)**	-
Proceeds from other borrowings		**-**	8.6
(Outflows) / inflows from intercompany loan payables		**(0.4)**	0.1
Outflows from intercompany loan receivables		**(1.0)**	-
Net cash generated from / (used in) financing activities		**198.8**	(1.5)
Net increase / (decrease) in cash and cash equivalents		**171.1**	(57.4)
Cash and cash equivalents at start of year		**31.9**	91.1
Effect of exchange rate changes on cash held		**1.6**	(1.8)
Cash and cash equivalents at end of year		**204.6**	31.9

Consolidated statement of changes in equity
for the year ended 31 December 2022

	Share capital £m	Share premium £m	Translation reserve £m	Accumulated losses £m	Total £m
Balance as at 1 January 2021	0.1	3.9	11.8	(329.4)	(313.6)
Correction of error (net of tax)	-	-	-	(3.0)	(3.0)
Restated balance as at 1 January 2021	0.1	3.9	11.8	(332.4)	(316.6)
Loss for the year (restated)	-	-	-	(152.8)	**(152.8)**
Other comprehensive expense for the year	-	-	(8.6)	0.5	**(8.1)**
Total comprehensive expense for the year (restated)	**-**	**-**	**(8.6)**	**(152.3)**	**(160.9)**
Credit to equity for equity settled share-based payments (note 9)	**-**	**-**	**-**	**0.4**	**0.4**
Balance as at 31 December 2021 (restated)	**0.1**	**3.9**	**3.2**	**(484.3)**	**(477.1)**
Balance as at 1 January 2022 as originally presented	0.1	3.9	3.2	(474.8)	(467.6)
Correction of error (net of tax)	-	-	-	(9.5)	(9.5)
Restated balance as at 1 January 2022	**0.1**	**3.9**	**3.2**	**(484.3)**	**(477.1)**
Proceeds from shares issued	**2.7**	**267.3**	**-**	**-**	**270.0**
Loss for the year	**-**	**-**	**-**	**(112.5)**	**(112.5)**
Other comprehensive income for the year	**-**	**-**	**4.2**	**0.5**	**4.7**
Total comprehensive expense for the year	**-**	**-**	**4.2**	**(112.0)**	**(107.8)**
Credit to equity for equity settled share-based payments (note 9)	**-**	**-**	**-**	**0.1**	**0.1**
Balance as at 31 December 2022	**2.8**	**271.2**	**7.4**	**(596.2)**	**(314.8)**

See note 30 for details of the restatement to the 2021 consolidated statement of changes in equity.

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") is limited by shares and is 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 millions of pounds sterling ("£m") except when otherwise indicated. Accounting policies have been consistently applied to all financial years 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 2022. 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.

Foreign currency translation

Items included in the financial statements of each of the Group's subsidiaries are measured using the currency of the primary economic environment in which the subsidiary operates ('the functional currency').

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, from the translation of monetary assets and liabilities denominated in foreign currencies, and from borrowings denominated in foreign currencies at year end exchange rates, are presented in the statement of profit or loss, within finance costs.

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income, and accumulated in the translation reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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.

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

The Directors have carefully evaluated the Going Concern basis of the Group. In doing so, they have taken account of the Group's ongoing recovery from COVID-19 and the impact of the inflationary environment and cost-of-living pressures affecting the countries in which the Group operates at the time of signing these financial statements.

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 25 April 2023, the date of signing the financial statements, the Group's forecasts and projections (to 30 April 2024) 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 consideration of severe but plausible downside scenarios including a threefold increase in utility prices, and a 10% inflationary uplift in other costs.

The Group had cash reserves at 31 December 2022 of £205 million, as well as a further £30 million cash in the parent company, Pinnacle Topco Limited. Combining these with the available RCF facility gives a total liquidity position of £380 million at 31 December 2022. Under the severe but plausible downside scenarios modelled, the Group would maintain a minimum liquidity of £210 million for the entire forecast period to April 2024.

Based on these forecasts, and with no leverage or cash flow covenants until at least August 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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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.

Vending and consumables income is recognised at a point in time. Income from gift cards sold for use in the purchase of consumable items is initially deferred and recognised as revenue at the point in time when the gift card is utilised, or when it is determined that the likelihood of the gift card being utilised becomes remote (whichever is sooner). The likelihood of a gift card being utilised at a certain point in time is determined by reference to historical evidence on the timing of the use of gift cards.

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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

(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.

(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 straight line 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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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, except where the Group has control over retaining a lease beyond its contractual term. Where this is the case, the depreciation period is the shorter of 3-15 years or the expected remaining period to retain the lease
Fixtures and fittings	Straight line over 3-10 years
IT equipment	Straight line over 3-5 years

Assets which are not ready for use are presented within “Assets under construction” and are not depreciated. Once the asset is ready for use, the capitalised costs are transferred into the appropriate category within property, plant and equipment.

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.

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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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.

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 ("CGU") 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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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.

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. The estimates used in determining probability of an outflow of resources are addressed in note 3.

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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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.

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.

Notes to the consolidated financial statements (continued)

2 Summary of significant accounting policies (continued)

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.

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Group. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods an on foreseeable future transactions.

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.

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

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.

Notes to the consolidated financial statements (continued)

3 Critical accounting estimates and judgements (continued)

Provisions for leasehold dilapidations

Provisions are made for dilapidations or restoration 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 1% and 4% (2021: 1% 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 2022, management have determined that a provision is required for 223 out of its 546 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 2022 would increase by £1.8m.

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 5% to 10% (2021: 5% to 10%). 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-approved budgets for a 5 year period after the end of the reporting period are used. It is then assumed that no further growth in profits will occur 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.

At 31 December 2022, the Group has recognised a deferred tax asset of £52.5m (2021: £23.5m) on carried forward losses of £217.2m (£97.7m). The carried forward losses recognised as an asset are expected to be fully utilised by 2033. However, if taxable profits were to fall in the period beyond the 5 year forecast, the time taken to utilise carried forward losses would increase. Of the deferred tax asset on losses, £1.4m is expected to be utilised within 12 months. Further detail of the tax charge and deferred tax asset are set out in note 11.

Notes to the consolidated financial statements (continued)

3 Critical accounting estimates and judgements (continued)

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.

In the year ended 31 December 2022, management made changes to their estimate of reasonably certain lease terms for the Group's leases based on the latest market conditions and management's expectations. This resulted in a reduction in the carrying amount of lease liabilities of £48.7m, a reduction in the carrying amount of right of use assets of £47.2m and a profit on lease modifications of £1.5m.

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:

	2022				
	United Kingdom £m	**Denmark £m**	**Switzerl-and £m**	**All other segments £m**	**Total £m**
Revenue	**308.1**	**137.6**	**29.4**	**1.3**	**476.4**
Adjusted EBITDA (before rent deferments)	**78.8**	**20.5**	**(1.1)**	**(3.1)**	**95.1**
Adjusted EBITDA (after rent deferments)	**76.4**	**20.5**	**(1.1)**	**(3.1)**	**92.7**

Notes to the consolidated financial statements (continued)

4 Operating segments (continued)

	2021 (Restated)				
	United Kingdom £m	Denmark £m	Switzerl-and £m	All other segments £m	Total £m
Revenue	193.9	89.9	18.6	-	302.4
Adjusted EBITDA (before rent deferments)	43.6	(4.6)	(4.3)	(0.3)	34.4
Adjusted EBITDA (after rent deferments)	39.9	(5.5)	(4.1)	(0.3)	30.0

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.

See note 30 for details of the restatement to the 2021 revenue and Adjusted EBITDA.

5 Revenue

Revenue is analysed by service or product as follows:

	2022 £m	2021 Restated £m
Member income	**424.3**	268.4
Vending and consumables income	**22.3**	15.9
Other revenue	**29.8**	18.1
	476.4	302.4

The Group's gyms have been fully open during 2022. As a result of the COVID 19 pandemic, the Group was forced to close some or all of its gyms across the estate from the start of 2021 until May 2021, and this caused a significant reduction in revenue for the Group during the closure and recovery periods.

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.

Notes to the consolidated financial statements (continued)

5 Revenue (continued)

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.

Included within member income in 2022 is £5.3 million related to gift cards issued, but not utilised, during 2020 and 2021. In 2022, it was concluded that the chance of these gift cards being utilised in future periods was remote and therefore the deferred income has been released in the year.

See note 30 for details of the restatement to 2021 member income, within revenue.

6 Operating profit / loss

	2022 **£m**	2021 Restated £m
Operating profit / loss is stated after charging / (crediting):		
Amortisation of intangibles	**22.1**	23.4
Depreciation of property, plant & equipment		
- owned assets	**48.3**	43.3
- right of use property assets	**61.4**	59.7
- right of use equipment assets	**3.5**	6.4
Loss on disposal of property, plant & equipment	**1.3**	3.3
Impairment of intangible assets (note 12)	**23.7**	5.8
Impairment of property, plant and equipment (note 13)	**21.4**	10.5
Profit on lease modifications	**(1.8)**	(0.2)
Exceptional administrative (income) / expense (note 7)	**(1.0)**	6.9

The 2021 impairment of property, plant and equipment has been restated. See notes 13 and 30 for further details.

Notes to the consolidated financial statements (continued)

7 Exceptional administrative income / 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:

	2022 £m	2021 £m
Integration, transition and restructuring costs	**0.4**	2.1
Costs relating to the exploration of capital fund raising	**-**	10.9
One-off costs related to the COVID-19 pandemic	**-**	0.2
Exploration of acquisition and expansion opportunities	**-**	0.7
Exceptional administrative costs	**0.4**	13.9
Settlement on break of lease	-	(5.9)
VAT receivable on historical exceptional expenses	(1.4)	(1.1)
Exceptional administrative income	**(1.4)**	(7.0)
Exceptional administrative (income) / expense	**(1.0)**	6.9

Integration, transition and restructuring costs of £0.4m in 2022 relate to the rebranding of the Fitness World business in Denmark to PureGym. Further costs in relation to the rebranding are expected to be incurred in 2023.

Integration, transition and restructuring costs in 2021 of £2.1m 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.

Also in 2021, £10.9m of costs were incurred in the exploration of, and preparation for, capital fund raising options, and costs of £0.7m were incurred relating to the exploration of expansion opportunities in the USA.

On 3 November 2020, the landlord of a UK site exercised their lease break option and agreed settlement consideration of £11.0m. 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 £5.9m recognised in 2021.

During 2022, a £1.4m credit (2021: £1.1m credit) was recognised in relation to VAT recoverable on exceptional expenses incurred in previous periods. This recovery had previously been determined to be not probable and therefore the payment of VAT was treated as an exceptional expense.

Notes to the consolidated financial statements (continued)

8 Auditors' remuneration

The remuneration of the auditors is analysed as follows:

	2022 £m	2021 £m
Audit of the parent company and Group financial statements	**0.1**	0.1
Audit of subsidiary financial statements	**0.7**	0.5
Other assurance-related services	**-**	2.9
	0.8	3.5

Other assurance-related services of £16,400 were received during 2022.

9 Employees and directors

	2022 £m	2021 £m
Wages and salaries	**103.4**	80.2
Social security costs	**6.5**	4.8
Other pension costs	**3.4**	3.6
	113.3	88.6

In 2021, 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 £17.4m in the year ended 31 December 2021. Grants received were netted off the related costs in the statement of comprehensive income. No such grants were received in 2022.

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 £2.9m (2021: £3.1m) and outstanding pension contributions at the year-end were £0.3m (2021: £0.2m).

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 Group, which have service and vesting conditions attached and are therefore in the scope of IFRS 2 'Share based payments'. Two tranches of shares have been issued (the "2017 shares" and the "2022 shares"). The directors have applied a valuation model to calculate a grant date fair value of these shares for IFRS 2 purposes. The 2017 shares have been valued at £2.39 per share. During the year ended 31 December 2022, the estimated vesting date of the 2017 shares was re-assessed and extended. The resulting adjustment to employee expenses has been re-calculated retrospectively and recognised in 2022. Consequently, a charge of £0.1m has been recognised during the year (2021: £0.4m) and is included within wages and salaries.

Notes to the consolidated financial statements (continued)

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:

	2022 No.	2021 No.
Central support	**603**	594
Operations	**6,305**	6,411
	6,908	7,005

Total emoluments relating to Directors are as follows:

	2022 £m	2021 £m
Aggregate emoluments	**1.5**	2.2
Contributions to defined contribution schemes	**-**	-
	1.5	2.2

One director was a member of the defined contribution schemes as at 31 December 2022, with total contributions in the year of £10,000 (31 December 2021: one with total contributions of £7,000).

The amounts set out above include emoluments in respect of the highest paid director totalling £1.0m (2021: £1.4m).

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

	2022 £m	2021 £m
Bank interest received	**2.9**	-
Interest income on finance lease receivables	**-**	0.1
Other interest received	**-**	0.2
Foreign exchange gain	**-**	15.9
Total finance income	**2.9**	16.2

Notes to the consolidated financial statements (continued)

10 Finance income and costs (continued)

	2022 **£m**	2021 £m
Interest on bank loans and overdrafts	**0.5**	0.4
Interest payable on lease liabilities	**47.3**	47.0
Commitment fees	**1.5**	1.5
Unwind of discount on provisions	**0.2**	0.1
Amortisation of capitalised finance costs	**4.1**	4.1
Unwind of discount on issue of senior secured notes	**4.3**	4.1
Interest on senior secured notes	**50.3**	50.2
Interest payable to Group undertakings	**37.8**	35.2
Foreign exchange loss	**8.0**	-
Total finance costs	**154.0**	142.6

Interest and finance charges paid for financial liabilities not at fair value through profit or loss totalled £146.0m (2021: £142.6m).

11 Income tax credit

	2022 **£m**	2021 £m
Current tax:		
- Corporation tax on loss for the period	**-**	0.2
- Adjustment in respect of prior periods	**(0.4)**	(1.4)
Total current tax credit	**(0.4)**	(1.2)
Deferred tax:		
- Origination and reversal of timing differences	**(19.0)**	(14.3)
- Adjustment in respect of prior periods	**(15.3)**	0.2
- Effect of changes in tax rates	**0.7**	(4.4)
Total deferred tax credit	**(33.6)**	(18.5)
Total tax credit in the consolidated statement of comprehensive income	**(34.0)**	(19.7)

The corporation tax on loss for the period in the years ended 31 December 2022 and 31 December 2021 relate to losses carried back to the years ended 31 December 2019 and 31 December 2018.

Notes to the consolidated financial statements (continued)

11 Income tax credit (continued)

The tax credit for the year is higher (2021: lower) than the standard rate of corporation tax in the UK for the year ended 31 December 2022 of 19% (2021: 19%). The differences are explained below:

	2022 **£m**	2021 Restated £m
Loss before tax	**(146.5)**	(172.5)
Tax on loss at standard UK corporation tax rate of 19% (2021: 19%)	**(27.8)**	(32.8)
Effects of:		
- Depreciation not deductible for tax purposes	**0.7**	0.7
- Fixed assets permanent differences	**(3.1)**	-
- Other expenses not deductible for tax purposes	**5.0**	4.8
- Adjustment in respect of prior periods	**(15.7)**	(1.2)
- Income not taxable	**(0.2)**	(4.7)
- Impact of rate differences	**(1.1)**	(4.4)
- Unrecognised tax losses and other deductions	**2.4**	12.7
- Group relief surrendered for nil consideration	**7.3**	6.7
- Overseas tax rate differences	**(1.5)**	(1.5)
Total tax credit for the period	**(34.0)**	(19.7)

2021 loss before tax and the tax on loss at standard UK corporation tax rate of 19% have been restated. A corresponding increase in 2021 unrecognised tax losses has been recognised. There is no restatement of the total tax credit for 2021. Further details on the restatement are provided in note 30.

The standard rate of corporation tax in the UK was 19% throughout the year (2021: 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 £m	Leases £m	Provisions £m	Losses £m	Total £m
At 1 January 2021	4.4	10.9	2.3	13.5	31.1
Adjustment in respect of prior periods	(0.1)	-	0.1	(0.2)	(0.2)
Foreign exchange movement	-	(0.1)	(0.1)	(0.4)	(0.6)
Income statement credit / (charge)	0.6	1.0	(0.6)	10.6	11.6
At 31 December 2021	4.9	11.8	1.7	23.5	41.9
Adjustment in respect of prior periods	1.2	(0.1)	0.3	11.6	13.0
Foreign exchange movement	(0.1)	0.1	0.2	0.8	1.0
Income statement credit / (charge)	(8.5)	1.2	0.6	16.6	9.9
At 31 December 2022	**(2.5)**	**13.0**	**2.8**	**52.5**	**65.8**

Adjustments to losses in respect of prior periods relate to finalisation of calculations on the UK corporate interest restriction, and conclusion of judgements on the deductibility of expenses in relation to IT projects and costs incurred in the exploration of capital fundraising options in 2021.

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 £92.0m (2021: £110.6m) and the unrecognised deferred tax asset totalled £23.0m (2021: £26.7m). 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.

Deferred tax liabilities

The movement in deferred tax liabilities is as follows:

	Non-qualifying assets acquired through business combinations £m	Property, plant and equipment £m	Intangible assets £m	Total £m
At 1 January 2021	3.8	4.8	29.0	37.6
Foreign exchange movement	-	-	(1.2)	(1.2)
Income statement credit	(0.6)	(4.8)	(1.7)	(7.1)
At 31 December 2021	3.2	-	26.1	29.3
Adjustment in respect of prior periods	(1.2)	-	(1.1)	(2.3)
Impact of rate changes	0.7	-	-	0.7
Foreign exchange movement	-	-	0.6	0.6
Income statement credit	(0.6)	-	(8.5)	(9.1)
At 31 December 2022	**2.1**	**-**	**17.1**	**19.2**

Notes to the consolidated financial statements (continued)

12 Intangible assets

	Goodwill £m	Brands £m	Customer Relationships £m	Development Projects in Progress £m	Software £m	Total £m
Cost						
1 January 2022	700.7	90.5	73.8	8.9	23.2	897.1
Additions	-	-	-	6.0	0.5	6.5
Disposals	-	-	-	(8.7)	(0.3)	(9.0)
Foreign exchange differences	16.3	2.0	4.3	0.1	0.6	23.3
31 December 2022	717.0	92.5	78.1	6.3	24.0	917.9
Accumulated amortisation						
1 January 2022	12.5	19.6	34.4	8.6	17.1	92.2
Charge for the year	-	4.3	13.4	-	4.4	22.1
Impairment	-	23.3	-	-	0.4	23.7
Disposals	-	-	-	(8.7)	(0.3)	(9.0)
Foreign exchange differences	1.0	1.6	2.3	0.1	0.6	5.6
31 December 2022	13.5	48.8	50.1	-	22.2	134.6
Net book value						
1 January 2022	688.2	70.9	39.4	0.3	6.1	804.9
31 December 2022	**703.5**	**43.7**	**28.0**	**6.3**	**1.8**	**783.3**

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

	Goodwill £m	Brands £m	Customer Relationships £m	Development Projects in Progress £m	Software £m	Total £m
Cost						
1 January 2021	714.9	92.5	77.9	9.2	19.0	913.5
Additions	-	-	-	3.8	1.7	5.5
Transfer from property, plant and equipment (note 13)	-	-	-	-	0.5	0.5
Disposals	-	-	-	(0.8)	-	(0.8)
Transfers	-	-	-	(2.7)	2.7	-
Foreign exchange differences	(14.2)	(2.0)	(4.1)	(0.6)	(0.7)	(21.6)
31 December 2021	700.7	90.5	73.8	8.9	23.2	897.1
Accumulated amortisation						
1 January 2021	13.1	11.0	22.1	9.2	11.2	66.6
Charge for the period	-	4.6	13.4	-	5.4	23.4
Impairment	-	4.1	-	0.8	0.9	5.8
Disposals	-	-	-	(0.8)	-	(0.8)
Foreign exchange differences	(0.6)	(0.1)	(1.1)	(0.6)	(0.4)	(2.8)
31 December 2021	12.5	19.6	34.4	8.6	17.1	92.2
Net book value						
1 January 2021	701.8	81.5	55.8	-	7.8	846.9
31 December 2021	**688.2**	**70.9**	**39.4**	**0.3**	**6.1**	**804.9**

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

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

	2022 £m	2021 £m
United Kingdom	**0.4**	0.8
Denmark	**23.3**	1.0
Switzerland	**-**	4.0
Total impairment loss	**23.7**	5.8

Development Projects in Progress and Software consist of capitalised development costs, being an internally generated intangible asset.

During the year ended 31 December 2022, the Group has begun the process of re-branding the Danish estate from Fitness World to PureGym. As a result, an impairment of £23.3m has been recognised to fully write down the Fitness World brand. The remaining net book value in relation to Brands at 31 December 2022 relates to the PureGym brand. This had an amortisation period of 20 years from the date acquired and has a remaining amortisation period of 15 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 2021. These assets have a useful life of 5 years and a remaining amortisation period of 2 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 five-year period.

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

	2022 £m	2021 £m
United Kingdom	**462.8**	462.8
Denmark	**180.8**	171.1
Switzerland	**59.9**	54.3
	703.5	688.2

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

Notes to the consolidated financial statements (continued)

12 Intangible assets (continued)

	31 December 2022		
	UK	**Denmark**	**Switzerland**
Annual capital expenditure on existing estate (£m)	36	17	4
Long-term growth rate (%)	1.9	2.0	1.0
Pre-tax discount rate (%)	11.0	9.3	8.4

	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

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 168 basis points to at least 11.0%. An impairment would also have been recognised if operating cashflows in the forecast period were to have been more than 9.0% lower than forecast. 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 73 basis points to at least 9.1%. An impairment would also have been recognised if operating cashflows in the forecast period were to have been more than 9.2% lower than forecast. No reasonably possible changes in other assumptions would be expected to lead to an impairment of the Switzerland goodwill.

An impairment of the goodwill in United Kingdom would have been recognised if the pre-tax discount rate were increased by more than 150 basis points to at least 12.5%. An impairment would also have been recognised if operating cashflows in the forecast period were to have been more than 9.2% lower than forecast. No reasonably possible changes in other assumptions would be expected to lead to an impairment of the United Kingdom goodwill.

Notes to the consolidated financial statements (continued)

13 Property, plant and equipment

	Right of use assets	Leasehold costs	Leasehold improv-ements	Assets under constru-ction	Fixtures & fittings	IT equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
1 January 2022	586.1	16.0	245.0	0.4	120.0	6.5	974.0
Additions	71.2	1.1	62.0	16.0	28.9	2.2	181.4
Transfers	(3.4)	-	6.7	(8.1)	4.8	-	-
Disposals	(55.2)	(0.1)	(11.5)	-	(18.3)	(0.2)	(85.3)
Foreign exchange differences	17.5	0.6	1.8	-	1.9	0.2	22.0
31 December 2022	**616.2**	**17.6**	**304.0**	**8.3**	**137.3**	**8.7**	**1,092.1**
Accumulated depreciation							
1 January 2022	157.8	3.0	74.4	-	58.9	3.9	298.0
Transfers	(4.1)	-	-	-	4.1	-	-
Charge for the year	64.9	1.0	26.7	-	18.8	1.8	113.2
Impairment	10.8	0.2	8.1	-	2.3	-	21.4
Disposals	(3.6)	(0.1)	(8.4)	-	(17.9)	(0.1)	(30.1)
Foreign exchange differences	7.3	-	0.6	-	0.6	0.1	8.6
31 December 2022	**233.1**	**4.1**	**101.4**	**-**	**66.8**	**5.7**	**411.1**
Net book value							
1 January 2022	428.3	13.0	170.6	0.4	61.1	2.6	676.0
31 December 2022	**383.1**	**13.5**	**202.6**	**8.3**	**70.5**	**3.0**	**681.0**

Notes to the consolidated financial statements (continued)

13 Property, plant and equipment (continued)

	Right of use assets	Leasehold costs	Leasehold improv-ements	Assets under constru-ction	Fixtures & fittings	IT equipment	Total
	£m	£m	£m	£m	£m	£m	£m
Cost							
1 January 2021	545.8	11.2	228.4	3.4	108.5	6.8	904.1
Additions	59.1	4.7	18.8	0.6	14.3	0.3	97.8
Transfer to intangible assets (note 12)	-	-	-	-	-	(0.5)	(0.5)
Transfers	-	-	3.4	(3.4)	-	-	-
Disposals	(4.7)	-	(4.1)	-	(1.4)	-	(10.2)
Foreign exchange differences	(14.1)	0.1	(1.5)	(0.2)	(1.4)	(0.1)	(17.2)
31 December 2021	**586.1**	**16.0**	**245.0**	**0.4**	**120.0**	**6.5**	**974.0**
Accumulated depreciation							
1 January 2021	90.4	2.0	51.6	-	39.9	2.6	186.5
Charge for the year	66.1	0.9	23.2	-	17.9	1.3	109.4
Impairment	6.7	0.1	1.8	-	1.9	-	10.5
Disposals	(1.9)	-	(1.9)	-	(0.7)	-	(4.5)
Foreign exchange differences	(3.4)	-	(0.3)	-	(0.2)	-	(3.9)
31 December 2021	**157.9**	**3.0**	**74.4**	**-**	**58.8**	**3.9**	**298.0**
Net book value							
1 January 2021	455.4	9.2	176.8	3.4	68.6	4.2	717.6
31 December 2021 (Restated)	**428.2**	**13.0**	**170.6**	**0.4**	**61.2**	**2.6**	**676.0**

A prior year adjustment has been recognised to increase 2021 impairment of property, plant and equipment by £1.2m from £9.3m to £10.5m See note 30 for further details on the restatement.

13 Property, plant and equipment (continued)

An impairment loss of £21.4m has been recognised for the year (2021: £10.5m) 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:

	2022 £m	2021 £m
United Kingdom	**10.4**	5.3
Denmark	**9.9**	-
Switzerland	**1.1**	5.2
Total impairment loss	**21.4**	10.5

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 £42.7m (2021: £31.2m) 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 all gyms open for more than 1 year due to the macroeconomic situation in the second half of 2022 which caused government bond yields to rise, thus increasing discount rates in the United Kingdom and Denmark territories. The value in use of the impaired gyms is based on estimated cashflows forecast to be generated post 1 January 2023.

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 operating cash flows for the gyms reviewed for impairment were to be 5% below forecasted levels, an additional impairment of £4.5m would have been recognised. If the discount rate applied in the calculations were to be 50 basis points higher, an additional impairment of £1.2m would have been recognised.

Disposals of the cost of right-of-use assets in the year of £55.2m (2021: £4.7m) relate to the termination of leases and reductions in lease terms due to changes in the estimate of reasonably certain lease termination dates. These have been treated as lease modifications under IFRS 16.

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

	2022 £m	2021 £m
Properties	**371.9**	415.3
Equipment	**11.2**	12.9
Total net book value	**383.1**	428.2

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

	2022 £m	2021 £m
Properties	**61.4**	59.7
Equipment	**3.5**	6.4
Total	**64.9**	66.1

Notes to the consolidated financial statements (continued)

14 Inventories

	2022 £m	2021 £m
Finished goods and goods for resale	**5.0**	3.7

Inventories recognised as an expense during the year ended 31 December 2022 amounted to £16.4m (2021: £9.8m). These were included in cost of sales. Inventories written off during the year ended 31 December 2022 totalled £0.7m (2021: £0.4m).

15 Trade and other receivables

Current

	2022 £m	2021 Restated £m
Trade receivables	**6.6**	5.0
Loss allowance	**-**	(0.3)
Trade receivables – net	**6.6**	4.7
Prepayments	**13.9**	10.1
Other debtors (gross and net)	**8.2**	4.5
Finance lease receivable	**-**	0.5
Loss allowance	**-**	(0.5)
Finance lease receivable - net	**-**	-
	28.7	19.3

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 2022 is £nil (2021: £0.3m) as all trade receivables and other debtors are current and the expected loss rate for the Group as a whole is 0% (2021: 2%). Trade receivables written off in the year totalled £nil (2021: £nil).

A prior year adjustment has been recognised to reduce 2021 net trade receivables by £1.7m from £6.4m to £4.7m, and reduce 2021 prepayments by £6.5m from £16.6m to £10.1m. See note 30 for further details on the restatement.

Notes to the consolidated financial statements (continued)

15 Trade and other receivables (continued)

Non-current

	2022 £m	2021 £m
Finance lease receivable	**-**	1.3
Loss allowance	**-**	(1.3)
Finance lease receivable – net	**-**	-
Other debtors (gross and net)	**6.1**	6.2
Amounts owed by group undertakings	**1.1**	-
	7.2	6.2

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). During the year ended 31 December 2022, modifications were made to the Group's sub-leasing arrangements resulting in these no longer being classified as finance leases.

16 Trade and other payables

	2022 £m	2021 Restated £m
Trade creditors	**42.0**	24.8
Other taxation and social security	**1.9**	2.6
Other liabilities	**1.6**	2.2
Accrued expenses	**47.9**	41.8
Interest and commitment fee accruals	**13.5**	13.4
Contract liabilities – membership income	**25.7**	29.7
VAT payable	**-**	1.9
	132.6	116.4

Revenue recognised during 2022 that was included in the contract liabilities balance at the beginning of the period totalled £29.6m (2021: £36.3m). The amounts included in contract liabilities at 31 December 2022 are expected to be recognised in revenue during the next reporting period.

Contract liabilities – membership income has decreased by £4.0m between 31 December 2021 and 31 December 2022. This is due to a migration of the operating model in Switzerland, where a higher proportion of customers now benefit from monthly no-contract memberships, rather than annual, paid in-advance deals, and due to the release of deferred income on gift cards in Denmark.

A prior year adjustment has been recognised to increase 2021 contract liabilities – membership income by £0.7m from £29.0m to £29.7m, and reduce 2021 VAT payable by £0.6m from £2.5m to £1.9m. See note 30 for further details on the restatement.

Notes to the consolidated financial statements (continued)

17 Lease liabilities

	2022 £m	2021 £m
Current lease liabilities	**74.4**	85.0
Non-current lease liabilities	**455.2**	490.0
	529.6	575.0

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 £117.5m (2021: £98.2m).

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 £5.1m relating to rent concessions agreed in the year. In 2021, an amount of £17.8m was recognised relating to both Danish government contributions towards rent received in the year and rent concessions agreed in the year.

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

	2022 £m	2021 £m
Government loans	**-**	3.8
Other short-term financing	**-**	2.0
	-	5.8

Notes to the consolidated financial statements (continued)

18 Borrowings (continued)

Non-current

	2022 £m	2021 £m
€490m 5.500% Senior Secured Notes at principal value	**434.1**	411.3
Discount on issue of Senior Secured Notes	**(10.6)**	(14.3)
€490m 5.500% Senior Secured Notes	**423.5**	397.0
£430m 6.375% Senior Secured Notes	**430.0**	430.0
Capitalised issue costs	**(8.8)**	(13.1)
Senior Secured Notes net of issue costs	**844.7**	813.9
Amounts owed to Group undertakings	**543.8**	506.4
Government loans	**-**	2.7
	1,388.5	1,323.0

Of the amounts owed to Group undertakings, £432.7m (2021: £399.5m) accrue interest at 8% and £111.1m (2021: £106.4m) accrue interest at 4.375%. These amounts are repayable on 30 November 2027. Also within amounts owed to Group undertakings is £nil (2021: £0.4m) which is interest free and repayable on demand.

Financing

The Group has £430 million of Senior Secured Notes ("the Sterling Notes") and €490 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes").

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 €422.8 million representing a discount on issue of €22.3 million. 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 seven international institutions (Barclays Bank PLC, Jefferies Finance LLC, Royal Bank of Canada, 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 2022 and 31 December 2021, 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 consolidated financial statements (continued)

19 Provisions

	Non-current		Current	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Dilapidations provision	**14.7**	9.8	**4.5**	0.2
Defined pension benefits	**-**	0.2	**-**	-
Total	**14.7**	10.0	**4.5**	0.2

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

	Dilapidations provision £m	**Other provisions £m**	**Total (excluding pensions) £m**
Carrying amount at 1 January 2021	9.9	2.5	12.4
Additions during the year	0.6	-	0.6
Unwind of discount	0.1	-	0.1
Release during the year	(0.3)	(0.2)	(0.5)
Utilisations during the year	-	(2.2)	(2.2)
Foreign exchange movements	(0.3)	(0.1)	(0.4)
Carrying amount at 1 January 2022	10.0	-	10.0
Additions during the year	10.9	**-**	10.9
Unwind of discount	0.2	**-**	0.2
Utilisations during the year	(2.6)	**-**	(2.6)
Foreign exchange movements	0.7	**-**	0.7
Carrying amount at 31 December 2022	**19.2**	-	**19.2**

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 1 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. Included within additions during the year is a £10.8m uplift in estimated outflows on leases which existed prior to 2022 which were reassessed due to changes in forecast cost of restoration, expected likelihood of outflows being payable, and discount rates.

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.

Notes to the consolidated financial statements (continued)

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 £m	Fair value of plan assets £m	Total £m
As at 1 January 2021	(2.4)	1.8	(0.6)
Current service cost	(0.5)	-	(0.5)
Past service cost	-	-	-
Interest (expense) / income	-	-	-
Administration expenses	-	-	-
Amounts recognised in P&L	(0.5)	-	(0.5)
Actuarial gain	0.5	-	0.5
Return on assets	-	-	-
Amounts recognised in other comprehensive income	0.5	-	0.5
Employee contributions	(0.3)	0.3	-
Employer contributions	-	0.3	0.3
Benefit payments	0.4	(0.4)	-
Foreign exchange movements	0.1	-	0.1
At 31 December 2021 and 1 January 2022	**(2.2)**	**2.0**	**(0.2)**
Current service cost	(0.4)	-	(0.4)
Past service cost	-	-	-
Interest (expense) / income	-	-	-
Administration expenses	-	(0.1)	(0.1)
Amounts recognised in P&L	(0.4)	(0.1)	(0.5)
Actuarial gain	0.5	-	0.5
Return on assets	-	-	-
Amounts recognised in other comprehensive income	0.5	-	0.5
Employee contributions	(0.3)	0.3	-
Employer contributions	-	0.2	0.2
Benefit payments	0.2	(0.2)	-
Foreign exchange movements	(0.2)	0.2	-
At 31 December 2022	**(2.4)**	**2.4**	**-**

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

Notes to the consolidated financial statements (continued)

19 Provisions (continued)

The significant actuarial assumptions used were as follows:

	2022	2021
Discount rate	**2.2%**	0.3%
Interest credit on retirement savings	**1.0%**	1.0%
Salary growth rate	**2.2%**	1.0%
Pension growth rate	**0.0%**	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:

	2022	2021
0.25% increase in discount rate	**(1.7%)**	(2.5%)
0.25% decrease in discount rate	**1.9%**	2.7%
0.25% increase in salary	**0.4%**	0.7%
0.25% decrease in salary	**(0.5%)**	(0.6%)
0.25% increase in pension	**0.7%**	1.1%

20 Financial instruments

	2022 £m	2021 Restated £m
Financial assets measured at amortised cost		
Cash and cash equivalents	**204.6**	31.9
Trade receivables	**6.6**	4.7
Other debtors	**14.3**	10.7
Amounts owed by Group undertakings	**1.1**	-
	226.6	47.3
Financial liabilities measured at amortised cost		
Trade creditors	**42.0**	24.8
Other liabilities (current)	**1.6**	2.2
Other liabilities (non-current)	**2.0**	1.9
Accrued expenses	**47.9**	41.8
Interest and commitment fee accruals	**13.5**	13.4
Government loans	**-**	6.5
Other short term financing	**-**	2.0
Lease liabilities	**529.6**	575.0
Amounts owed to Group undertakings	**543.8**	506.3
Senior secured notes	**853.5**	827.0
	2,033.9	2,000.9

2021 trade receivables have been restated. See notes 15 and 30 for further detail.

Notes to the consolidated financial statements (continued)

20 Financial instruments (continued)

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.

	Carrying value		**Fair value**	
	2022 £m	2021 £m	**2022 £m**	2021 £m
Financial liabilities				
€490m 5.500% Senior Secured Notes	**423.5**	397.0	**378.5**	419.9
£430m 6.375% Senior Secured Notes	**430.0**	430.0	**371.4**	435.2

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 2022, the €490 million Euro Notes had a carrying amount of £423.5m (2021: £397.0m) based on an amortised cost of €478.1m (2021: €473.0m) and an exchange rate of 0.886 (2021: 0.839). Had the exchange rate at 31 December 2022 been 10% higher, then the Group's loss for the year would have increased by £42.3m (2021: £39.5m). 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.

Notes to the consolidated financial statements (continued)

21 Financial risk management objectives and policies (continued)

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 2022 and 31 December 2021, 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 (2021: £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 undiscounted contractual cash flows on financial liabilities and includes contractual future interest payments:

	2022				
	Within 1 year £m	**Between 1-5 years £m**	**More than 5 years £m**	**Total contractual cash flows £m**	**Carrying amount £m**
Trade and other payables	105.0	2.0	-	**107.0**	**107.0**
Lease liabilities	109.6	322.3	371.0	**802.9**	**529.6**
Borrowings	37.9	1,713.2	-	**1,751.1**	**1,397.3**
Total financial liabilities	**252.5**	**2,037.5**	**371.0**	**2,661.0**	**2,033.9**

	2021				
	Within 1 year £m	Between 1-5 years £m	More than 5 years £m	Total contractual cash flows £m	Carrying amount £m
Trade and other payables	82.3	1.8	-	84.1	84.1
Lease liabilities	121.6	330.4	418.1	870.1	575.0
Borrowings	42.6	963.5	778.5	1,784.6	1,341.8
Total financial liabilities	246.5	1,295.7	1,196.6	2,738.8	2,000.9

Credit risk

The Group's principal financial assets are bank balances and cash, and trade receivables. The Group's credit risk is minimised due to exposure being spread over a large number of customers who generally pay by direct debit in advance. The credit risk on liquid funds is limited because the counterparties are banks with high credit ratings assigned by international credit-rating agencies. Quantitative data is included in the consolidated statement of financial position and in note 15.

Notes to the consolidated financial statements (continued)

22 Share capital

	2022 £m	**2022 No.**	2021 £m	2021 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**2.8**	**275,000,002**	0.1	5,000,002

On 3 February 2022, the Company issued an additional 270,000,000 ordinary shares with an aggregate nominal value of £2.7 million for total consideration of £270 million.

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

	2022 £m	2021 Restated £m
Loss before income tax	**(146.5)**	(172.5)
Adjustments for:		
Net finance cost	**151.1**	126.4
Depreciation	**113.2**	109.4
Amortisation	**22.1**	23.4
Impairment of property, plant and equipment	**21.4**	10.5
Impairment of intangible assets	**23.7**	5.8
Share based payments charge	**0.1**	0.4
Loss on disposal of property, plant and equipment	**1.3**	3.3
Profit on lease modifications	**(1.8)**	(0.2)
Non-cash adjustment to lease liabilities due to rent concessions	**(5.1)**	(5.0)
Exceptional costs	**(1.0)**	6.9
Changes in working capital		
(Increase) / decrease in inventories	**(1.2)**	0.6
(Increase) / decrease in trade and other receivables	**(8.3)**	7.4
Decrease in trade and other payables	**(0.7)**	(18.3)
(Decrease) / increase in provisions	**(3.0)**	0.3
Cash generated from operations	**165.3**	98.4

As a result of the prior year adjustment explained in note 30, 2021 loss before income tax increased by £6.5m from £166.0m to £172.5m, 2021 impairment of property, plant and equipment increased by £1.2m from £9.3m to £10.5m, 2021 decrease in trade and other receivables increased by £3.7m from £3.7m to £7.4m, and 2021 decrease in trade and other payables decreased by £1.6m from £19.9m to £18.3m.

Notes to the consolidated financial statements (continued)

24 Changes in liabilities arising from financing activities

	Lease liabilities £m	Borrowings £m	Total £m
Liabilities arising from financing activities at 1 January 2021	588.1	1,281.5	**1,869.6**
Financing cash flows	(49.0)	47.5	**(1.5)**
New leases and lease modifications	51.2	-	**51.2**
Foreign exchange adjustments	(13.1)	(26.4)	**(39.5)**
Interest expense	47.0	39.3	**86.3**
Interest payments (presented as operating cash flows)	(49.2)	-	**(49.2)**
Liabilities arising from financing activities at 31 December 2021	**575.0**	**1,341.9**	**1,916.9**
Financing cash flows	(61.2)	(9.0)	**(70.2)**
New leases and lease modifications	12.6	-	**12.6**
Foreign exchange adjustments	12.2	22.3	**34.5**
Interest expense	47.3	42.1	**89.4**
Interest payments (presented as operating cash flows)	(56.3)	-	**(56.3)**
Liabilities arising from financing activities at 31 December 2022	**529.6**	**1,397.3**	**1,926.9**

25 Government grants

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

	2022 £m	2021 £m
Government contributions towards wages and salaries	**-**	17.4
Government compensation towards fixed costs	**-**	23.8
	-	41.2

In the year ended 31 December 2021, 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 2022 of £1.4m (2021: £12.2m).

Notes to the consolidated financial statements (continued)

26 Capital and other commitments

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

	2022 £m	2021 £m
Contracts for future capital expenditure not provided	**2.0**	1.1

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 2022 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 2022 and 31 December 2021 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 2022, amounts owed to fellow Group companies includes £543.8m owed to the immediate parent company, Pinnacle Midco 2 Limited, repayable on 30 November 2027 (2021: £506.0m), and £1.1m owed by the ultimate UK parent company, Pinnacle Topco Limited (2021: £0.4m owed to Pinnacle Topco Limited). Associated interest charged to the income statement in the year totalled £37.8m (2021: £35.1m).

30 Correction of £5.3m error overstating Swiss revenue in 2021

In 2022, management identified a computational error in the way in which revenue was being calculated in the Swiss operating segment, impacting the 2021 and previous financial years.

The error was confined to the Swiss operating segment and resulted from the use of legacy systems for the calculation of revenue, which had only been used by the Swiss operating segment. These had been in place since before the operating segment's acquisition by the Group.

The error resulted in an overstatement of revenue, and a corresponding overstatement of prepayments and trade receivables (presented in the Balance Sheet within trade and other receivables) and understatement of contract liabilities – membership income (presented in the Balance Sheet under trade and other payables). The error also resulted in an overstatement of VAT payable (presented in the Balance Sheet under trade and other payables) in line with the overstatement of revenue.

Notes to the consolidated financial statements (continued)

30 Correction of £5.3m error overstating Swiss revenue in 2021 (continued)

As a result of the error, the December 2021 impairment review of the property, plant and equipment of the CGUs in Switzerland was reconsidered. In doing so the value in use of the 6 affected gyms was reduced by £1.2 million and an additional impairment of that amount has been recognised.

The error has been corrected by restating each of the affected financial statement line items for the prior periods as follows:

Balance sheet (extract)	31 December 2021 £m	Increase / (Decrease) £m	31 December 2021 (Restated) £m
Property, plant and equipment	677.2	(1.2)	**676.0**
Trade and other receivables	27.5	(8.2)	**19.3**
Trade and other payables	(116.3)	(0.1)	**(116.4)**
Net liabilities	**(467.7)**	**(9.5)**	**(477.1)**
Accumulated losses	(474.8)	(9.5)	**(484.3)**
Total Equity	**(467.6)**	**(9.5)**	**(477.1)**

Balance sheet (extract)	31 December 2020 £m	Increase / (Decrease) £m	1 January 2021 (Restated) £m
Trade and other receivables	37.6	(4.4)	**33.2**
Trade and other payables	(143.5)	1.4	**(142.1)**
Net liabilities	**(313.6)**	**(3.0)**	**(316.6)**
Accumulated losses	(329.4)	(3.0)	**(332.4)**
Total Equity	**(313.6)**	**(3.0)**	**(316.6)**

Statement of comprehensive income (extract)	2021 £m	Profit Increase / (Decrease) £m	2021 (Restated) £m
Revenue	307.7	(5.3)	**302.4**
Other administrative expenses	(332.3)	(1.2)	**(333.5)**
Operating loss	**(39.6)**	**(6.5)**	**(46.1)**
Loss for the year	**(146.3)**	**(6.5)**	**(152.8)**
Total comprehensive expense for the year	**(154.4)**	**(6.5)**	**(160.9)**

Company statement of financial position

as at 31 December 2022

	Note	**2022 £m**	2021 £m
Non-current assets			
Investments	6	**309.2**	308.2
Other receivables	7	**976.0**	954.6
Deferred tax asset		**-**	0.8
		1,285.2	1,263.6
Current assets			
Other receivables	7	**-**	0.1
Cash at bank		**-**	-
		-	0.1
TOTAL ASSETS		**1,285.2**	1,263.7
Current liabilities			
Other payables	8	**(14.0)**	(14.1)
		(14.0)	(14.1)
Non-current liabilities			
Borrowings	9	**(1,486.8)**	(1,360.3)
		(1,486.8)	(1,360.3)
TOTAL LIABILITIES		**(1,500.8)**	(1,374.4)
NET LIABILITIES		**(215.6)**	(110.7)
Equity			
Called up share capital	10	**2.8**	0.1
Share premium account		**271.2**	3.9
Accumulated losses		**(489.6)**	(114.7)
TOTAL EQUITY		**(215.6)**	(110.7)

Loss and total comprehensive expense for the year is £374.9m (2021: £39.2m).

The notes on pages 81 to 89 are an integral part of these financial statements. The financial statements of Pinnacle Bidco PLC, registered number 11038859, on pages 79 to 89 were approved by the board of directors and authorised for issue on 25 April 2023 and were signed on its behalf by:

A Wood

Director

Company statement of changes in equity
for the year ended 31 December 2022

	Share capital £m	Share premium £m	Accumulated losses £m	Total £m
Balance as at 1 January 2021	0.1	3.9	(75.5)	(71.5)
Loss and total comprehensive expense for the year	-	-	(39.2)	(39.2)
Balance as at 31 December 2021	**0.1**	**3.9**	**(114.7)**	**(110.7)**
Issue of ordinary shares	2.7	267.3	-	**270.0**
Loss and total comprehensive expense for the year	-	-	(374.9)	**(374.9)**
Balance as at 31 December 2022	**2.8**	**271.2**	**(489.6)**	**(215.6)**

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 £374.9m (2021: £39.2m).

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

The Directors have carefully evaluated the Going Concern basis of preparation in the context of the Company, and the Pinnacle Bidco Group, of which it is a part. In doing so, they have taken account of the Group's ongoing recovery from COVID-19 and the impact of the inflationary environment and cost-of-living pressures affecting the countries in which the Group operates at the time of signing these financial statements.

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 25 April 2023, the date of signing the financial statements, the Group's forecasts and projections (to 30 April 2024) 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 consideration of severe but plausible downside scenarios including a threefold increase in utility prices, and a 10% inflationary uplift in other costs.

Notes to the company financial statements (continued)

2 Summary of significant accounting policies (continued)

The Group had cash reserves at 31 December 2022 of £205 million, as well as a further £30 million cash in the parent company, Pinnacle Topco Limited. Combining these with the available RCF facility gives a total liquidity position of £380 million at 31 December 2022. Under the severe but plausible downside scenarios modelled, the Group would maintain a minimum liquidity of £210 million for the entire forecast period to April 2024.

Based on these forecasts, and with no leverage or cash flow covenants until at least August 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 £0.1m (2021: £0.1m). 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 (2021: 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 (2021: 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

	2022 **£m**	2021 £m
At 1 January	**308.2**	308.2
Acquisition of additional shares in Gym Topco Limited	**270.0**	-
Impairment of investment	**(269.0)**	-
At 31 December	**309.2**	308.2

During the year ended 31 December 2022, the Company recognised an impairment of its investment in Gym Topco Limited of £269.0m. This reflects a value in use of the investment of £309.2m compared to a carrying amount prior to the impairment of £578.2m. It was determined that it was not practicable to calculate a fair value for the investment based on the available information as there are no recent, suitably comparable transactions on which to base a valuation.

The calculated value in use of the investment reflects the present value of future cash flows of the Company's direct and indirect subsidiary undertakings, comprising of the UK, Denmark and Switzerland operating segments as described in note 4 of the consolidated financial statements. Key assumptions applied in the calculation of the present value of future cash flows of those operating segments are as described in note 12 of the consolidated financial statements.

If operating cash flows for the operating segments included in the valuation were to be 5% below forecasted levels, an additional impairment of £112.9m would have been recognised. If the discount rate applied in the calculations were to be 50 basis points higher, an additional impairment of £77.6m would have been recognised.

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.

Notes to the company financial statements (continued)

6 Investments (continued)

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
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

Notes to the company financial statements (continued)

6 Investments (continued)

Company name	Principal activity	Registered office address
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.*

7 Other receivables

Non-current

	2022 £m	2021 £m
Amounts due from group undertakings	**1,037.2**	954.6
Loss allowance	**(61.2)**	-
Amounts due from group undertakings - net	**976.0**	954.6

The table below breaks out amounts due from group undertakings based on interest rate and repayment date:

	2022 £m	2021 £m
8% loan repayable 30 November 2027	**500.3**	461.9
4.375% loan repayable 30 November 2027	**364.6**	386.2
4.375% loan repayable 30 November 2030	**111.1**	106.5
Amounts due from group undertakings	**976.0**	954.6

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 £611.4m 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 £425.8m due from Pinnacle Europe Holdings Limited ("Pinnacle Europe") 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 2022 as a direct consequence of the impact of the COVID-19 pandemic on the Group's operations. The Company determined an expected credit loss rate of 14% by estimating the expected level of cash which could be generated by Pinnacle Europe ahead of the loan's due date.

Notes to the company financial statements (continued)

7 Other receivables (continued)

The expected credit loss rate calculated reflects the impact of COVID-19, and the related downturn in performance of Pinnacle Europe's trading subsidiaries, on the ability of Pinnacle Europe to generate cash to repay the loan. The loan arose from the acquisition of Pinnacle Europe's subsidiaries in Denmark and Switzerland, and the subsequent cash funding of those subsidiaries through the COVID-19 lockdown period.

Current

	2022 £m	2021 £m
Prepayments	**-**	0.1

8 Other payables

	2022 £m	2021 £m
Accruals	**13.6**	13.6
Other creditors	**0.4**	0.5
	14.0	14.1

9 Borrowings

	2022 £m	2021 £m
€490m 5.500% Senior Secured Notes at principal value	**434.1**	411.3
Discount on issue of Senior Secured Notes	**(10.6)**	(14.3)
€490m 5.500% Senior Secured Notes	**423.5**	397.0
£430m 6.375% Senior Secured Notes	**430.0**	430.0
Capitalised issue costs	**(8.8)**	(13.1)
Senior secured notes net of issue costs	**844.7**	813.9
Amounts owed to group undertakings	**642.1**	546.4
	1,486.8	1,360.3

Notes to the company financial statements (continued)

9 Borrowings (continued)

The table below breaks out amounts owed to group undertakings based on interest rate and repayment date:

	2022 £m	2021 £m
8% loan repayable 30 November 2027	**528.5**	437.8
4.375% loan repayable 30 November 2027	**111.1**	106.4
4.375% loan repayable 30 November 2030	**2.5**	2.2
Amounts owed to group undertakings	**642.1**	546.4

Financing

The Company has £430 million of Senior Secured Notes ("the Sterling Notes") and €490 million of Senior Secured Notes ("the Euro Notes") in issue (together, "the Notes").

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 €422.8 million representing a discount on issue of €22.3 million. 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 seven international institutions (Barclays Bank PLC, Jefferies Finance LLC, Royal Bank of Canada, 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 2022 and 31 December 2021, 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

	2022 £m	**2022 No.**	2021 £m	2021 No.
Allotted, authorised, called up and fully paid				
Ordinary shares of £0.01	**2.8**	**275,000,002**	0.1	5,000,002

On 3 February 2022, the Company issued an additional 270,000,000 ordinary shares with an aggregate nominal value of £2.7 million for total consideration of £270 million.

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 2022 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.

PureGym
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