Registration number: 11385914

Deuce Midco Limited

Annual Report and Consolidated Financial Statements

for the Year Ended 31 December 2022

Deuce Midco Limited

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Deuce Midco Limited

Company Information

Directors	MA Stephens BJ Magnus DG Earlam PJ Burrows SA Lloyd MJ Evans R Barnes
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Registered Number	11385914
Bankers	Bank of Scotland Level 3 City Mark 150 Fountainbridge Edinburgh EH3 9PE
Auditor	Deloitte LLP Statutory Auditor London United Kingdom

Deuce Midco Limited

Strategic Report for the Year ended 31 December 2022

The directors present their strategic report on the Group for the year ended 31 December 2022.

Deuce Midco Limited ("the Company") is the holding company for David Lloyd Leisure Limited ("DLL") and other subsidiaries (together "the Group"). David Lloyd Clubs is a European health, sport and leisure group with 130 clubs as at 31 December 2022 – 101 clubs in the UK and a further 29 clubs across mainland Europe.

Our clubs provide the perfect destinations to stay fit and healthy as a family. Helping our members to live a better life with a focus on physical and mental wellbeing and a sense of belonging is core to our ethos and member offering. Facilities include state-of-the-art gyms, heated indoor and outdoor pools, top-class racquets facilities, well-equipped group exercise studios and luxurious spas. And if you need a place to meet with friends or enjoy a bite to eat, our clubs also feature large and inviting spaces to work, relax and socialise.

We're proud to welcome more than 730,000 members and currently employ nearly 10,000 team members, including leading experts in fitness, racquet sports and swimming. We have an expert health and fitness team of over 2,000 and more than 680 tennis professionals work with us. David Lloyd Clubs' racquets facilities are unparalleled with over 1,080 tennis courts as well as over 400 badminton and squash courts.

Business model

Our business model focuses on operating a portfolio of strategically located clubs in suburban areas, with each site situated in close proximity to affluent population. Our clubs include heated indoor and outdoor pools, top-class racquet facilities, well-equipped group exercise studios, state-of-the-art gyms, luxurious spas, crèches, family-oriented club rooms and outdoor spaces, lounges with restaurants and bars as well as a fully complementary digital offering, thereby delivering an outstanding customer experience to our members. The range and breadth of services offered by our clubs results in longer customer dwell-time, increased secondary spending, higher market penetration and improved retention rates compared to our competitors.

Our highly differentiated offering and size give us a significant competitive advantage. New entrants face high barriers to entry and significant challenges to replicate our proposition. Few catchment areas can support more than a single club with a comparable offering to a typical David Lloyd club.

Our business model is underpinned by a large number of affluent members who are loyal and generate significant recurring subscription income. Our members value health and wellbeing and have high disposable income. More than 75% of the Group's revenues are generated through member subscriptions with most members on rolling contracts requiring them to provide 3 months' notice to leave.

Membership income, the economic engine of our business, is driven by three fundamental levers: yield, new member sales and attrition. All three levers are highly interdependent, with a change in one typically having consequential impact on the others. All three levers depend on member satisfaction, which sits at the heart of our operating model. Our continued investment into our staff and club facilities improves member satisfaction, reducing attrition, providing scope for yield enhancements, and attracting new high-quality members.

Our history

David Lloyd Clubs was founded in 1982 by former professional tennis player David Lloyd, who sought to create high-quality fitness destinations suitable for the whole family. He recognised that the UK had very few indoor sport and leisure facilities, so created a pioneering concept of combining fitness and tennis in a family-friendly environment.

The very first David Lloyd Club to open its doors was David Lloyd Heston - a club which is still open and operating today. By 1995 there were 18 clubs in the UK, at which point the business was bought by British leisure giant Whitbread. David Lloyd Leisure was purchased by private equity firm TDR in 2013, and since then our total number of clubs has increased from 90 to 130 through a combination of acquisition and new builds.

Deuce Midco Limited

Strategic Report for the Year ended 31 December 2022

Our Vision and Values

Our vision is "My Club for My Life". Our clubs are places for me-time, together-time, work, rest and play-time under one roof, improving the lives of our members and providing a home away from home under our "My Club for My Life" ethos. However you use us, we can improve your life for all of your life and you will feel part of your Club. Nobody builds a sense of belonging like David Lloyd Clubs.

We're passionate about making our clubs a comfortable and welcoming place to come together with friends, family and fellow members to maintain physical and mental health and wellness. We seek to create an environment where all members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives.

Modern lives are busier than ever and finding meaningful time for those we care about the most can be difficult. Even when we do, we are still competing for full attention with the likes of social media and easy access to film and TV. At David Lloyd Clubs, we believe that we can provide the perfect place for 'We Time' - precious, quality time spent together with friends and family in a positive, active environment.

Our clubs are also a place to relax and socialise and we encourage the sense of community and belonging that being part of a club can generate. Whether that's with some quiet time in our serene spa facilities, getting to know new people by regularly attending a group exercise class, chatting to fellow members in the spa, or using our Clubrooms to meet as a group for coffee, at David Lloyd Clubs, we're much more than just a gym.

Our ability to deliver "My Club for My Life" is supported by six values:

- **Passion To Serve** - We all have genuine passion, enthusiasm and energy to serve our members and make a real difference. We lead the business by seeing it through our customers' eyes and actively seeking opportunities to listen and take action.
- **Will To Win** - We work together to deliver stunning results, and by bringing our A-game every day we find ways to make winning happen.
- **Freedom To Succeed** - We make the best decisions for the business close to the customer. We give each other the confidence, trust and support to succeed and fail.
- **Edge** - We do the right thing, not the easiest thing.
- **We Play** - We create a positive, energetic environment and actively seek out ways to have fun whilst working with each other and with members.
- **Thank You** - We recognise great performance and team members who have gone the extra mile. We thank our teams and individuals personally and we celebrate success.

Management places an emphasis on creating an environment of local autonomy, empowering local teams to make decisions for local members, which drives both employee engagement and service quality. The Group builds value by growing member count through the delivery of service excellence, by enhancing member engagement, investing in high quality club facilities and the expansion of the club portfolio both in the UK and Europe.

Strategies - Delivering My Club For My Life

The core of our strategy is to continue to deliver sustainable, profitable growth by focusing on delivering a premium experience for our club members. With our well-invested estate and wide product offering, we put our members at the heart of our proposition, enabling us to deliver yield and growth. Through reinvesting our profits into our existing estate to deliver an ever-improving member experience, we create a virtuous circle that is proven and sustainable. Delivering My Club for My Life has broader impacts beyond our members and our clubs, and our strategy is evolving to ensure the continued work of our team and members continues to make a positive impact on the communities and environment in which we will want to thrive.

Strategies - Delivering My Club For My Life (continued)

To deliver My Club for My Life we have developed strategies and key performance indicators to measure our progress.

1. Live Life Better

Help every member live life better by expanding our wellness expertise and use of personalised data. This is measured by:

- In club attendance > 75%
- App penetration of 85% by 2024

In club attendance is measured through average monthly unique gateswipes. 2022 saw 69.9% of members attend our clubs January to December 2022 compared to 67.4% for the period August to December 2021. The shortfall against target principally reflects a higher mix of members with a lower tenure, who have lower average attendance.

App penetration is measured by number of members that have downloaded the app. Our new app was launched in April 2022 and as at December 2022 our app penetration was 68% with c. 404k unique app users. UK app penetration is at 72% whilst Europe averages 54%. Our target remains achieving an app penetration of 85% by 2024.

2. Do Good

Become positively integrated in the local community and put sustainability at our heart.

This is measured by:

- Carbon Net Zero by 2030

We want to do better, so we've set ourselves the target of 2030 to become carbon net zero. We have identified five key areas that will help us to deliver this:

- Reducing our water and energy consumption.
- Generating our own renewable energy onsite.
- Reducing indirect emissions across our supply chain.
- Using sustainable modes of transport.
- Reducing plastics and waste.

So far, we have executed the following actions which have resulted in a reduction of 10,000+ tonnes CO2e. That’s over 10,200 flights to New York and back.

- Invested £20million on energy efficient technology in our clubs, including low energy LED lighting on our tennis courts, overhauling our heating and cooling systems and upgrades to our Building Management Systems.
- In 2022 we completed our first UK and European solar pV installs at Luton and La Finca/Madrid. These generate 25% and 35% of the club’s total energy requirements.
- Switching to green energy purchasing across clubs in the UK and Europe - 100% of our grid electricity in the UK is renewably sourced.
- Reduced total waste by 7% compared to 2021 and introduced more recyclable materials in club.
- Taken control of the amount of water we use thanks to gaining a self-supply licence – the first health and fitness club in the UK to do this.

We are currently working with external advisors to set short and long-term science-based targets. These will be submitted to the Science Based Targets Initiative for validation and approval by July 2023.

3. Belonging

Create a sense of belonging for our members so that they never want to leave.

This is measured by:

- MAT attrition 33% by 2024

MAT attrition records the rate of turnover of members, focusing efforts on long-term member retention. MAT attrition % is calculated by the total number of leavers in the last 12 months divided by opening count in the 12-month period.

Strategies - Delivering My Club For My Life (continued)

3. Belonging (continued)

The Group's MAT attrition was 38.2% in December and total attrition for the year ended 31 December 2022 was 267k. This higher attrition is in line with expectations due to a higher mix of members in their initial contract term. We manage attrition through encouraging members to use our facilities more, continued investment in our club facilities and development of our product range to provide a premium offering to our members.

4. Premiumisation

Continually innovate and improve our product quality, physically and digitally, inside and outside.

This is measured by:
- Member experience score of 85% by 2024

Member experience is measured through member satisfaction app scores via the number of 'good' and 'very good' responses as a percentage of overall responses. We achieved an average member experience score of 80.1% for the year. We continue to see challenges within Clubs where investment works are in progress. Feedback from our members focuses on cleaning and general housekeeping standards. Maintenance and speed of repairs driven by global supply chain issues were also noted as an area of concern. The Group continues to premiumise its offering to deliver yield and to further differentiate from the market. Our focus is on spa retreats and we plan to have 21 spa retreats open by Spring 2023 (27 planned to be opened by December 2023).

5. Effortless service

Develop 5-star, personalised customer service that's supported by digitally intuitive systems and removes barriers for our members and our team.

This is measured by:
- Mystery shop score of 92% by 2024

Every club has a mystery shop visit at least 6 times a year. We achieved an average mystery visit score of 91.3% for the year which was up 1.9% on our performance for May to December 2021. This was an excellent result and only short of our 2024 target by 0.7%.

6. The Best People Choose Us

We attract and keep the best people through our market leading standards, forward thinking work environment and the values that guide us. We provide a safe environment for our team members to feel supported and encouraged.

This is measured by:
- Employee engagement score of 86% by 2024

Employee engagement - measures the extent to which our employees feel passionate about their jobs, are committed to the business and put discretionary effort into their work. This is measured against a target to achieve an employee engagement score of 86%. Employee engagement is measured twice a year by way of an online employee survey. The engagement score is derived from 6 questions. The Group achieved a KPI rating of 82% in the current period which is up 4% on 2021.

In November 2022, the Group appointed a new people director and have set out new objectives to ensure David Lloyd is a great place to work for all team members and to promote equality, diversity, inclusion, health and wellbeing. See further details within the ESG section within Operational Review.

Operational review

Our post COVID-19 recovery was excellent. Driven by record-breaking New Member Sales (NMS) in 2021 we ended December 2021 with 704k members being 36k (5%) ahead of the pre-pandemic position. This momentum continued throughout 2022 with strong NMS that remained ahead of 'normal' levels. In September 2022 we reached a record member count of 742k. On a like-for-like basis our member count was up 7% on the pre-pandemic position with a further 11% increase driven by new openings and acquisitions. Q4 2022 saw lower seasonal new member sales (as we would have expected) resulting in a December 2022 closing member count of 730k being 26k (3.7%) up on prior year. The quality of our member mix remains strong with c. 52% of the total adult membership base in our premium packages.

Operational review (continued)

Our recovery was principally driven by our UK clubs with the speed of our COVID-19 bounceback surpassing all expectations. Europe was slower to recover from COVID-19. Germany has been our most challenging market since the pandemic and over Q1'22 & Q2'22 we saw member numbers drop significantly due to continuing restrictions, whilst other European territories started to level out. Germany felt the effects of COVID for an extended period. Social distancing remained in place for a prolonged period of time and culturally took longer to return to normal activities.

The Group remains highly cash generative, and we continue to invest in adjusted EBITDA enhancing projects. We have also leveraged our opening balance sheet strength to fund adjusted EBITDA accretive pipeline M&A and repay COVID deferrals. Our 2022 capital expenditure was c. £154m which we categorised as Pipeline (c. £39m), Maintenance (c. £39m), Investment and Innovation (c. £62m) and Digital Innovation (c. £14m).

Premiumisation

We are 'Premiumising' our offering to deliver yield and to further differentiate DL from other competitors. The Group has continued to develop its product range to deliver an overall premium health and wellness experience. DL bespoke products include Blaze, Cyclone, Rhythm, Battlebox, Spirit and Ign1te.

We continue to focus on spa retreats and plan to have 21 spa retreats open by Spring 2023 including new offerings at Bushey, Dublin, Epsom, Derby, Teesside, and Heston.

As we open these spa retreats we premiumise other club facilities. Not every club within the estate has the space to accommodate a spa retreat so we are reviewing how we premiumise these clubs. We continue to improve the overall offering from the look, feel and style perspective as part of our strategy to further differentiate from the market. For example, we believe there is opportunity to invest in facilities to expand and premiumise gyms, outdoor dining areas, co-working space, pools and locker areas.

Pipeline

The Group has developed a strong pipeline of sites that underpin our club roll-out programme for the next few years and has carried out extensive analysis to identify white space in target towns and cities, generating 46 and 550 potential opportunities in the UK and Europe respectively.

During 2022 the Group opened/acquired five clubs (Bicester, Cricklewood, Modena, La Finca and Serrano) giving us an unrivalled portfolio of 130 premium locations across the UK and Europe.

On 14 January 2022 the Group signed a lease for a new premium club in north-west London. The club, named David Lloyd Cricklewood Lane reopened on 20 April 2022 and the full refurbishment was completed late Summer 2022.

On 24 May 2022, the Group entered into a thirty-year lease over the land and buildings of a club in Modena, Italy, commencing 1 June 2022.

On 16 September 2022 the Group completed the purchase of two health, fitness and racquets clubs ABC Serrano and La Finca in Madrid. The total cash consideration was £12.9m (€14.8m) and the purchase was funded through existing cash reserves. The Group plans to invest over €10 million into upgrading the clubs.

David Lloyd Bicester opened on 20 September 2022 and was forward-funded by Knight Frank Investment Manager (KFIM) and is the first of a new generation of clubs incorporating more green technology and a broader range of facilities such as padel and additional space for outdoor group exercise.

The Group is committed to opening clubs in Rugby, Shawfair (Edinburgh) and Sterrebeek (Brussels) in 2023 and the pipeline for 2024/25 is strong.

On 25 February 2022 the Group exchanged contracts to build another club in Rugby. On 28 July 2022 the Group purchased the land in Rugby for £2.4m and construction has commenced.

Operational review (continued)

Pipeline (continued)
On 11 April 2022 the Group purchased land in Shawfair, near Edinburgh for £1.8m. Construction on a new David Lloyd club is underway with its opening planned for mid-2023. Funded with Scottish investment company Abrdn, this will be the Group's third club in the Edinburgh area.

On 1 June 2022 the Group acquired the former Club Santana site in Boadilla, Madrid with plans to refurbish and reopen by 2024.

Urbion is currently building a new David Lloyd club in Sterrebeek, Brussels. The Group will enter into a 35-year lease upon completion with the new club opening in Q3 2023.

In December 2022 the Group entered an agreement for lease for a new club in Berlin. Aggregate Holdings will build a new David Lloyd club as part of its prestigious FÜRST project on Berlin's Kurfürstendamm. Development is expected to be completed in 2024 with the club opening in Q1 2025.

In January 2023 the Group exchanged contracts to acquire freehold land to build a club in Bury St Edmunds subject to planning permission.

On 10 February 2023 the Group completed the acquisition of Wickwood's County Club & Spa and now have 131 operating clubs.

The Group's target is to open four or five new clubs per year, and we remain well on track to achieve our target of 150 clubs by 2027.

Innovation
We continually innovate to offer the best products and services for families and individuals in welcoming surroundings including state-of-the-art gyms, heated indoor and outdoor pools, top-class racquets facilities, well-equipped group exercise studios, luxurious spas, kids club facilities and crèches. We now offer facilities for the increasingly popular racquet sports Padel and Pickleball and we continue to implement our signature product Battlebox across more clubs.

The Group has continued to undertake qualifying R&D activity on digital projects. The Covid-19 pandemic acted as a catalyst for some R&D projects, as the Group sought to enhance its digital capabilities and offering. During 2022 the Group built a new digital platform aimed at delivering a personalised service to our members. In December 2022, 404k of our members are active users which equates to a 68% penetration rate. This is very encouraging, and we are targeting an 85% penetration rate by 2024. Our digital platform lays the foundation for digital-only members in the future, people who join might not have a David Lloyd club nearby or ex-members who have moved to a location where there's no David Lloyd club.

Environmental, Social and Governance (ESG)
As Europe's leading health, sports and leisure group, we have been helping families lead healthy and active lives for more than 30 years. The Group recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment.

The Group is working across our operations and with our partners and supply chain to fully integrate ESG into how we do business and we have taken some very significant steps in this area, that demonstrate our commitment to the Environmental Social and Governance (ESG) principles that increasingly underpin our entire business strategy.

Environmental, Social and Governance (ESG) (continued)

We are pleased with the progress we have made in the year, having made a £20m investment in energy efficiency technology and initiatives across our clubs to reduce our carbon footprint and increase our use of renewable energy. Our member experience continues to grow, with an increased focus on wellness innovation, and our team members and members continue to have a positive impact on our local communities through our charitable giving and initiatives.

In 2021, the Board established an ESG Committee to consider climate and other social and environmental risks and opportunities to improve the Group's sustainability. Our ESG committee is chaired by our Executive Chairman, Glenn Earlam with additional board attendees being Russell Barnes (Chief Executive Officer) and Patrick Burrows (Chief Financial Officer).

The ESG Committee is responsible for creating the Group's ESG strategy and for governance over its ESG programme. The ESG Committee meets quarterly and provides periodic reports and updates to the Board. During 2023 the ESG Committee will focus on compliance with Task Force on Climate-related Financial Disclosures (TCFD).

In November 2022 we appointed a new Group People Director, who is creating a 2023/2024 People Strategy to ensure the Group is a great place to work for all team members and promote equality, diversity, inclusion, health and wellbeing. The gender pay gap will feed into our social targets as we align our ESG strategy and Diversity, Equity and Inclusion Strategy for the year ahead.

Our key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business.

We are equally committed to actions and initiatives that support our other principles. This includes doing our utmost towards combating climate change by reducing our clubs' waste and using sustainable raw materials. That's why we have set ourselves the ambitious target of becoming carbon net zero by 2030 - 20 years earlier than the current UK target.

Our 2030 Carbon Net Zero Commitment

Net Zero means that across all of our clubs, we add no more greenhouse gases than we remove. We include emissions that we are directly responsible for, and we go further than this by also including emissions that occur throughout our supply chain activity. To achieve this, we will 'electrify' as much as we possibly can through deployment of renewable technologies, and then any remaining emissions will be eliminated from our supply chain.

Why should we do this now?

Our members and our team members tell us it is very important that we make a positive contribution in this area. The science tells us that global warming must not exceed 1.5C to avoid the catastrophic impacts of climate change. To achieve this, greenhouse gas emissions must be halved by 2030, and drop to net-zero by 2050. There are a lot of activities and projects we are able to commence work on imminently, which will deliver carbon reductions. The 2030 timeframe also gives us time to work out answers to the more difficult challenges.

How we will deliver our Net Zero commitment?

- Refer to the 'Do Good' strategy on page 4 of this strategic report.

What progress have we made?

- Refer to the 'Do Good' strategy on page 4 of this strategic report.

Our future plans to achieve Carbon Net Zero

We know that there is a lot more to be done, so we have put the following plans in place for the next 12 months:

- Trialling new energy efficient showers;
- PPA (solar field in Cambridgeshire) signing and the roll out of solar PV panels on the roofs of the majority of the estate;
- Installing air source pumps – to remove 70% of club carbon emissions;
- Fitting EV charging points across our clubs;

Environmental, Social and Governance (ESG) (continued)

- Reducing single use items in our clubs and adding more recycling bins;
- Launching an internal campaign to reduce energy usage;
- All new clubs will be built incorporating energy efficiency and renewable technologies.

We are currently working with external advisors to set short and long-term science-based targets. These will be submitted to the Science Based Targets Initiative for validation and approval by July 2023.

Our Communities

Doing the right thing by our members, our employees, and the communities in which we operate is something we are passionate about. A crucial part of our community responsibility is our work with numerous charities. 'DL Giving', which is all about us giving back to local causes, where our clubs are based, chosen and supported by our members and our team, whether that's through fundraising or volunteering.

In 2022, we raised over £1.7 million for charities and good causes, including £1.1 million for Change Please from the coffee sold in our UK Clubs, £287k from fundraising activities in all of our Clubs and donating the equivalent of £205k to the Stroke Association in various forms including the sharing of our expertise, materials and facilities.

In March 2022 we launched our Ukraine Humanitarian Appeal, and raised money for the Disasters Emergency Committee (DEC). Across the organisation we raised £60k during the year. The Company matched the funds raised, we are therefore very proud to have donated a huge £120k to the DEC to help the people of Ukraine. These efforts have gone towards supporting some of the 13 million people displaced by the conflict, providing a range of interventions including shelter, food, and psychological support to people who have had to leave everything behind.

In April 2020 we launched a partnership with Change Please, an award-winning coffee company with a difference; a social enterprise supporting people out of homelessness through Life Changing Coffee. Members in all our UK clubs are now enjoying Change Please coffee with 100% of the profits going towards people experiencing homelessness and offers them a living wage job, housing, training and onwards employment opportunities. David Lloyd Clubs is proud to be one of the founding contributors to Change Please and we are their biggest corporate partner. We have so far raised over £2 million, helping 190 people access training, support and / or employment. Our donations have supported training programs lasting three to six months to help trainees build the skills & confidence to move into employment.

As well as serving Change Please coffee in our Clubs, David Lloyd Clubs has gifted two mobile coffee vans which have been used to sell coffee at cultural events across the UK, such as All Points East, Standon Calling and Sports Stadia such as the Kia Oval. In 2022, these dual branded vans provided work experience for an additional 18 trainees; with one van now permanently sited in Canary Wharf. We are determined to grow our support for Change Please and the incredible work they do to support people and reduce homelessness in the future.

At the same time, we are committed to enabling our Clubs to support charities and good causes that have meaning for our members and team members in their local communities and nationally. An example being our Newbury Club who undertook a 24-hour Sportathon including tennis, squash, cycling, triathlons and classes to raise £40k for the New Life special care babies unit.

Our team and members work to have a positive impact on the communities and environment in which we all want to thrive including a re-wilding that took place at our Hampton Club. We create a sense of belonging for our members which motivates them to play an active part in the community inside and outside of our clubs.

Member Wellbeing

At David Lloyd Clubs we believe that health and fitness isn't just for January. We believe that long term health, fitness and happiness comes from a sustainable, balance and long-term approach to wellness. We help our members to live a better life with a focus on physical and mental wellbeing and provide a safe environment for members to feel supported and encouraged. As the UK's fitness industry leaders, this is why we're making a pledge to highlight

Environmental, Social and Governance (ESG) (continued)

our commitment to only encouraging healthy habits in 2022 and beyond. We're teaming up with Actress and TV Personality, Nadia Sawalha, to launch our brand's leading Wellness Pledge to urge the fitness industry as a whole to adopt and embrace a commitment to responsible wellness.

David Lloyd Clubs Wellness Pledge

• We will not work with influencers who promote rapid weight loss diets and/or exercise plans or any other unhealthy or potentially dangerous fitness quick fixes;

• We will not promote our clubs as a short-term, rapid weight loss solution in any of our advertising or marketing materials, but rather as a place to feel happy and healthy in your body, and achieve your long-term wellness goals;

• We will train all our fitness team to coach members to develop long-term healthy habits which will empower them to be mentally and physically healthy and well for life;

• We will continue to provide a wide range of activities and group exercise classes that feel inclusive and encourage people of all ages and fitness levels to be active and live long-term healthier lifestyles;

• We will not promote unrealistic body standards in any of our advertising and marketing materials, and will not digitally enhance any images to alter body shape;

We're passionate about making our clubs a comfortable and welcoming place for everybody. In 2019 the Group committed to having one Fitness Trainer aged 55 or over in each of its clubs. Sport England's Adult Lives Active survey and report published 29 April 2021 revealed a decline in the number of over 50's exercising as a result to the pandemic. In response and to inspire older people to exercise more the Group has renewed its pledge to employ more older fitness trainers.

Our People

Our people make us who we are. The Group aims to provide a happy, inviting and safe culture where our team members feel comfortable and are able to thrive. We're really passionate about our people and creating a great place to work.

Employee involvement

Employee engagement is measured twice a year by way of an online employee survey to ensure the Board is listening and responding to its employees' needs. Action plans are prepared by each department to improve engagement on an ongoing basis. The Group achieved an employee engagement score of 82% in the current period which is up 4% on 2021.

Celebrating success underpins our value of 'Thank You' and is something which lives and breathes in our clubs. One of the ways we celebrate success is through our Team Member of the Month scheme, which runs across all of our clubs. At the end of the year each club identifies their Team Member of the Year who is then invited to attend an all-expenses-paid trip overseas with their fellow winners. The trip saw our 2021 and 2020 team members of the year winners enjoy a luxury four-day trip to Dubai or Miami.

The leadership team continue to recognise the importance of career progression and personal development and we continue to promote internally through our 'Step up to General Manager' and 'Step to up HoD' development programmes. Our E-learning Management System allows all team members to access a range of e-learning training and development modules. The leadership team continue to invest in our highly popular company induction for all new or newly promoted managers which promotes our company Vision, Values and Strategies and is presented directly by the CEO and Directors.

Employee consultation

The Group places considerable value on communicating with its employees and has continued to keep them informed on matters affecting the performance of the Group. This is achieved through formal and informal meetings, the Group's employee app 'Kitbag' and regular business communication from the CEO.

Our People (continued)

Employee consultation (continued)

New employees receive an induction and any relevant job training, giving them the opportunity to learn about the Group and understand their job and what is expected of them. All employees have regular opportunities to discuss their role and responsibilities and commit to honest two-way feedback. In addition, performance is reviewed against annual objectives and personal development plans are discussed on a formal basis once a year. These form four "People Non-negotiables", which ensures that every employee has an induction, objectives, regular one-to-ones, and an end of year performance review.

Employee reward

The Group is proud to offer pay that exceeds the National Living Wage to all our UK team members, as well as ensuring our pay is competitive. From 1 April 2023, our base wage will increase to £10.52 per hour for all hourly paid employees regardless of age. We also offer benefits including Wagestream, allowing our team members the flexibility to get paid earlier than their normal monthly pay date, a contributory pension scheme and company funded Life Assurance.

All our team members receive complimentary membership at our clubs to encourage a healthy and active lifestyle, as well as significant discounts on our healthy-eating menu in our clubs, while our flexible benefits scheme allows our team to choose benefits that are important to them in a tax-efficient way. We offer a free and confidential Employee Advice Line to help our team members and their family deal with challenges that might adversely impact their health, wellbeing, or work performance.

We are conscious that many of our team members have been and continue to be impacted by the 'cost of living' crisis. To help them through this time we have made a financial hardship fund available for which team members can apply. We have also offered free meals to all employees from January to March 2023.

Every employee has personal objectives which should be aligned to the Group's strategies and key performance indicators. Individual contribution to the business is recognised through the Group's bonus scheme, which is available to all eligible salaried employees and payable upon Group and individual performance.

Employment of disabled persons

Applications for employment by disabled persons are always fully considered, bearing in mind the 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 that appropriate training is arranged. It is the policy of the Group that the training, career development and promotion of disabled persons should, as far as possible, be identical to that of other employees.

Employee health and safety

The Group is committed to taking all reasonable steps to provide a safe and healthy workplace and working environment for all team members. The assistance and training necessary for all team members to competently fulfil their duties and responsibilities is provided. The responsibility for implementing health and safety policies lies with all directors, managers and team members.

Diversity

David Lloyd Clubs is an equal opportunities employer committed to providing equal opportunities to all employees regardless of personal status and to prohibit all forms of discrimination. Alongside a commitment to promote talent from within, recruiting people from outside the industry is important to us, as it brings fresh ideas and alternative views. This is done without regard to sex, race, disability, national origin, ethnicity, sexual orientation, age or marital status. To inspire older people to exercise more, the Group has committed to having at least one Fitness Trainer aged 55 or over on average at each of its clubs.

We want David Lloyd Clubs to be a truly inclusive and consistently great place to work, where all our values shine through every day. As we move into 2023, we have a new People Team in place with a focus on Diversity, Equity and Inclusion with the goal to build an Inclusive and Winning Culture.

Gender diversity

The table below provides a breakdown of the gender of directors, senior managers and employees:

	31 December 2022		31 December 2021	
	Male	Female	Male	Female
Directors	7	-	8	-
Senior managers	153	64	154	64
Employees (Headcount)	3,972	5,748	3,991	5,694
Total	4,132	5,812	4,153	5,758

A director is defined as a statutory director of the Company or non-executive director that attends the board meetings. A senior manager is defined as someone who is a general manager, a regional manager, a regional sales manager, a senior position within club support, a direct report to the executive board or a member of the executive board. This group of senior managers are referred to as the 'transformation group'.

Appointments to the Board are made on merit considering the combination of skills, background, experience and knowledge required to give constructive challenge and achieve effective decision-making.

Gender pay

In accordance with the Equality Act 2010 (Gender Pay Gap Information) Regulations 2017, the Group’s gender pay reporting for 2022 is published on the website www.davidlloyd.co.uk. The 2022 Gender Pay Gap report is the first time since 2019 that we have not had any impact of furlough pay in the reporting.

Currently, there is a gender pay gap of 12.1% which means that the average mean pay of male team members is 12.1% higher than the average pay of female team members. This is a decline on the previous year, but last year’s reporting included furlough pay.

Our focus remains the percentage of females in senior leadership positions. The pay quartile reporting shows we have 47.8% of females in the upper quartile yet we have 59% females across the UK overall. This is the area we will focus on and predominantly on the number of females we have in our General Manager and Assistant General Manager roles.

The gender pay gap will feed into our social targets as we align our ESG strategy and Diversity, Equity and Inclusion Strategy for the year ahead.

Health and safety

As well as providing a fantastic experience for our members David Lloyd is also committed to a high standard of health and safety. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing, and health and safety. The majority of clubs attain our expected standards and the minority that do not are provided with the coaching, advice and guidance to achieve the required standards. Every club has multiple audit visits and support visits every year to drive standards, foster continual improvement and embed safety culture. All UK clubs have a UK Food Standards Agency (FSA)/Food Standards Scotland (FSS) grading of good or very good (pass in Scotland) with 90 clubs achieving the highest grading.

There is increasing consumer demand to know what is in our food. We have a comprehensive allergen menu which is available on our website, on our app and at point of sale. This highlights the fourteen major allergens in all the food we serve. Our menu proposition remains committed to enabling members to make informed decisions around health and wellness as well as providing balance and choice. We offer a menu with suitable dietary needs for vegetarians, vegans and under 600 calories. We offer a selection of drinks exempt from the sugar tax levy due to being under the threshold. Calorie information is displayed on our menu and our app in line with legislation effective from 6 April 2022.

Principal risks and uncertainties
The principal risks and uncertainties recorded below are those which we consider to be material to our business model, and which could adversely affect the operations, revenue, profit, cash flow or assets of the Group.

Member Experience
The core of our strategy is to continue to deliver sustainable, profitable growth by focusing on creating a premium experience for our club members. We generate more than 75% of the Group's revenues through member subscriptions and if we are unable to attract and retain members, it could result in a reduction in members, revenue and profitability. We mitigate this risk through encouraging members to get the best from their DLC membership, continued investment in our club facilities and development of our product range to provide a premium offering to our members. We focus on both member satisfaction and feedback and monitor club usage to maximise member experience. We invest in our team members to deliver enhanced service levels to our members.

Injury of club members
Any injury or death of a member whilst using our clubs could impact the Group's reputation and value. Failure to manage this risk could result in reputational damage, criminal fines, civil damages and regulatory fines. The key risks for the Group are drowning, child safeguarding, fire and allergens. Effective procedures have been put in place to prevent their occurrence including prominent signage around swimming pools, establishing remote pool monitoring outside lifeguarding hours and fully documented procedures and operating practices for the supervision of children within the DL Kids programme. These policies are under continuous review. The Group also takes out comprehensive insurance against these risks where this is possible.

Climate Change
Climate change is a critical global challenge. The science tells us that global warming must not exceed 1.5C to avoid the catastrophic impacts of climate change. To achieve this, greenhouse gas emissions must be halved by 2030, and drop to Net-Zero by 2050. Climate related risks can be categorised as physical and transition.

Physical risks
Extreme weather events such as storms, floods and droughts could disrupt our supply chain, operations and demand for our products. Our product offering could be impacted as services deemed recreational rather than essential (i.e. swimming pools have to close as a result of regional drought orders). Major infrastructure damage from floods could lead to periods of club closures impacting member retention and EBITDA performance.

We are in the process of developing detailed action plans for clubs at most risk to adverse weather events. The Group intends to run an internal Task Force on Climate-related Financial Disclosures (TCFD) submission during 2023 to provide a gap analysis summary, which will help prioritise future actions. Insurance policies have been taken out to replace damaged or destroyed assets and to insure against business interruption.

Transition risks
Climate-related regulation and policies such as carbon taxation/future restrictions on gas usage could impact the club's operations. To mitigate this risk new clubs will be developed to minimise gas consumption by installing renewable generation technology. We will retrofit existing clubs with heat decarbonisation technologies. The Group also intends to reduce its dependency on procurement of energy from the wholesale markets. This will be delivered by removing gas consumption (removal of CHPs & decarbonisation/electrification of heat demand), installation of onsite generation (solar PV) and procurement of renewable electricity enhanced via one or multiple corporate Power Purchase Agreements 'PPA's).

Our members tell us it is very important that we make a positive contribution to the environment. Not listening to our members could result in higher attrition and a decline in revenue. The Group is in the process of engaging an external consultant to achieve external validation and verification of the 2030 Net Zero Carbon commitment. This will include submission of targets to be approved by the Science Based Targets Initiative (SBTi). External validation will improve internal and external stakeholder confidence in our process and data.

Principal risks and uncertainties (continued)

Regulatory Compliance
The Group is subject to regulatory and legislative requirements, including health and safety, employment law, Modern Slavery Act, Bribery Act, the Listing Rules of The International Stock Exchange, taxation, General Data Protection Regulation ("GDPR") planning regulations, noise abatement and advertising and marketing regulations. Failure to comply with these requirements could lead to potential reputational damage and penalties. The Board is responsible for compliance with legislation and delegates responsibilities to the senior management team. Legal advice and expert opinion are taken when necessary. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing, and health and safety. All employees receive regular training.

Cyber and data security
The Group holds business critical and confidential information electronically. Unauthorised access, loss or disclosure of this information may lead to regulatory penalties, disruption of operations, reputational damage, and legal claims. A cyber security steering group assesses the risks posed by cyber threats and makes changes to its technologies, policies, and procedures to mitigate identified risks. Insurance policies have been taken out against this risk. Systems are protected by anti-virus software and firewalls, which are regularly kept up to date.

Information technology dependency
The Group depends on accurate, timely information from key software applications to manage its day-to-day operations. Disruption to critical IT systems could cause operational disruption as well as our ability to collect revenue leading to financial loss. To mitigate the risk our primary data systems are hosted by fully qualified organisations in suitable data centres. All memberships and business information is backed up and robust disaster recovery and business continuity plans are in place.

Financial review of the business
Across 2022 as a whole, the UK economy grew by 4.0% after 7.6% growth in 2021, as it recovered from a historic blow from the COVID-19 pandemic. UK GDP showed zero growth in Q4 2022 after a fall of 0.2% in Q3 2022 and thus narrowly avoided a recession (Source: Reuters). The main driver of the current economic downturn is the squeeze on incomes and weaker consumer spending. The increase in energy and food prices during 2022, as well as higher overall inflation, have significantly reduced households' purchasing power (Source: KPMG UK Economic Outlook December 2022). The cost of living increased sharply across the UK during 2022. The annual rate of inflation reached 11.1% in October 2022, a 41-year high, before easing in subsequent months to 10.1% in March 2023. High inflation affects the affordability of goods and services for households.

An important driver of inflation is energy prices. From January 2022 to January 2023, domestic gas prices increased by 129% and domestic electricity prices by 67%. Gas prices increased to record levels after Russia launched its full-scale invasion of Ukraine and continued to rise during much of 2022 due to cuts in Russian supply. Electricity prices are linked to gas prices and have followed a similar trend. In response the UK Government announced a new Energy Price Guarantee (effective 1 October 2022), to cap typical household bills at £2,500 a year. This was cap was extended until June 2023.

To curb inflation, the Bank of England has been steadily increasing interest rates and the base rate now stands at 4.25% at the date of this report. This results in higher mortgage payments squeezing households further. The impact of the cost-of-living crisis is most felt by lower income households as pricing pressures are on energy, food and fuel.

Our business model is underpinned by a large number of affluent members. Given our members are typically from higher income households we have been relatively protected from the worst of the cost-of-living impact.

Statutory Measures

Revenue
The Group recorded revenue of £655.3m (2021: £390.6m) an increase of £264.7m (68%) reflecting (i) the increased number of open trading days compared to the prior period when almost all clubs were closed for most of the first 3 months of 2021; and (ii) average membership numbers were higher for the year ended 31 December 2022 compared to the prior year. We closed the period with 730k members, up 26k on December 2021.

Financial review of the business (continued)

Revenue (continued)

Revenue recorded for the year ended 31 December 2021 was materially impacted as during the period clubs were closed, members were not charged a monthly subscription. Retail and other revenue were also lost during periods of closure.

Cost of sales

Cost of sales were £160.6m (2021: £126.5m) an increase of £34.1m (27%) reflecting the increased number of trading days. Gross margin increased to 75% (2021: 68%) as a result of good cost control and stock management.

Other income

Other income for the year was £16.0m (2021: £30.6m). This primarily related to construction contract revenue of £13.7m. A further £0.5m was recognised in relation to UK and European government grants, £1.1m was in relation to Irish COVID-19 interruption insurance claim proceeds, £0.6m proceeds from a VAT claim and £0.1m in relation to a research and development tax credit. In respect of the prior year other income, £17.4m was recognised in relation to the Coronavirus Job Retention Scheme; £4.3m in relation to other UK Government grants and £8.7m in relation to European employee support schemes.

Administrative expenses

Administrative expenses for the year were £66.0m (2021: £55.0m) an increase of £11.0m driven by higher costs across all categories reflecting level of activity (clubs were closed for 3.5 months of 2021) and inflation.

Other operating expenses

Other operating expenses for the year were £287.4m (2021 restated: £220.3m) being an increase of £67.1m. The increase reflected utility costs which were £16.3m higher year on year, reflecting the significant increase in wholesale gas and electrical prices as a result of geopolitical events. Rates were £16.0m up on prior year as the Group benefitted from a business rates holiday in 2021. Other significant increases included cleaning and laundry (up £11.4m) and labour (up £3.9m). Depreciation and amortisation increased by £5.4m reflecting the increased capex as well as accelerated depreciation on a number of assets following a change in the useful economic lives. The Group also incurred construction contract costs of £7.9m.

A goodwill impairment charge of £3.4m has also been recognised within other operating expenses. This relates to Meridian (£2.5m) and La Finca/Serrano (£0.9m) and is principally driven by a higher discount rate caused by the increase of risk-free rates during the year. Using the 2021 discount rate would have resulted in no impairment. The Meridian impairment also reflects that Germany has been a challenging market post pandemic.

Impairment losses on financial assets

The impairment charge of trade and other receivables (now separately identified on the income statement as impairment losses on financial assets) reflects the expected credit losses in accordance with IFRS 9. The increase against prior year is driven by the increase in member count and subscription income. The charge of £17.5m (2021: £10.6m) represents 3.3% (2021: 3.4%) of membership subscription revenues.

Loss on disposal of PPE

The Group incurred a loss on disposal of £4.1m (2021: £3.1m) which was £1.0m higher than prior year.

Operating profit

The significant increase in revenue resulted in the Group recording an operating profit for the year of £135.7m (2021: £5.6m) which was up £130.1m on prior year.

Net finance costs

Net finance costs were £9.7m (7%) lower than prior year driven by the full-year impact of lower interest rates on the senior secured notes issued in June 2021. Offsetting this was a foreign exchange loss of £14.1m primarily due to an unfavourable exchange movement on the Group’s Euro denominated borrowings.

Taxation

The tax charge for the period was £7.4m (2021: £11.6m). This is higher than the standard rate of corporation tax due to no deferred tax being recognised on losses arising from the temporarily enhanced capital allowance regime.

Financial review of the business (continued)

Taxation (continued)

The consolidated loss after taxation for the year is £9.0m (2021: £153.0m). The decrease in the statutory loss reflects the factors described above principally driven by the increase in revenue as a result of the increased number of open trading days compared to the prior period.

Non-statutory measures

Adjusted EBITDA (pre-IFRS16) is considered the key measure of profitability and is a non-statutory financial measure. It is considered by management to be the most appropriate measure to understand the underlying trading and financial performance of the Group and is the measure used to report performance to both the board and external lenders.

Adjusted EBITDA (pre-IFRS16) represents loss or profit for the financial year, before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant & equipment, exceptional items (as defined in these financial statements), share based payment charges, pre-opening costs, closed club costs, gains from construction contracts, impairments of non-current assets, costs associated with legal claims, other property related fees, integration, acquisition and aborted expenses, monitoring fees and non-executive director fees, foreign exchange differences and after rent expense on a pre-IFRS16 basis.

Reported EBITDA is a non-IFRS measure defined as earnings before net finance cost, taxation, depreciation, amortisation, profit/loss on sale of property, plant and equipment and exceptional items (see note 7).

These non-statutory financial measures have been reconciled to the loss for the financial year in the table below:

	31 December 2022 £ 000	Restated[1] 31 December 2021 £ 000
Loss for the financial year	**(8,960)**	**(152,988)**
Income tax charge	7,400	11,630
Net finance costs	137,272	147,007
Operating profit	**135,712**	**5,649**
Depreciation and amortisation	88,714	83,275
Loss on disposal of PP&E	4,096	3,122
Exceptional items (note 7)	6,321	8,686
Reported EBITDA	234,843	100,732
Rent expense	(81,555)	(77,768)
Pre-opening costs	2,172	77
Monitoring fees and non-exec director fees	2,089	2,119
Long-term incentive scheme	3,294	2,241
Costs associated with legal claim	158	-
Other property related fees	929	-
Closed club costs	480	414
Gains from construction contracts	(5,777)	-
Impairments of non-current assets	5,164	1,445
Integration, acquisition and aborted expenses	5,698	2,075
Foreign exchange difference	(476)	187
Adjusted EBITDA (pre-IFRS16)	**167,019**	**31,522**

Definitions

Rent expense - rental costs that would have been recognised in the income statement on a pre-IFRS16 basis.

Pre-opening costs - the total of all club operating costs incurred prior to the opening of a new club, primarily consisting of staff costs and marketing costs.

[1] *The 2021 column has been restated to separately disclose impairments of non-current assets which were previously included within exceptional items. There was no change to Adjusted EBITDA.*

Financial review of the business (continued)

Definitions (continued)

Monitoring fees and non-exec director fees - recurring fees relating to directors and shareholders.

Long-term incentive scheme - share based payment charges in relation to management incentive schemes.

Closed club costs - ongoing costs in relation to clubs that are permanently closed.

Gains from construction contracts – net income arising from the construction of clubs for sale and leaseback.

Costs associated with legal claims – ongoing costs associated with legal claims.

Other property related fees – costs of renegotiating leases as a direct consequence of COVID-19.

Impairment of non-current assets – the impairment charge recognised in respect of goodwill, property, plant and equipment and right-of-use assets.

Integration, acquisition and aborted expenses - costs incurred in relation to new and aborted acquisitions and integrating newly acquired clubs into the Group's systems and processes.

Foreign exchange difference - difference between rate used for Adjusted EBITDA (pre-IFRS 16) and actual exchange rate.

The Group recorded an adjusted EBITDA (pre-IFRS16) profit of £167.0m (2021 £31.5m) which was an increase of £135.5m (430%) on prior year. This result reflects our post COVID-19 recovery with the increased number of open trading days compared to the prior year and that average membership numbers were higher in 2022 than in 2021.

Financial position including capital structure

The Group has net liabilities of £386.4m (2021: £388.2m) and net current liabilities of £99.7m (2021:£55.8m) at the balance sheet date.

	31 December 2022 **£ 000**	**Restated** **31 December 2021** **£ 000**
Non-current assets excluding right-of-use assets	844,666	770,204
Right-of-use assets	1,063,094	988,470
Current assets (excluding cash)	19,609	18,163
Cash and cash equivalents	11,495	124,213
Current liabilities excluding loans and lease liabilities	(124,341)	(145,773)
Non-current liabilities excluding loans and lease liabilities	(249,481)	(250,431)
Lease liabilities	(1,048,464)	(1,002,455)
Loans and borrowings	(903,013)	(890,551)
Total net liabilities	(386,435)	(388,160)

Significant movements in the statement of financial position have been outlined below. Property, plant and equipment has increased by £76.3m driven by additions of £122.3m and assets of £3.0m acquired through business combinations offset by the annual depreciation charge of £47.2m, disposals of £6.0m, impairment charges of £1.5m and foreign exchange movements of £5.7m.

Right-of-use assets have increased by £74.6m driven by additions of £67.3m, leases of £36.8m acquired through business combinations and foreign exchange movements of £6.0m. Offsetting this was the annual depreciation charge of £33.1m, disposals of £2.0m and an impairment charge of £0.3m.

The increase in intangible assets of £15.1m is driven by additions of £16.0m, £6.0m of intangibles acquired through business combinations and a foreign exchange gain of £4.7m, offset by the annual amortisation charge of £8.4m and an impairment charge of £3.4m.

Trade and other payables have decreased by £19.5m. This is principally driven by trade payables (down £14.4m) due to timing of payments.

Financial position including capital structure (continued)
Lease liabilities have increased by £46.0m principally driven by interest (£70.2m), lease liabilities acquired through business combinations (£20.8m), additions (£72.8m) and a foreign exchange loss (£9.8m) offset by lease payments of £116.7m (principal and interest).

The net deferred tax liability has increased by £11.4m principally driven by the deferred tax charge in the income statement and net deferred tax liabilities recognised on the acquisition of the La Finca and Serrano clubs.

Loans and borrowings have increased by £12.5m driven by an unfavourable exchange movement (£13.8m) on the Group's Euro denominated borrowings and the amortisation charge on the loan fees of £2.9m. This was partially offset by the repayments of the Mezzanine Bond (€3.2m) and the loan from the Swiss Government (CHF 0.5m).

The key terms of the Group's borrowing facilities at 31 December 2022 are summarised below:

	Loan amount	**Maturity**	**Interest**	**Amount drawn**
Sterling senior secured notes	£645.0m	15/06/2027	5.50%	£645.0m
Euro senior secured notes	€300.0m	15/06/2027	4.75% + EURIBOR	€300.0m
Super senior revolving credit facility	£125.0m	18/12/2026	3.25% + SONIA	£Nil
Kratus Inversiones D.A.C loan	€2.8m	31/03/2043	2.00%	€2.8m
Unicaja Banco loan	€3.6m	31/03/2029	1.75%	€3.6m

The senior secured notes ("Notes") are listed on The International Stock Exchange, for which Deuce FinCo plc is the issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 5.50%, payable semi-annually. Interest on the Euro Notes accrues at 4.75% plus three-month EURIBOR, payable quarterly in arrears. The Notes are due to be repaid in full on 15 June 2027.

The Group also has access to a £125m super senior revolving credit facility ("SSRCF") which has a maturity date of 18 December 2026. The SSRCF is subject to a financial covenant relating to Consolidated Leverage Ratio (EBITDA to Net Debt ratio) only if the SSRCF is at least 40% drawn. The SSRCF is not drawn at the statement of financial position date and remains undrawn post year-end.

The Group has a gearing ratio of 125% (2021: 126%) based on its total borrowings over total equity and borrowings.

Net debt reconciliation
Net debt is defined as total borrowings (being loans and borrowings excluding loan arrangement fees) plus lease liabilities less cash and cash equivalents.

	31 December 2021 £ 000	**Cash flows £ 000**	**Non-cash movement £ 000**	**31 December 2022 £ 000**
Cash and cash equivalents	124,213	(113,390)	672	11,495
Loans and borrowings (excl. loan arrangement fees)	(906,813)	10,407	(19,979)	(916,385)
Net debt (excl. IFRS 16 lease liabilities)	**(782,600)**	**(102,983)**	**(19,307)**	**(904,890)**
Lease liabilities	(1,002,455)	116,718	(162,727)	(1,048,464)
Net debt	**(1,785,055)**	**13,735**	**(182,034)**	**(1,953,354)**

Cash and cash equivalents has reduced by £112.7m driven by cash ouflows in relation to our 2022 capex investment programme and repayment of COVID deferrals. The non-cash movement represents foreign exchange movements on cash held in foreign currency.

Net debt reconciliation (continued)
Loans and borrowings (excluding loan arrangement fees) have increased by £9.6m primarily as a result of a non-cash foreign exchange loss (£13.8m) on the Group's Euro denominated borrowings. Other non-cash movements relate to the recognition of external loans of £6.6m (€7.5m) arising from the acquisition of the La Finca and Serrano clubs. These external loans were immediately settled and are included as a cash outflow. Other significant cash flow movements relate to the Mezzanine Bond (€3.2m) which was fully repaid in January 2022 and the loan from the Swiss Government (CHF 0.5m) which was fully repaid in April 2022.

Overall, net debt (excluding IFRS 16 lease liabilities) has increased by £122.3m.

The increase in lease liabilities was driven by the recognition of lease liabilities on acquisition of the La Finca and Serrano clubs, entering into new leases Bicester, Cricklewood and Modena, and lease re-measurements as a result of rent reviews. Other non-cash movements related to interest on lease liabilities charged and foreign exchange movements. Overall net debt has increased by £168.3m.

Cash flow
The Group generated a net cash inflow from operating activities of £210.6m driven by reported EBITDA of £234.8m offset by working capital movements (£26.7m). This was more than offset by cash outflows from investing activities (£156.7m) and financing activities (£167.3m). The significant cash outflows within investing activities related to our 2022 capex programme and business combinations. Significant cash outflows within financing activities related to repayment of lease liabilities (£116.7m principal and interest), repayment of bank borrowings (£10.4m) and payment of interest (£50.4m) principally on the sterling and euro senior secured notes offset by proceeds from funders for sale and leasebacks (£10.5m).

Outlook
We continue to see no recessionary signs to date but remain cautious of the macroeconomic environment. We will continue to offer our members excellent value for money and focus on our pipeline of new clubs and spa retreats. Shawfair, Edinburgh club is expected to open in Summer 2023, and we plan to have 21 spa retreats open by Spring 2023 including new offerings at Bushey, Dublin, Epsom, Derby, Teesside, and Heston.

Despite the well publicised squeeze on consumer spending from cost-of-living pressures and rising inflation, we believe we are well positioned given our differentiated offering and affluent member base. There is a broad realignment towards health and well-being in a post-COVID world which is why health and wellness remains essential spend for many of our members. Demand for our product remains strong and our closing member count was 731k at 31 March 2023. Our members reaction to the price rise effective 1st January 2023 was better than anticipated with lower member attrition than expected. Our energy costs for 2023 are now more than 90% hedged, and as prices have stabilised, we now expect our energy costs to be towards the bottom of the £75-£80m guidance range.

Tax strategy
Our tax strategy applies to all subsidiaries of the ultimate UK corporate parent Deuce Topco Limited (together "The Group") from the date of publication until superseded. It is in accordance with paragraph 19 of Schedule 19 to the Finance Act 2016 and applies to the taxes and duties set out in paragraph 15(1) of that Schedule.

Our tax strategy is underpinned by principles of full compliance, transparency and sound risk management. The Group acts lawfully and with integrity and, in our behaviour, we aspire to the highest professional and ethical standards.

Ultimate responsibility for The Group's tax strategy and compliance rests with The Board of Deuce Midco Limited (Deuce Topco Limited is a parent of Deuce Midco Limited), as delegated to the Chief Financial Officer ("CFO"). The CFO is the Board member with responsibility for tax matters and day-to-day management of the tax affairs delegated to the Head of Tax.

The Group manages tax risks and tax costs in a manner consistent with applicable regulatory requirements and with shareholders' best long-term interests, taking into account operational, economic and reputational factors. The Group seeks to reduce the level of tax risk arising from its operations as far as is reasonably practicable by ensuring that reasonable care is applied in relation to all processes which could materially affect compliance with its tax obligations.

Tax strategy (continued)
The Group's approach to taxation is reviewed periodically in light of changes to the general business environment, our business operations, tax laws and regulations and emerging business and tax risks.

The Group has established and maintains robust policies and compliance processes and controls to ensure the integrity of its tax returns and the timely and accurate payment of tax. The Group maintains documented tax policies and procedures in relation to key tax processes which are regularly reviewed.

The Group manages tax risks to ensure compliance with legal requirements in a manner which ensures payment of the right amount of tax. At all times the Group seeks to comply fully with its regulatory and other obligations and to act in a way which upholds its reputation as a responsible corporate citizen. The Group takes a balanced approach to tax risk and does not engage in arrangements that are designed solely to reduce tax liabilities.

We seek to develop and maintain professional, transparent, and constructive relationships with all tax authorities in the jurisdictions in which we operate, based upon mutual trust and respect. Where appropriate we ensure there is access to relevant information demonstrating the integrity of our tax processes, returns and payments.

Anti-bribery and anti-corruption
The Group has anti-bribery and anti-corruption policies in place which are available to all employees via the intranet. All giving and receiving of gifts, hospitality and entertainment are logged on the gift, hospitality and entertainment register and any issues are reported to the designated Bribery Act Compliance Officer. In addition, employees are required to complete mandatory training on anti-bribery and anti-corruption via the learning management system.

Human rights: Modern Slavery Act 2015
The Group is fully committed to respecting the human rights of our employees and to compliance with all applicable laws. David Lloyd Clubs has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all its business dealings and relationships to ensure that modern slavery is not taking place in the business or supply chains.

In accordance with section 54(1) of the Modern Slavery Act 2015, the Group's slavery and human trafficking statement for the financial year ended 31 December 2022 has been published on our website: www.davidlloyd.co.uk.

Section 172(1) statement
Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole. This statement sets out how the directors have complied throughout 2022 with the requirements of Section 172 of the Companies Act 2006.

The Role of the Board
The Board's principal responsibility is to promote the long-term success of the Group through creating shareholder value and contributing to a healthy society and a sustainable environment. The Board's key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business. In delivering this objective, consideration of the long-term consequences and impact on different stakeholders are key to the Board's decision-making process.

The Board sits at the Deuce Midco Limited level (referred to as "the Board" throughout) and consists of six directors and one non-executive director. As is normal for large companies, the Deuce Midco Limited Board delegates authority for day-to-day management of the Company and its subsidiaries to the Executive Board and then engages management in setting, approving and overseeing execution of the business strategy and related policies. The corporate governance structure and group policies are set by the Board of Deuce Midco Limited. The Board ensure that when they are applying these group policies, they have due regard to our fiduciary duties and responsibilities.

Section 172(1) statement (continued)
The Board meets monthly and is advised of stakeholder views in several different ways, including:

- The CEO's Board Report;
- Health and Safety, Strategy and Finance reports;
- Employee survey reports;
- The Business Plan process; and
- Corporate governance, and regulatory development updates.

All formal Board meetings are minuted and these minutes are formally approved at the following meeting.

a. The likely consequences of any decisions in the long-term.	The Board's decision making is focused around ensuring that the Company is sustainable in the long term. Each year, the Board considers our Business Plan, which assesses the opportunities and risks for the Group over this timeframe. On an annual basis the Executive Board meets to consider the impact of broader socio-economic trends on a longer timescale. Each year the Board considers the Group's strategy and key performance indicators and how we will achieve our goal. This is communicated and discussed with the wider transformation group at an annual conference. Significant capex investment appraisals potential acquisitions and disposals are reviewed and subsequently approved/declined by the Board. In making these decisions, the Board considers the financial merits of each proposal and whether it is aligned to our strategy and premium offering. During the year, the Board approved the acquisition of 2 clubs in Europe being La Finca and ABC Serrano (Madrid, Spain). The Board also approved entering into a lease for a club in Modena Italy, and the purchase of the land and buildings of a club Boadilla in Madrid, Spain. The Board also approved the acquisition of Wickwood's County Club & Spa which subsequently completed in February 2023. The Board receives regular and timely information (at least monthly) on all key aspects of the business including the financial performance of the business, health and safety, performance against the Group's strategies and key performance indicators, as well as updates on external factors, including the cost of living crisis, the conflict in Ukraine and global supply chain issues. These external factors are discussed to ensure that the potential impact of decisions, particularly in the long-term, are understood and considered.
b. The interests of the company's employees.	The Board places considerable value on communicating with its employees and has continued to keep them informed on matters affecting them as employees and on the various factors affecting the performance of the Group. This is achieved through formal and informal meetings, the Group's employee app 'Kitbag' and periodic business communications from the CEO. Employee engagement is measured twice a year by way of an online employee survey to ensure the Board is listening and responding to its employees' needs. The Board recognised that the 'cost of living' crisis has caused considerable financial hardship for our team members and made a hardship fund available for which team members can apply. We have also offered free meals to all employees from January to March 2023.

Section 172 (1) statement (continued)

b. The interests of the company's employees. (continued)

The Board reviews people matters with regular discussions on Health and Safety and employee engagement. Juliett Cattermole joined the Group in November 2022 as Group People Director. Juliett's focus is on Diversity, Equity and Inclusion. Read more on our engagement with employees on pages 10 to 12 of the strategic report.

c. The need to foster the company's business relationships with suppliers, customers and others

The Board recognises the importance of our key stakeholders to the long-term sustainable success of the Group. This is reflected in the focus on building stronger relationships with members, employees, suppliers and shareholders.

Members - Our vision "My Club For My Life" seeks to create an environment where our members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives.

Member satisfaction sits at the heart of our operating model. We improve member satisfaction, reduce attrition, and attract new high-quality members through investment into our staff and club facilities.

Feedback from our members is monitored continuously through multiple channels. Read more on our engagement with members on page 5 of the strategic report.

Investors - Management are responsible to the Group's shareholders and key stakeholders (including our bondholders) for the proper conduct and success of the business through setting the strategy, values, and culture of the Group. Shareholders are represented on the Board and thus engaged through the monthly board meetings.

Suppliers – We recognise the importance of our supply chains and invest in our relationships with them to ensure that they are treated in a fair and consistent way. Recently we have worked with our cleaning contractors to offer their employees use of our club facilities to aid recruitment, retention and engagement. During the year, the Board received updates on our payment practices and on our supply chain, where relevant, from our business line leaders.

d. The impact of the company's operations on the community and environment.

The Board recognises the importance of its role and responsibility in contributing to a healthy society and a sustainable environment. The Board is committed to actions and initiatives that support our other Environmental, Social and Governance (ESG) principles. This includes doing our utmost towards combating climate change.

During the year, the Board has continued to develop the strategy and targets to meet our 2030 Carbon Net Zero Commitment. The Board monitors the Group's corporate responsibility, primarily through regular reports from the ESG Committee. The Board recognises that increasing energy efficiency and reducing our dependency on gas is aligned to increasing EBITDA.

Read more in the Environmental, Social and Governance (ESG) section in the Strategic report on page 7 to 10.

e. The desirability of the company maintaining a reputation for high standards of business conduct.

The Board takes the reputation of the Group seriously and is committed to a high standard of health and safety. Clubs are assessed on a regular basis on food safety, fire safety, legionella, licensing and health and safety. The majority of clubs attain our expected standards and the minority that do not are provided with the coaching, advice and guidance to achieve the required standards.

Section 172(1) statement (continued)

e. The desirability of the company maintaining a reputation for high standards of business conduct (continued).	The Board is fully committed to respecting the human rights of our employees and to compliance with all applicable laws. David Lloyd Clubs has a zero-tolerance approach to modern slavery and is committed to acting ethically and with integrity in all its business dealings and relationships to ensure that modern slavery is not taking place in the business or supply chains. All new team members are required to complete a compulsory online training module on 'Modern Slavery' to drive awareness and understanding. In accordance with section 54(1) of the Modern Slavery Act 2015, the Group's slavery and human trafficking statement for the financial year ended 31 December 2022 has been published on our website: www.davidlloyd.co.uk
f. The need to act fairly between members of the company.	The Board seeks to act fairly between all members of the Group by seeking to align the interests of the majority shareholders (TDR) and minority shareholders (Management). Management shareholders as a body are provided with access to legal representation. The Board is represented by all parties and the Board culture allows for healthy and constructive debates.

Approved by the Board on 21 April 2023 and signed on its behalf by:

....

PJ Burrows
Director

The directors present their report and the audited consolidated financial statements of the Group for the year ended 31 December 2022.

Principal activity
The principal activity of the Company is that of a holding company for David Lloyd Leisure Limited ("DLL") and other subsidiaries (together "the Group"). David Lloyd Clubs is a European health, sport and leisure group with 130 clubs as at 31 December 2022 – 101 clubs in the UK and a further 29 clubs across mainland Europe.

Ownership
The ultimate parent of the Company is Deuce Holding S.a r.l. and the ultimate controlling party is a group of investment funds managed by TDR Capital LLP (registered in the UK). TDR Nominees Limited holds the investment on behalf of the following fund Partnerships: TDR Capital III Holding LP (74%) and TDR Capital Deuce Co-investment L.P. (26%). TDR Capital ("TDR") is a leading private equity firm with over €15 billion of assets under management. TDR typically acquire majority stakes in strong, market-leading European companies with potential for robust growth and resilience through economic cycles.

TDR had followed David Lloyd for many years, believing it to be a unique leisure concept and a premium property-backed asset. TDR saw it had strong potential to grow by investing capital across the existing estate, expanding into new geographies and significantly enhancing David Lloyd's customer proposition through a series of operational improvement initiatives. In November 2013 TDR acquired the Group from UK-based property company London & Regional and Caird Capital LLP.

TDR have since worked with management to improve all aspects of the member experience in order to cement the Group's position as a market leader in premium family leisure.

Under TDR's ownership the group re-launched it's new site development programme in the UK and built out its position in Continental Europe through the acquisition of small portfolios of clubs as well as standalone sites, bringing the total estate to 130 sites compared to 90 at acquisition.

During 2022, the Group opened two new clubs in the UK being Cricklewood Lane and Bicester and acquired two clubs in Europe being La Finca and ABC Serrano (Madrid, Spain). The Group also entered into a lease for a club in Modena, Italy and purchased the land and buildings of a club Boadilla in Madrid, Spain. Post year-end the Group completed the acquisition of Wickwood's County Club & Spa and now have 131 operating clubs.

Directors of the Group
The directors, who held office during the year, and up to the date of signing the consolidated financial statements are given below:

MA Stephens
BJ Magnus
DG Earlam
PJ Burrows
SA Lloyd
PW Philipson (resigned 31 July 2022)
MJ Evans
R Barnes

Directors of the Group (continued)

Mark Stephens

Mark joined TDR Capital in September 2012. Prior to joining TDR, Mark worked at Morgan Stanley in London as an Associate in its Private Equity fund and previously as an Analyst in its UK Investment Banking team. He received a degree in Business and Legal Studies, with first class honours, from University College Dublin.

Brian Magnus

Brian joined TDR Capital in September 2012. Prior to joining TDR, he was a Managing Director at Morgan Stanley where he was European Head of Morgan Stanley Private Equity, and formerly Head of UK Investment Banking. He joined Morgan Stanley in 2000 having previously worked in the Corporate Finance Division of Schroders, a company later acquired by Citigroup. Brian graduated from the University of Manchester with a degree in Management Sciences and qualified as a Chartered Accountant with PriceWaterhouse. External appointments include directorships at Stonegate Pubs and Montagu.

Peter Philipson

Peter spent the first 20 years of his career in a range of international marketing and general management positions within Gilette and Diageo. In 2001 he was appointed CEO of Tussauds Group under the ownership of Charterhouse. He subsequently held various private equity backed Board roles, including Chairman of Merlin Entertainments Plc, Saga Group, NEC Group, and Forest Holidays. He joined the Board of David Lloyd Leisure in 2015. He has worked with businesses backed by Charterhouse, Blackstone, LDC, TDR, Sovereign, Montagu, Kings Park Capital and August Equity. Peter resigned on the 31 July 2022.

Scott Lloyd

Scott was the Chief Executive Officer (CEO) of David Lloyd Leisure until June 2015, at which point he became the non-executive Deputy Chairman of the Group. Scott launched Next Generation Clubs business in 1999 and led the acquisition of David Lloyd Leisure by London & Regional and HBOS from Whitbread in August 2007. Scott was CEO of the integrated businesses from 2007.

Glenn Earlam - Chairman

Glenn has over 20 years of experience in the leisure sector having joined David Lloyd Leisure in June 2015 from Merlin Entertainments Plc where he was Managing Director of Midway Attractions, the largest operating business within Merlin.

Russell Barnes - Chief Executive Officer

Russell joined David Lloyd Leisure in September 2015 having previously been responsible for 48 attractions across Europe for Merlin Entertainments Plc. His experience includes successfully opening Merlin businesses in Asia including China, Japan and Korea as well as North America. He also was responsible for leading Alton Towers Resort through a period of brand change and repositioning. He has over 25 years of operational experience including a period residing in the U.S.

Patrick Burrows - Chief Financial Officer

Patrick joined David Lloyd as Chief Financial Officer in September 2017 from London City Airport having been involved in the £2.4bn sale of the business. Prior to London City Airport Patrick held Finance Director positions at New Look and Tesco.

Martin Evans – Chief Commercial Officer

Martin has over 15 years of experience with David Lloyd Leisure. He has held previous positions in sales, marketing and operations for First Leisure, Whitbread, DeVere and Esporta.

Executive Team (excluding Directors)

Bruce Gardner - New Clubs Director
Bruce joined David Lloyd Leisure in 2011. Bruce is the Group's New Clubs Director having previously held the position of Group IT Director of David Lloyd Leisure. Bruce's previous roles include IT Director at NSL Services, a part of NCP and IT Director of Whitbread's pub division.

Andrea Dearden - Marketing Director
Andrea has over 20 years' experience in the leisure industry, joining David Lloyd Leisure in February 2017 from Merlin Entertainments Plc where she was responsible for the marketing of the London and European attractions portfolio.

Juliett Cattermole- Group People Director
Juliett joined David Lloyd Leisure in November 2022, having previously worked for Papa Johns International, prior to this, Mitchells & Butlers, and British Airways. Juliett has vast experience and specialist knowledge in the ESG, DE&I and well-being agenda through developing and leading brand transformational journeys.

Mia Manson-Bishop - Member Experience Director
Mia joined David Lloyd Leisure in March 2013, joining the senior leadership team in September 2015 as Member Experience Director. Mia brings great David Lloyd Leisure operational experience as well as over 15 years senior leadership experience in customer service, marketing and operations with national and global brands including Wyndham Worldwide, Esporta and Sitel.

Stuart Caswell – New Clubs Acquisitions Director
Stuart joined David Lloyd in April 2021 from Aldi, where he was responsible for property expansion and format development in London; this included the launch of the successful Aldi Local store concept. Prior to this, Stuart held a number of Property & Strategy roles for both Sainsbury's and Tesco in the UK & ROI.

Yossef La-Cherie – Strategy Director
Yossef joined David Lloyd in December 1999. His experience has primarily been within the Finance function with c.20 years in leadership roles.

Nick Marsh – Operational Finance Director
Nick joined David Lloyd as Operational Finance Director in September 2016 from Merlin Entertainments Plc where he was responsible for the financial performance of over 100 attractions worldwide. His experience with Merlin included a significant period of time based in the US and also playing a key role in Merlins IPO. Prior to Merlin, Nick worked in private practice.

Stephen Brown – Business Support Director
Stephen joined David Lloyd in 2015 and became Operations Director from 2016. He has over 30 years direct industry experience in the premium end of the sector with such brands as Next Generation, Esporta and Virgin Active.

Post year-end and effective from 1 January 2023 James Willis (UK Operations Director) and Shiv Patel (European Operations Director) were promoted to the executive team.

Directors' liabilities
The Company maintains D&O insurance for its directors and officers.

Future developments
There are no significant changes planned to the existing estate and operations of the Group. The Group's future strategy will focus on Premiumisation, Pipeline, Innovation and ESG.

The Group plans to have 23 spa retreats open by Spring 2023 and to 'premiumise' our offering to deliver yield and to further differentiate from the market. As well as investing in spa retreats there is opportunity to invest in facilities to expand and premiumise gyms, outdoor dining areas, co-working space, pools and locker areas.

Future developments (continued)

The Group continues to develop its Pipeline by securing further expansion opportunities across UK and the rest of Europe, including acquisitions and new build sites and successfully integrate them into the David Lloyd operational and business model.

The Group continues to innovate both digitally and physically. We are building a new digital platform aimed at delivering a personalised service to our members.

Employees

Consultation with employees and consideration for disabled employees have been discussed in the Strategic Report on page 11 of these financial statements. The Strategic Report forms part of this Directors' Report and is incorporated into it by cross-reference.

Dividends

The Group paid out no dividends during the year (2021: £nil)

Political donations

The Group made no political donations during the year (2021: £nil).

Branches outside the UK

The Group operates one branch in Milan, Italy.

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 27 to the financial statements.

Going concern

The Group and Company’s ‘going concern’ review is set out in detail in note 2 on pages 52 to 53. In preparing the Group’s financial statements the directors have considered the forecast cash flows of the Group and the liquidity available over the period May 2023 to December 2024. These forecasts indicate that the Group will have sufficient cash and operate with a satisfactory level of headroom. The directors have a reasonable expectation that the Group and Company has adequate resources to continue in operational existence for at least 12 months from the signing date of the financial statements and for the foreseeable future thereafter. Accordingly, the directors continue to adopt the going concern basis in preparing the annual reports and financial statements.

Post balance sheet events

Please refer to note 33 of these financial statements for details of post balance sheet events.

Prior year restatement

During the year the Financial Reporting Council (FRC) enquired about Covid-19 related rent concessions and leasehold health club intangible assets in connection with their review of the Deuce Topco Limited (a parent of the Company) 2021 Annual Report and Accounts. As a result of this enquiry, the directors reassessed the accounting treatment adopted for these transactions.

Covid-19 related rent concessions

We had previously recognised a deferred rent prepayment and a trade payable for rent invoices received, but not paid. This resulted in current assets and current liabilities being inappropriately grossed-up, as the lease liability balance already reflected the total outstanding value of lease obligations.

Accordingly, a prior year adjustment has been made and is reflected in the restated 2021 balances as presented. The balance as at 31 December 2020 has also been restated through the presentation of a third statement of financial position.

The effect of the prior year restatement on the 2021 financial statements is to decrease trade and other receivables by £28.5m (31 December 2020: £17.3m) and decrease trade and other payables by £28.5m (31 December 2020: £17.3m). There is no impact on the income statement or net assets.

Prior year restatement (continued)

Leasehold health club intangible assets
The intangible asset described as "leasehold health clubs intangible" represents amounts recognised under acquisition accounting, predominantly before IFRS 16 became effective, in respect of the value of right of use assets/leasehold interests. On transition to IFRS 16 these amounts should have been derecognised with a corresponding adjustment to the right of use assets. This adjustment would better reflect the right of use assets' value and correctly reflect that there is no intangible asset separately identifiable from the right of use asset.

Accordingly, a prior year adjustment has been made and is reflected in the restated 2021 balances as presented. The balance as at 31 December 2020 has also been restated through the presentation of a third statement of financial position.

The effect of the prior year restatement on the 2021 financial statements is to decrease intangible assets by £40.8m (31 December 2020: £44.5m) and increase right-of-use asset by £40.8m (31 December 2020: £44.5m). There is no impact on net assets and no impact on the face of the income statement. Notes 9, 18 and 19 have been restated to reflect an increase in the depreciation charge of £3.6m and a corresponding decrease in the amortisation charge of £3.6m.

Impairment loss on trade receivables
The FRC also highlighted that the impairment loss on trade receivables should be separately disclosed on the face of the Consolidated Statement of Comprehensive Income. Previously it was included within other operating expenses. This balance (2021: £10.6m) is now shown separately with no impact on profit.

The scope of the FRC's review was to consider the Group's compliance with reporting requirements and not to verify the information provided. The review performed by the FRC is solely based on the Deuce Topco Limited (a parent of the Group) 2021 annual report and accounts and does not benefit from a detailed understanding of underlying transactions and provides no assurance that the Annual Report and Accounts are correct in all material respects.

Statement of cashflows
As a result of the Covid-19 related rent concession restatement discussed above, the movement in trade and other receivables and the movement in trade and other payables have decreased by £11.2m within the working capital adjustments on the statement of cash flows for the year ended 31 December 2021. This reclassification has no impact on the net working capital position, no impact on the net increase in cash and cash equivalents, no impact on the income statement and no impact on the statement of financial position.

Other presentation restatements
During the year the directors identified further presentation restatements outside the scope of the FRC's review as follows:

Staff costs
An issue was identified in the source data used to prepare the staff cost disclosure note. As a result, the prior year staff cost note had been overstated by £6.9m. Accordingly, this has been restated. There is no impact on the income statement as the error was restricted to the disclosure note.

Exceptional items
During the year the directors have reassessed how they present their Alternative Performance Measures and have concluded that given impairment charges may arise on a recurring basis that they should not be considered exceptional and are part of the underlying operating cycle of the business. The directors have therefore changed their accounting policy to remove impairment from their Exceptional APM metric in 2022. Accordingly, the prior year exceptional items note has been restated to remove the impairment lines and present them within the operating profit note. The effect of this prior year restatement on the 2021 financial statements is to decrease exceptional items by £1.4m. There is no impact on the income statement as the restatement was restricted to the disclosure notes.

Supplier payment policy

The Group complies with regulations made under section 3 of the Small Business, Enterprise and Employment Act 2015, these can be found at www.legislation.gov.uk. The Group typically pays all its suppliers between 30 and 45 days. The Group makes weekly payment runs to clear supplier bank accounts each Friday. The payment run parameters are set to select all undisputed invoices that are due for payment up to and including the Friday clearing date based on the supplier payment terms held within the supplier master record.

The average time taken to pay invoices for the period 1 July 2022 to 31 December 2022 was 34 days (2021: 43 days) and 35 days (2021: 58 days) for the period 1 January 2022 to 30 June 2022. The decrease in average time taken to pay invoices reflects a move towards our normal payment practices as we continue to pay our Covid-19 deferrals.

Variations to these standard payment terms are by exception only:

- F&B Partner - all undisputed invoices received in the month are paid by no later than the 16th of the following month,
- Self-employed professionals - all undisputed invoices relating to previous month's activity are paid weekly upon receipt,
- Landlords - all rental invoices are paid as contractually agreed. As a response to COVID-19, we engaged with landlords to manage rent obligations through securing rent-free periods/rent deferrals.

Guidelines for Disclosure and Transparency in Private Equity

The Directors consider the annual report and financial statements to comply with all aspects of the Guidelines for Disclosure and Transparency in Private Equity.

Statement on engagement with employees

As a UK company incorporated under the Companies Act 2006 with a monthly average number of UK-based employees that exceeds 250 we are required to explain:

i) how the directors have engaged with employees; and
ii) how the directors have had regard to employee interests, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

We have set this out in our Section 172(1) statement (see section b) on pages 21 and 22 of the Strategic Report. Further disclosure on how the Board engages with employees can be found on pages of 10 to 11 of the Strategic Report.

Statement on engagement with suppliers, customers and others in a business relationship with the Group

As a qualifying large company under the Companies Act 2006, we are required to summarise how the directors have had regard to the need to foster the company's business relationships with suppliers, customers and others, and the effect of that regard, including on the principal decisions taken by the company during the financial year.

We have set this out in our Section 172(1) statement (see section c) on page 22 of the Strategic Report.

Statement of corporate governance arrangements

For the year ended 31 December 2022, the Group has voluntarily applied the Wates Corporate Governance Principles for Large Private Companies, published by the Financial Reporting Council (FRC) in December 2018.

The Wates Principles provide a framework for the Board to monitor corporate governance of the Group and see where governance standards can be raised to a higher level across the business.

Wates Principle 1 Purpose and leadership

We believe that a balance of exercise, nutrition, mindfulness and sociability are the keys to wellness and to sustaining a positive and healthy life. Our purpose is to provide facilities, services, equipment and social spaces which help to promote physical and mental wellbeing for our members.

Statement of corporate governance arrangements (continued)

Wates Principle 1 Purpose and leadership (continued)

Our vision "My Club For My Life" seeks to create an environment where our members develop a real sense of belonging to their local clubs and where the clubs become an integral part of members' lives, throughout their lives.

Our culture is about making our clubs a comfortable and welcoming place to come together with friends, family and fellow members to maintain physical and mental health and wellness. The Board monitors the Group's culture through member experience and team member feedback. We focus on both member satisfaction and feedback and monitor club usage to maximise member experience. The member experience score is reported to the Board on a monthly basis. We invest in our team members to deliver enhanced service levels to our members. Employee engagement is measured and reported to the Board twice a year (only once in 2021 due to COVID-19) by way of an online employee survey to ensure the Group is listening and responding to its employees' needs.

The Board recognised that the 'cost of living' crisis has caused considerable financial hardship for our team members and made a hardship fund available for which team members can apply. We have also offered free meals to all team members during January to March 2023.

Our values and strategies that we have embedded to underpin them and the measures that we have used to monitor our performance against them are set out in the Strategic report on pages 3 to 5. Communication of our values and strategies is achieved through formal and informal meetings, the Group's employee app 'Kitbag' and regular business communication from the CEO.

Wates Principle 2 Board composition

The Board sits at the Deuce Midco Limited level and consists of six directors and one independent non-executive director[2]. Biographies of the board members can be found in the Directors' Report on pages 25 to 26.

Appointments to the Board are made on merit considering the combination of skills, background, experience and knowledge required to give constructive challenge and achieve effective decision-making.

We consider the size and composition of the Board to be appropriate for our business. The non-executive Director brings challenge, experience, and offer different perspectives.

As is normal for large companies, the Deuce Midco Limited Board delegates authority for day-to-day management of the Company and its subsidiaries to the Executive Committee.

The Executive Committee comprises the Executive Chairman, Chief Executive Officer, Chief Financial Officer, Innovation and Product Development Director, New Clubs Acquisitions Director, New Clubs Director, Group People Director, Member Experience Director, Marketing Director, Strategy Director, Operational Finance Director and Business Support Director.

Effective from 1 January 2023, the Executive Committee also comprises the UK Operations Director and the European Operations Director.

The Board has established an Audit Committee with responsibility for the appointment of auditors and review of the scope and results of the external audit.

The Board and the Executive Committee together comprise 80% men and 20% women. We acknowledge that there is a relative lack of diversity on the Board and this is not reflective of the mix in the business. Juliett Cattermole joined the Group in November 2022 as Group People Director. Juliett's focus is on Diversity, Equity and Inclusion with a goal to build an Inclusive and Winning Culture. Page 12 of the Strategic Report analyses the current gender diversity of the Group.

Directors and Executive Committee members update their knowledge of the business by frequent visits to Clubs and meetings with senior management.

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[2] *The Group is not required to apply the UK Corporate Governance Code. Under the Code Scott Lloyd would not be considered independent*

Statement of corporate governance arrangements (continued)

Wates Principle 2 Board composition (continued)

Both the Board and the Executive Committee meet monthly. Attendance and proceedings at meetings are recorded with action points noted and followed up.

Wates Principle 3 Directors' responsibilities

The Board typically meets eleven times a year. The Board receives regular and timely information (at least monthly) on all key aspects of the business including the financial performance of the business, health and safety, performance against the Group's strategies and key performance indicators and capex investment appraisals and potential acquisitions.

Key financial information is collated from the Group's various accounting systems. The Group's finance function is appropriately qualified to ensure the integrity of this information and is provided with the necessary training to keep up to date with accounting changes. The Group's statutory financial statements are externally audited by Deloitte LLP on an annual basis.

The Group has developed policies that provide clear lines of accountability and responsibility for effective decision making. The Board delegates authority for day-to-day management to the Executive Committee.

The independent non-executive director has no material business relationship with the Group which may influence his judgment or ability to provide independent challenge. Directors are required to declare any conflict of interest in advance of any discussion.

Wates Principle 4 Opportunity and risk

The Board seeks out opportunities while mitigating risk. The Group's key risks and mitigations are described in the 'Principal risks and uncertainties' section of the Strategic Report on pages 13 to 14.

The Executive Committee (as delegated by the Board) also considers further risks as part of the day-to-day management of the business.

The Board considers significant capex investment projects and potential acquisitions and approves them before any bids are made or contracts exchanged. During the year, the Board approved the acquisition of 2 clubs in Europe being La Finca and ABC Serrano (Madrid, Spain). The Board also approved entering into a lease for a club in Modena Italy, and the purchase of the land and buildings of a club Boadilla in Madrid, Spain.

The Board and Executive Committee have established an internal control framework designed to manage risk. The clubs are required to comply with both a compliance framework and a finance policy and procedures manual. The clubs are subject to regular health & safety and internal audits by the respective function.

The Board has established an ESG Committee to consider climate and other social and environmental risks and opportunities to improve the Group's sustainability.

Wates Principle 5 Remuneration

Remuneration of directors and senior management is reviewed and set by the shareholder directors.

The directors, senior management and operational management participate in an equity-based incentive plan which is linked to shareholder value. More detail is given in Note 28 "Share based payments" on pages 93 to 94 of these financial statements.

We report on Gender Pay on page 12 of the strategic report. The executive committee's focus is to close the gap by increasing the proportion of females in our leadership roles.

Statement of corporate governance arrangements (continued)

Wates Principle 6 Stakeholder relationships and engagement

The Board’s principal responsibility is to promote the long-term success of the Group through creating shareholder value and contributing to a healthy society and a sustainable environment. The Board’s key objective remains constant; that doing the right thing by our members, our team and the communities in which we operate is integral to our future success as a sustainable business.

The Board also considers its relationship with bondholders as an additional stakeholder. The Group has established an Investor Relations function to manage this relationship and presentations of financial results are given quarterly to the investor community.

The Section 172(1) Statement on pages 20 to 23 of the Strategic Report explains how the Board engages with its employees, members and fosters effective stakeholder relationships aligned to the Group’s purpose.

Energy and carbon reporting

We have reported on all sources of GHG emissions and energy usage as required under The Large and Medium-Sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended.

GHG emissions and energy usage data for period 1 January 2022 to 31 December 2022			
		UK and offshore	
Energy Use	**Units**	**2022**	**2021**
Gas consumption	MWh	372,908	342,919
Purchased electricity consumption	MWh	64,809	47,962
Greenhouse Gas (GHG) Emissions			
Total gas	t/CO2e	68,071	62,809
Total fuel (gas oil)	t/CO2e	632	323
Total transport	t/CO2e	25	10
Total fugitive	t/CO2e	1,174	1,166
Total purchased electricity	t/CO2e	12,533	10,184
Greenhouse Gas (GHG) Emissions			
Direct emissions (Scope 1)	000t/CO2e	69,902	64,308
Indirect emissions from electricity (Scope 2)	000t/CO2e	12,533	10,184
Total CO2 emissions (location based)	t/CO2e	82,435	74,492
Total CO2 emissions (market based)	t/CO2e	79,571	64,308
Total Greenhouse Gas (GHG) Emissions	**Units**	**2022**	**2021**
Direct emissions (Scope 1)	000t/CO2e	70	64
Indirect emissions from electricity (Scope 2)	000t/CO2e	13	10
Total CO2 emissions (location based)	000t/CO2e	83	74
Procured renewable energy	000t/CO2e	3	10
Total C02 emissions (market based approach)	000t/CO2e	80	64
Intensity ratio	**Units**	**2022**	**2021**
Total emissions per visit	kg/CO2e	2.00	2.45

Methodology

This report covers all UK operations and the methodologies used are in accordance with the WBCSD/WRI GHG Protocol Corporate Accounting and Reporting Standard (Revised Edition), and conversions into CO2e have been calculated using the most recent government conversion factors https://www.gov.uk/government/publications/greenhouse-gas-reporting-conversion-factors-2022.

Direct (Scope 1) emissions include gas and fuel consumption, transport, and fugitive emissions. Indirect (Scope 2) emissions relate to our purchased electricity consumption.

2022 vs 2021 Review

GHG emissions are from operationally controlled activities using the UK government 2022 greenhouse gas reporting conversions factors. The increase in emissions from 2021 to 2022 is as a result of the Covid-19 pandemic, as our clubs were shut in 2021 until April.

Intensity ratio is based on number of member visits. Our emission value per visit was lower during 2022 as a result of increased member visits compared to 2021.

Energy efficiency action

Further to David Lloyd committing to delivering Carbon Net Zero across Scope 1, 2 & 3 emissions by 2030, over £12m of capex has been deployed during 2022 to reduce energy consumption across the estate. This includes continued investment in LED upgrades for the tennis lighting, upgrades to the clubs Building Energy Management Systems, and further investment into new motor efficient and other technologies.

David Lloyd also completed its first full solar pV renewable technology installation at the Luton club in September 2022, which now generates approximately 25% of the total electricity consumption. A project is underway to install solar pV across as many clubs as possible in the next two years.

In addition to the above, David Lloyd have set up a network of Green Champions with representation from all clubs. The Green Champions will be vital in leading a change to transform the clubs into a smarter, more successful, and more sustainable businesses.

Statement of Directors' Responsibilities

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

Company law requires the directors to prepare financial statements for each financial year. Under that law the directors are required to prepare the group financial statements in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006.

The directors have also chosen to prepare the parent company financial statements in accordance with Financial Reporting Standard 101 Reduced Disclosure Framework. Under company law the directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the company and of the profit or loss of the company for that period.

In preparing the parent Company financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the company will continue in business.

In preparing the Group financial statements, International Accounting Standard 1 requires that directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS standards are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The directors are responsible for keeping adequate accounting records that are sufficient to show and explain the company's transactions and disclose with reasonable accuracy at any time the financial position of the company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

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

Disclosure of information to the auditor

Each of the persons who is a director at the date of approval of this report confirms that:

- so far as the director is aware, there is no relevant audit information of which the Company's auditors are unaware; and
- the director has taken all the steps that he/she ought to have taken as a director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of the information.

This confirmation is given and should be interpreted in accordance with the provisions of s418 of the Companies Act 2006.

Reappointment of auditor

The auditor, Deloitte LLP, has indicated their willingness to continue in office and appropriate arrangements have been put in place concerning their re-appointment in the absence of an Annual General Meeting.

Approved by the Board on 21 April 2023 and signed on its behalf by:

....

PJ Burrows
Director

Deuce Midco Limited

Independent Auditor's Report for the Year ended 31 December 2022

Report on the audit of the financial statements

Opinion

In our opinion:

- the financial statements of Deuce Midco Limited (the 'parent company') and its subsidiaries (the 'group') give a true and fair view of the state of the group's and of the parent company's affairs as at 31 December 2022 and of the group's loss for the year then ended;
- the group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the consolidated income statement;
- the consolidated statement of comprehensive income;
- the consolidated and parent company statements of financial position;
- the consolidated and parent company statements of changes in equity;
- the consolidated cash flow statement; and
- the related notes 1 to 36.

The financial reporting framework that has been applied in the preparation of the group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the group and the parent company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

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.

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 parent 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.

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

Other information

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the annual report. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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

We have nothing to report in this regard.

Responsibilities of directors

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

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

Auditor's responsibilities for the audit of the financial statements

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

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 auditor's report.

Extent to which the audit was considered capable of detecting irregularities, including fraud

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

We considered the nature of the group's industry and its control environment, and reviewed the group's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management, internal audit and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the group's business sector.

We obtained an understanding of the legal and regulatory frameworks that the group operates in, and identified the key laws and regulations that:

- had a direct effect on the determination of material amounts and disclosures in the financial statements. These included UK Companies Act, relevant Health & Safety legislation and relevant tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the group's ability to operate or to avoid a material penalty.

We discussed among the audit engagement team and relevant internal specialists such as tax, valuations and IT specialists regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

As a result of performing the above, we identified the greatest potential for fraud in the following areas, and our procedures performed to address them are described below:

<u>Classification of maintenance or refurbishment expenditure versus capital expenditure for clubs with significant additions:</u>

The procedures performed to address the risk included the following:

- Obtained an understanding of the relevant controls around the maintenance and refurbishment expenditure, capital expenditure and purchasing processes;
- Tested general IT controls around the user access and change management in the system;
- Tested a sample of costs capitalised in the year across all clubs with material additions to assess whether they met the capitalisation criteria of IAS 16;
- Tested a sample of journals posted to the maintenance and refurbishment expenditure account in the Income Statement to evaluate the appropriateness of each item; and
- Performed analytical review procedures to assess if material additions were in line with expectation on a club-by-club basis.

<u>Impairment of fixed assets (Property, Plant & Equipment, Right of Use assets and goodwill)</u>

The procedures performed to address the risk included the following:

- Obtained an understanding of the relevant controls surrounding the impairment assessment;
- Involved our internal specialists to challenge the appropriateness of the discount rate and long-term growth rate used in the model, including comparison of key inputs to market evidence;
- Engaged internal modelling specialists to assess the mechanics of the impairment model;
- Assessed the reasonableness of the key judgments around cash flow projections made in the value in use model against industry expectations and historical performance;
- Confirmed that the forecasts used in the value in use ("VIU") model were the latest Board approved forecasts;
- Tested management's ability to accurately forecast future revenues and growth rates by comparing actual results to management's historical forecasts;
- Performed detailed analysis on the clubs deemed most at risk of impairment;
- Performed a sensitivity analysis on the inputs into the value in use model to determine if this would materially change any impairment charge currently recognised; and
- Assessed the disclosure in the accounts, including the disclosure as a key source of estimation uncertainty.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management, the audit commitee and external legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence with HMRC.

Report on other legal and regulatory requirements

Opinions on other matters prescribed by the Companies Act 2006

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

- the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the strategic report and the directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the group and of the parent company and their environment obtained in the course of the audit, we have not identified any material misstatements in the strategic report or the directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

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

We have nothing to report in respect of these matters.

Use of our report

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

Darren Longley, FCA (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London
United Kingdom
21 April 2023

Deuce Midco Limited

Consolidated Income Statement for the Year ended 31 December 2022

	Note	31 December 2022 £ 000	Restated 31 December 2021 £ 000
Revenue	5	655,321	390,552
Cost of sales		(160,584)	(126,513)
Gross profit		494,737	264,039
Other income	6	15,952	30,610
Administrative expenses		(65,991)	(54,976)
Other operating expenses		(287,407)	(220,305)
Impairment losses on financial assets	23	(17,483)	(10,597)
Loss on disposal of PP&E	8	(4,096)	(3,122)
Operating profit	9	135,712	5,649
Finance income		897	5,163
Finance costs		(138,169)	(152,170)
Net finance costs	14	(137,272)	(147,007)
Loss before taxation		(1,560)	(141,358)
Income tax charge	15	(7,400)	(11,630)
Loss for the financial year		(8,960)	(152,988)

The above results were derived from continuing operations.

The comparative information has been restated to separately disclose impairment losses on financial assets on the face of the consolidated income statement (see note 4).

Deuce Midco Limited

Consolidated Statement of Comprehensive Income for the Year ended 31 December 2022

	31 December 2022 £ 000	31 December 2021 £ 000
Loss for the financial year	(8,960)	(152,988)
Items that may be reclassified subsequently to profit and loss		
Exchange differences arising on the translation of foreign operations	7,745	(3,234)
Total comprehensive loss for the financial year	(1,215)	(156,222)

Deuce Midco Limited

(Registration number: 11385914)
Consolidated Statement of Financial Position as at 31 December 2022

	Note	31 December 2022 £ 000	Restated 31 December 2021 £ 000	Restated 31 December 2020 £ 000
Assets				
Non-current assets				
Property, plant and equipment	17	419,106	342,835	335,090
Right-of-use assets	18	1,063,094	988,470	1,003,485
Intangible assets	19	243,691	228,623	230,883
Deferred tax assets	30	174,657	192,998	153,308
Other investments	21	4,342	-	-
Other receivables	22	2,870	5,748	3,269
		1,907,760	1,758,674	1,726,035
Current assets				
Inventories		1,774	1,430	652
Trade and other receivables	23	17,835	16,733	15,544
Cash and cash equivalents	24	11,495	124,213	82,566
		31,104	142,376	98,762
Total assets		1,938,864	1,901,050	1,824,797
Current liabilities				
Trade and other payables	25	(123,229)	(142,687)	(171,861)
Income tax liability		(802)	(2,395)	(1,394)
Loans and borrowings	26	(487)	(3,384)	(50,110)
Provisions	29	(310)	(691)	(43)
Lease liabilities	18	(5,979)	(49,004)	(35,072)
		(130,807)	(198,161)	(258,480)
Non-current liabilities				
Loans and borrowings	26	(902,526)	(887,167)	(1,086,749)
Provisions	29	(7,858)	(5,847)	(807)
Contract liabilities	5	(6,905)	(2,956)	(643)
Deferred tax liabilities	30	(234,718)	(241,628)	(190,673)
Lease liabilities	18	(1,042,485)	(953,451)	(949,918)
		(2,194,492)	(2,091,049)	(2,228,790)
Net liabilities		(386,435)	(388,160)	(662,473)

The notes on pages 51 to 100 form an integral part of these financial statements.

Deuce Midco Limited

(Registration number: 11385914)
Consolidated Statement of Financial Position as at 31 December 2022

	Note	31 December 2022 £ 000	Restated 31 December 2021 £ 000	Restated 31 December 2020 £ 000
Equity				
Share capital	31	425,798	425,798	-
Share premium		271,336	271,336	271,336
Capital contribution reserve		3,550	3,550	3,550
Merger reserve		(528,465)	(528,465)	(528,465)
Foreign currency translation reserve		3,129	(4,616)	(1,382)
Share based payment reserve		11,078	8,138	5,970
Other reserves		2,569	2,569	-
Accumulated losses		(575,430)	(566,470)	(413,482)
Total shareholders' deficit		(386,435)	(388,160)	(662,473)

The comparative information has been restated to reflect the change in classification of the Covid-19 related rent concessions and leasehold health club intangible assets (see note 4).

Approved by the Board on 21 April 2023 and signed on its behalf by:

……………………………………
PJ Burrows
Director

Deuce Midco Limited

(Registration number: 11385914)
Parent Company Statement of Financial Position as at 31 December 2022

	Note	31 December 2022 £ 000	31 December 2021 £ 000
Assets			
Non-current assets			
Investments	20	670,188	667,248
Other receivables	22	736,085	707,337
		1,406,273	1,374,585
Current assets			
Trade and other receivables	23	109	-
Cash and cash equivalents	24	6	6
		115	6
Total assets		1,406,388	1,374,591
Current liabilities			
Trade and other payables	25	(947,709)	(916,062)
Net current liabilities		(947,594)	(916,056)
Non-current liabilities			
Loans and borrowings	26	2,498	3,064
Net assets		461,177	461,593
Equity			
Share capital	31	425,798	425,798
Share premium		271,336	271,336
Share based payment reserve		10,138	7,198
Accumulated losses		(246,095)	(242,739)
Total shareholders' funds		461,177	461,593

Approved by the Board on 21 April 2023 and signed on its behalf by:

…………………………………………
PJ Burrows
Director

No income statement has been presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a loss after tax for the financial year of £3,356,000 (2021: loss of £63,267,000).

Deuce Midco Limited

Consolidated Statement of Changes in Equity for the Year ended 31 December 2022

	Share capital	Share premium	Capital contribution reserve	Merger reserve	Foreign currency translation reserve	Share based payment reserve	Other reserves	Accumulated losses	Total shareholders' deficit
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£'000	£ 000	£ 000
At 1 January 2022	425,798	271,336	3,550	(528,465)	(4,616)	8,138	2,569	(566,470)	(388,160)
Loss for the financial year	-	-	-	-	-	-	-	(8,960)	(8,960)
Other comprehensive income	-	-	-	-	7,745	-	-	-	7,745
Total comprehensive loss for the financial year	-	-	-	-	7,745	-	-	(8,960)	(1,215)
Share based payment transactions	-	-	-	-	-	2,940	-	-	2,940
At 31 December 2022	425,798	271,336	3,550	(528,465)	3,129	11,078	2,569	(575,430)	(386,435)

The notes on pages 51 to 100 form an integral part of these financial statements.

Deuce Midco Limited

Consolidated Statement of Changes in Equity for the Year ended 31 December 2021

	Share capital	Share premium	Capital contribution reserve	Merger reserve	Foreign currency translation reserve	Share based payment reserve	Other reserves	Accumulated losses	Total shareholders' deficit
	£ 000	£ 000	£ 000	£ 000	£ 000	£ 000	£'000	£ 000	£ 000
At 1 January 2021 (Restated)	-	271,336	3,550	(528,465)	(1,382)	5,970	-	(413,482)	(662,473)
Loss for the financial year	-	-	-	-	-	-	-	(152,988)	(152,988)
Other comprehensive expense	-	-	-	-	(3,234)	-	-	-	(3,234)
Total comprehensive expense for the financial year	-	-	-	-	(3,234)	-	-	(152,988)	(156,222)
Share based payment transactions	-	-	-	-	-	2,168	-	-	2,168
Group common control transaction	-	-	-	-	-	-	2,569	-	2,569
Issue of ordinary shares	425,798	-	-	-	-	-	-	-	425,798
At 31 December 2021	425,798	271,336	3,550	(528,465)	(4,616)	8,138	2,569	(566,470)	(388,160)

Deuce Midco Limited

Parent Company Statement of Changes in Equity for the Year ended 31 December 2022

	Share capital £ 000	Share premium £ 000	Share based payment reserve £ 000	Accumulated losses £ 000	Total shareholders' funds £ 000
At 1 January 2022	425,798	271,336	7,198	(242,739)	461,593
Loss for the financial year	-	-	-	(3,356)	(3,356)
Total comprehensive expense for the financial year	-	-	-	(3,356)	(3,356)
Share based payment transactions			2,940		2,940
At 31 December 2022	425,798	271,336	10,138	(246,095)	461,177

The notes on pages 51 to 100 form an integral part of these financial statements.

Deuce Midco Limited

Parent Company Statement of Changes in Equity for the Year ended 31 December 2021

	Share capital £ 000	Share premium £ 000	Share based payment reserve £ 000	Accumulated losses £ 000	Total shareholders' funds £ 000
At 1 January 2021	-	271,336	5,030	(179,472)	96,894
Loss for the financial year	-	-	-	(63,267)	(63,267)
Total comprehensive expense for the financial year	-	-	-	(63,267)	(63,267)
Share based payment transactions	-	-	2,168	-	2,168
Issue of ordinary shares	425,798	-	-	-	425,798
At 31 December 2021	425,798	271,336	7,198	(242,739)	461,593

The notes on pages 51 to 100 form an integral part of these financial statements.

Deuce Midco Limited

Consolidated Statement of Cash Flows for the Year ended 31 December 2022

	Note	Year ended 31 December 2022 £ 000	Restated Year ended 31 December 2021 £ 000
Cash flows from operating activities			
Loss for the year		(8,960)	(152,988)
Adjustments to reconcile to operating cash flows:			
Depreciation and amortisation	9	88,714	83,275
Finance income	14	(897)	(5,163)
Finance costs	14	138,169	152,170
Share-based payment transactions		2,940	2,168
Net impairment charge		5,164	1,445
Loss on disposal of property, plant and equipment	8	4,096	3,122
Tax charge	15	7,400	11,630
Other provision movements	29	1,549	5,742
		238,175	101,401
Working capital adjustments (including impact of acquisition):			
Increase in inventories		(282)	(787)
Increase in trade and other receivables		(1,126)	(4,113)
(Decrease)/increase in trade and other payables		(25,328)	9,697
Cash generated from operations		211,439	106,198
Income taxes paid		(873)	(375)
Net cash flows from operating activities		210,566	105,823
Cash flows from investing activities			
Acquisitions of property, plant and equipment		(107,809)	(45,349)
Payments for assets under construction		(12,233)	-
Payment for right-of-use assets under construction		(8,446)	-
Acquisition of business (net of cash)		(12,714)	(9,028)
Proceeds from sale of property, plant and equipment		166	2,639
Payment of contingent consideration		(417)	-
Acquisition of intangible assets		(16,035)	(7,612)
Interest received		792	43
Dividends received		9	8
Net cash flows from investing activities		(156,687)	(59,299)

Deuce Midco Limited

Consolidated Statement of Cash Flows for the Year ended 31 December 2022

	Note	Year ended 31 December 2022 £ 000	Restated Year ended 31 December 2021 £ 000
Cash flows from financing activities			
Proceeds from the issue of ordinary shares		-	342,365
Repayment of principal on lease liabilities		(19,659)	(11,602)
Payment of interest on lease liabilities		(97,059)	(53,478)
Proceeds from funders for sale and leasebacks		10,488	-
Interest paid		(50,376)	(88,839)
Payment of rent guarantees		(3,937)	-
Receipt of rent guarantees		3,129	-
Proceeds from bank borrowings		-	902,136
Proceeds from parent company		-	2,569
Payment of debt issue costs		-	(17,900)
Repayment of bank & other borrowings		(10,407)	(1,080,192)
Proceeds from settlement of financial derivative		-	414
Lease incentives received		552	336
Net cash flows from financing activities		(167,269)	(4,191)
Net (decrease)/increase in cash and cash equivalents		(113,390)	42,333
Cash and cash equivalents at beginning of period		124,213	82,566
Effect of exchange rate fluctuations on cash held		672	(686)
Cash and cash equivalents at end of period	24	11,495	124,213

Notes to the Financial Statements for the Year ended 31 December 2022

1 General information

The Company is a private company limited by share capital incorporated in the United Kingdom and registered in England and Wales.The address of its registered office is:

The Hangar
Mosquito Way
Hatfield Business Park
Hertfordshire
United Kingdom
AL10 9AX

The nature of the Group's operations and its principal activities are set out in the Strategic Report on page 2.

2 Significant accounting policies

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

Basis of preparation

The consolidated financial statements have been prepared in accordance with UK-adopted International Accounting Standards (IFRS Accounting Standards) and with the requirements of the Companies Act 2006 as applicable to companies reporting under those standards. The Company's financial statements have been prepared in accordance with Financial Reporting Standard 101, "Reduced Disclosure Framework" (FRS101).

The consolidated and Company financial statements have been prepared under the historical cost convention in accordance with the Companies Act 2006.

The preparation of financial statements in conformity with UK-adopted International Accounting Standards requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 3.

As permitted by FRS101, the Company has taken advantage of the disclosure exemptions available in relation to presentation of a cash flow statement; standards not yet effective; business combinations; non-current assets held for sale; presentation of comparative information in respect of certain assets; impairment of assets; and related party transactions.

2 Significant accounting policies (continued)

Basis of consolidation

The Group financial statements consolidate the financial statements of the Company and its subsidiary undertakings drawn up to 31 December 2022.

No income statement is presented for the Company as permitted by section 408 of the Companies Act 2006. The Company made a loss after tax for the financial year of £3.4m (2021: loss of £63.3m).

Where the Group has control over an investee, it is classified as a subsidiary. The Group controls an investee if all three of the following elements are present: power over the investee, exposure to variable returns from the investee and the ability of the investor to use its power to affect those variable returns. Control is reassessed whenever facts and circumstances indicate that there may be a change in any of these elements of control.

The consolidated financial statements present the results of the Company and its subsidiaries ("the Group") as if they formed a single entity. Intergroup transactions and balances between Group companies are therefore eliminated in full. The results of subsidiaries acquired or disposed of during the year are included in the income statement from the effective date of acquisition or up to the effective date of disposal, as appropriate. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by the Group.

The consolidated financial statements incorporate the results of business combinations using the acquisition method. In the statement of financial position, the acquiree's identifiable assets, liabilities and contingent liabilities are initially recognised at their fair values at the acquisition date. Acquisition-related costs are expensed as incurred.

Going concern

The Directors note that as at the balance sheet date, the Group and the Company is in a net current liabilities position.

In preparing the financial statements the Directors are required to assess the Group and Company’s ability to adopt the going concern basis of accounting. In making this assessment the Directors have considered the Group and Company’s cash flows, liquidity, expected trading performance to December 2024 including member count and impact of the current economic environment inflationary pressures principally around energy costs.

<u>Liquidity</u>

The Group has access to a £125m super senior revolving credit facility (“SSRCF”) which has a maturity date of 18 December 2026. The SSRCF is subject to a financial covenant relating to Consolidated Leverage Ratio (EBITDA to Net Debt ratio) only if the SSRCF is at least 40% drawn.

As of 31 March 2023, the Group had an immediately available cash balance of c. £8m and total liquidity of c. £133m including the undrawn SSRCF.

<u>Cash Flow Forecasts</u>

In making their assessment of going concern the directors have considered the forecast cash flows of the Group, the liquidity available and compliance with any applicable financial leverage covenant up to the 20-month period ending 31 December 2024.

The Group’s base case scenario for the period to December 2024 reflects that the business has seen no material impact from current high inflationary conditions on member count. Higher yield in FY23 is driven principally by the annual membership price increase with further incremental yield growth in FY24.

2 Significant accounting policies (continued)

Going concern (continued)

Cash flow forecasts (continued)

The base case scenario includes inflationary pressures primarily relating to energy, cleaning, and labour. Energy costs for FY23 are more than 90% hedged and therefore fixed at c. £75m. FY24 energy costs reduce reflecting lower current market prices.

In this base case scenario, the SSRCF remains undrawn and the Group has sufficient liquidity throughout the 20-month period ending 31 December 2024.

The Directors have also considered a plausible downside scenario in which FY24 energy costs are 30% higher than FY23. Given the funding within the Group, there is sufficient liquidity for the Group to operate and comply with the financial covenants over the period to December 2024 in this downside scenario.

The Directors have also considered a reverse stress test scenario that modelled the impact of a significant downturn in trading and resulting drop in membership numbers to ascertain what would be required to breach the Group's liquidity or financial covenant. In this scenario mitigating actions include reducing controllable operating and marketing costs, reducing repairs and maintenance expenditure to essential spend only, reducing investment and pipeline capex to preserve cash. In this scenario monthly new member sales would have to decline against the base case by 85% each month during 2024 for the Group to breach its financial covenant in December 2024. Even under this severe scenario the Group would have sufficient liquidity to continue to settle liabilities as they fall due.

Under a reverse stress scenario, the Directors could take further mitigating action, albeit not all within their control, include minimising all capital expenditure, labour savings through a restructuring programme as well as asset liquidation through selling plant and equipment, and sale and leasebacks of remaining freehold and long leasehold sites. Liquidity could also be generated from the issuance of new equity and covenant waivers could be sought from lenders. The Directors consider the reverse stress test scenario to be highly unlikely.

Conclusion

Based on the Group's liquidity and cash flow forecasts 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 these financial statements.

Revenue recognition

Revenue is derived from the provision of sport and leisure facilities in the United Kingdom and Europe. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of discounts, VAT and other sales-related taxes.

The Group's revenues are recognised mainly from the following goods and services:
• Membership subscriptions;
• Administration and joining fees;
• Sale of sports lessons including swimming, tennis and personal training;
• Sale of spa vouchers;
• Other product sales, including food and beverage and crèche services.

Membership subscriptions

Membership subscriptions can be paid annually or monthly by direct debit. Subscriptions are recognised over the period of membership, with any subscriptions payments received in advance of the period in which the service is provided being recorded as a contract liability on the statement of financial position.

2 Significant accounting policies (continued)

Revenue recognition (continued)

Administration and joining fees

Administration and joining fees are paid upfront and are non-refundable. They represent a fee for the initial set up costs of the contract and for the right to renew the membership for no additional fee when the contract expires. Revenue is recognised in line with when the performance obligations are performed which is over the average membership period, including any period of renewal. Cash received relating to future periods of membership are recognised as contract liabilities in the statement of financial position.

The average membership periods over which revenue is recognised are:
Standard membership 24 months
Flexible membership 1 month
Annual membership 24 months

Product sales

Revenue from food and beverage sales, and other merchandise is recognised at the point of sale.

Other revenue

Other revenue comprises income from personal training, tennis, swimming classes, spa income and franchise rent income. Revenue is recognised over the period that classes are provided, and any upfront payment is recognised as a contract liability on the statement of financial position. Franchise rent income is recognised over the lease term.

Sports lessons are predominantly paid for monthly by direct debit. In Europe, sports lessons are paid for upfront at the beginning of the term. Cash received is recognised over the period that lessons are provided, and any upfront payment is recognised as a contract liability on the statement of financial position.

Personal training is paid for monthly by direct debit, through the purchase of vouchers online or in club, as well as via the app, which allows weekly recurring payments. Sessions can be purchased in packs of one, four or eight. Revenue is recognised as and when personal training sessions are delivered (or vouchers have expired). Vouchers normally have an expiry date of between one and three months depending on quantity purchased, from the date of purchase. Cash received in relation to future periods is recognised as a contract liability on the statement of financial position.

Other income / Government grants

Government grants are not recognised until there is reasonable assurance that the Group will comply with the conditions attaching to them and that the grants will be received.

Government grants are recognised in profit or loss on a systematic basis over the periods in which the Group recognises expenses related to the costs for which the grants are intended to compensate.

Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the Group with no future related costs are recognised in profit or loss in the period in which they become receivable.

Construction contracts for leaseback

The Group enters into certain arrangements in which it constructs a new club, transfers title to a third party, and leases the club back from the third party for a period of time. Such arrangements are accounted for by applying the sale and leaseback principles within IFRS 16, with the lease term and portion of asset transferred being determined in accordance with IFRS 16. The portion of the expenditure that relates to the right of use of asset retained is capitalised, while the remaining expenditure (relating to the portion of asset transferred) is recognised as an expense in profit or loss.

Correspondingly, amounts received from the third party that relate to the portion of the asset transferred are recognised as income in profit or loss, and the balance is recognised as a liability, which will be settled through subsequent lease payments.

2 Significant accounting policies (continued)

Construction contracts for leaseback (continued)

When land is transferred at the start of such an arrangement, revenue relating to the portion of land that has been transferred is recognised when control has been transferred to the customer, which is typically upon legal title being passed to them. Subsequently, the customer typically obtains control over the properties as they are constructed, and the Group has an enforceable right to payment for work performed, such that the associated revenue is recognised over time. Accordingly, in relation to the portion of the properties that are transferred over time, revenue and costs are recognised with reference to the stage of completion of the contract activity at the balance sheet date based on the proportion of construction cost incurred in relation to total forecast construction costs.

This revenue is classified within ‘other income’ so as not to distort the Group’s revenue which is derived from the provision of sport and leisure facilities. Costs are recognised within ‘Other operating expenses’.

Exceptional items

Exceptional items are disclosed separately in the financial statements, where it is necessary to provide further understanding of the financial performance of the Group. They are items that are material, either by their size or their nature, and significantly distort the comparability of financial performance between periods. Some exceptional items may span more than one accounting period depending on their nature.

Foreign currency transactions and balances

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The consolidated financial statements are presented in pound sterling, which is also the Group's functional currency.

Transactions in currencies other than the functional currency are recognised at the rates of exchange prevailing on the dates of the transactions. At each statement of financial position date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated. Exchange differences are recognised in profit or loss in the period in which they arise.

On consolidation, the results of overseas operations are translated into pounds sterling at rates approximating to those ruling when the transactions took place. All assets and liabilities of overseas operations, including goodwill arising on the acquisition of those operations, are translated at the rate ruling at the reporting date. Exchange differences arising on translating the opening net assets at the opening rate and the results of overseas operations at the actual rate are recognised in other comprehensive income and accumulated in the foreign exchange reserve.

The average conversion rate during the period was £1: €1.17 (2021: £1: €1.16), and at the statement of financial position date was £1: €1.13 (2021: £1: €1.19).

Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Borrowings are classified as loans within non-current or current liabilities based on their maturity date.

Borrowing costs

Costs directly attributable to refinancing have been capitalised and amortised over the related loan period. Where fees do not relate directly to a particular loan, they have been apportioned between the loans based on the total loan principal.

Tax

The tax expense for the period comprises current tax and deferred tax. Tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity respectively.

2 Significant accounting policies (continued)

Tax (continued)

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries operate and generate taxable income.

Deferred 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 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 tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statement of financial position date and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Deferred 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. For each same taxing authority, the maximum deferred tax asset that can be recognised is equal to the deferred tax liability. There is no restriction if there is a net deferred tax liability.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities and there is an intention to settle the balances on a net basis.

Investments

Investments in subsidiaries are held at cost less accumulated impairment losses.

Property, plant and equipment

Land and buildings held for use in the supply of goods or services, or for administrative purposes, are stated in the statement of financial position at their net book value, being the fair value at the date of acquisition less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Fixtures, fittings and equipment are stated at historical cost less accumulated depreciation and any recognised impairment loss. Historical cost includes expenditure that is directly attributable to the acquisition of the item.

Assets under construction represent costs incurred in respect of the development of new clubs. No depreciation is charged until the new club is brought into operation.

Costs incurred prior to the date of opening a club which are not directly associated with its acquisition, construction, refurbishment or fitting out are charged to the profit and loss account as incurred.

Work in progress represents costs incurred in refurbishment of existing clubs. No depreciation is charged until the refurbishment is completed.

Depreciation

Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method, on the following bases:

Freehold land, Assets under construction and work in progress are not depreciated.
Freehold Buildings - 50 years
Fixtures, Fittings and Equipment - between 3 and 23 years

The gain or loss arising on the disposal or scrappage of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit/(loss) on disposal of PP&E within the income statement.

The useful lives of property, plant and equipment are reviewed at each year end. Any change to previous estimates are accounted for prospectively as a change in estimate in accordance with IAS 8.

2 Significant accounting policies (continued)

Goodwill

Business combinations are accounted for using the acquisition method or using merger accounting where it is a common control transaction and the relative rights remained the same before and after the combination. Under the acquisition method, the cost of an acquisition is measured as the aggregate of the consideration transferred measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. Acquisition-related costs are expensed as incurred and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred over the fair value of acquired assets and liabilities assumed. If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the gain is recognised in profit or loss. Goodwill is capitalised as an intangible asset with any impairment in carrying value being charged to the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to groups of cash-generating units ("CGU") that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Goodwill arising on the acquisition by TDR on 1 November 2013 is monitored internally by management at the Group level. The Group is considered to be the smallest relevant group of CGUs for goodwill impairment. Goodwill has also been recognised in relation to individual club acquisitions or acquisitions of a group of clubs. For these acquisitions the relevant club or group of clubs is considered to be the CGU.

Intangible assets

Intangible assets are recognised on business combinations if they are separable from the acquired entity or give rise to other contractual/legal rights. The amounts ascribed to such intangibles are arrived at by using appropriate valuation techniques. They are amortised over their useful lives from the date of acquisition.

Customer contracts and trademarks recognised on business combinations are amortised using the straight-line method over the following periods:

- Customer contracts – 2 to 7 years
- Trademarks – 15 years

Brand names acquired are recorded as intangible fixed assets with indefinite useful lives and are therefore tested annually for impairment.

Software is capitalised at cost, and amortised over its useful life of 18 months to 3 years.

Costs arising from the Group's development of software and applications for providing services to members are capitalised once the project has progressed beyond a conceptual, preliminary stage of application development. Development costs are capitalised when the following criteria are met:

- It is technically feasible to complete the software product so that it will be available for use;
- Management intends to complete the development of the software and bring it into use;
- There is an ability to use or sell the software;
- It can be demonstrated that the the software will generate probably future economic benefits;
- Adequate technical, financial and other resources are available to complete the development of the software is available;
- The expenditure can be recognised reliably.

2 Significant accounting policies (continued)

Intangible assets (continued)

Costs that qualify for capitalisation include both internal and external costs but are limited to those that are directly attributable to the specific project.

Internally-generated intangible assets are amortised over their useful lives - usually 3 years.

Impairment of tangible and intangible assets

At each statement of financial position date, the Group reviews the carrying amounts of its tangible and intangible assets (including goodwill) to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ("CGU") to which the assetbelongs. An intangible asset with an indefinite useful life is tested for impairment at least annually and whenever there is an indication that the asset may be impaired.

Each individual club is considered to be a CGU.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date. In order for an impairment reversal to be recognised the recoverable amount of the tangible and intangible asset needs to be supported for a minimum of three consecutive years. Upon this criteria being met the impairment reversal would be recognised in the income statement. Impairment losses recognised for goodwill are not reversed.

Investments are reviewed for impairment based upon their recoverable amount.

Other investments

Other investments consist of rental guarantee deposits held in relation to leases entered into by the Group as a lessee. These deposits are not available for use due to the legal guarantee in place, and are therefore non-current in nature.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost comprises direct materials and, where applicable, overheads that have been incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method. Net realisable value represents the estimated selling price less all estimated costs of completion and costs to be incurred in marketing, selling and distribution.

Cash and cash equivalents

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. Restricted cash relates to cash held in escrow which is not immediately available for use in the ordinary course of business.

Creditors

Creditors are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Creditors are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2 Significant accounting policies (continued)

Trade and other receivables

Trade and other receivables are amounts due from customers for goods sold or services performed in the ordinary course of business. Trade receivables are recognised initially at the amount of consideration that is unconditional, unless they contain significant financing components, when they are recognised at fair value. The Group holds the trade receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest method.

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

Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation and a reliable estimate can be made of the amount of the obligation. Provisions are not recognised for future operating losses.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. The amortisation of the discount is recognised as interest expense.

Employee benefits

Pension obligations

The Group operates various defined contribution pension plans. The Group pays contributions to privately administered pension insurance plans on a mandatory, contracted 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. The assets of the scheme are invested and managed independently of the finances of the Group.

Senior management incentive plan

The Group recognises a liability and an expense for participants of the Senior Management Incentive Plan which is payable upon sale of the business if certain conditions are met by amortising the present value of the estimated payment over the expected service period. This liability is recorded within provisions.

Share-based payments

Applicable employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for the right to purchase equity instruments in the parent company (equity-settled transactions).

No expense is recognised for awards that do not ultimately vest, except for equity-settled transactions for which vesting is conditional upon a market or non-vesting condition. These are treated as vesting irrespective of whether or not the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

The fair value at start date of equity-settled transactions is recognised, together with a corresponding increase in the share-based payment reserve in equity, over the period in which the performance and/or service conditions are fulfilled. The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group’s best estimate of the number of equity instruments that will ultimately vest. The income statement expense or credit for a period represents the movement in cumulative expense recognised as at the beginning and end of that period and is recognised in employee benefits expense.

When the terms of an equity-settled award are modified, the minimum expense recognised is the expense had the terms not been modified, if the original terms of the award are met. An additional expense is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee as measured at the date of modification.

2 Significant accounting policies (continued)

Employee benefits (continued)

Share-based payments (continued)

When an equity-settled award is cancelled, it is treated as if it vested on the date of cancellation, and any expense not yet recognised for the award is recognised immediately. This includes any award where non-vesting conditions within the control of either the entity or the employee are not met. However, if a new award is substituted for the cancelled award, and designated as a replacement award on the date that it is granted, the cancelled and new awards are treated as if they were a modification of the original award, as described in the previous paragraph.

Employee Benefit Trust

The Employee Benefit Trust is considered to be controlled by the Group. The activities of the Trust are conducted on behalf of the Group according to its specific business needs in order to obtain benefits from its operation and on this basis, the assets held by the Trust are consolidated into the Group's financial statements.

Share capital

Ordinary shares are classified as equity.

Financial liabilities

Classification

Financial liabilities can be classified as 'fair value through profit or loss' or held at amortised cost. All are initially recognised at fair value, and in the case of loans, net of any transaction costs. Loans are measured at amortised cost, using the effective interest rate method, with interest expense recognised on an effective yield basis.

Recognition and measurement

The Group derecognises financial liabilities when, and only when, the Group’s obligations are discharged, cancelled or they expire.

Financial assets

Classification

The Group classifies its financial assets in the following measurement categories: financial assets at fair value (either through Other Comprehensive Income (OCI) or through profit or loss) and financial assets at amortised cost.

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. For assets measured at fair value, gains and losses will be recorded either in profit or loss or in OCI.

Recognition and measurement

All financial assets are recognised and derecognised on a trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset measured at amortised cost or fair value through OCI, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss (FVTPL) are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Impairment

The Group assesses, on a forward-looking basis, the expected credit losses associated with its debt instruments carried at amortised cost and fair value through profit or loss. Expected credit losses are measured through a loss allowance at an amount equal to the expected credit losses for the next 12 months or the expected credit losses over the lifetime of the asset. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

2 Significant accounting policies (continued)

Financial assets (continued)

Impairment (continued)
For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognised from initial recognition of the receivables.

Derecognition of financial assets
The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Leases

The Group leases various clubs and equipment. Rental contracts are typically made for fixed periods of 12 months to 125 years and may have extension options.

Contracts may contain both lease and non-lease components. The Group allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the company is a lessee and for which it has major leases, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowing purposes.

The Group has entered into commercial property leases and other plant and equipment as a lessee. The leases are recognised as a right-of-use asset with a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- Fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- Variable lease payments that are based on an index or a rate, initially measured using the index or rate as at the commencement date;
- Amounts expected to be payable by the company under residual value guarantees;
- The exercise price of a purchase option if the company is reasonably certain to exercise that option; and
- Payments of penalties for terminating the lease, if the lease term reflects the company exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability. The lease payments are discounted using the incremental borrowing rate ("IBR"). This is the rate of interest that a lessee would have to pay to borrow, over a similar term and with security funds necessary to obtain an asset of a similar value to the cost of the right-of-use asset in a similar economic environment with similar terms, security 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.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Where lease payments have been deferred as a direct consequence of COVID-19, no allocation is made against the lease liability during the deferral period.

2 Significant accounting policies (continued)

Leases (continued)

Right-of-use assets are measured at cost comprising the following:

- The amount of the initial measurement of the lease liability;
- Any lease payments made at or before the commencement date less any lease incentives received;
- Any initial direct costs; and
- Restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. If the company is reasonably certain to exercise a purchase option, the right-of-use asset is depreciated over the underlying asset’s useful life.

Where the Group enters into a sale and leaseback transaction, a lease liability and corresponding right of use asset is recognised for the lease of land and buildings at the date the asset is available for use. The right of use asset recognised is calculated as a proportion of the carrying value of the asset held immediately prior to the sale. A portion of the gain or loss on sale is recognised to the extent that it relates to the rights transferred to the buyer.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognised as an expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature.

Information about critical accounting estimates and judgements in the application of lease accounting is disclosed in note 3.

Changes in accounting policies and disclosures

(a) New standards, amendments and interpretations

There are no amendments to accounting standards, or IFRIC interpretations that are effective for the year ended 31 December 2022 that have had a material impact on the Group's financial statements. For completeness the following new standards, amendments and interpretations are newly mandatorily effective for the first time in the current period:

- Amendments to IFRS 3, References to the Conceptual framework;
- Amendments to IAS 16, Proceeds before intended use;
- Amendments to IFRS 37. Onerous contracts – cost of fulfilling a contract;
- Annual improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16 and IAS 41).

(b) New standards, amendments and interpretations not yet adopted

At the date of authorisation of these financial statements, the Group has not applied the following new and revised IFRS Standards that have been issued but are not yet effective:

- Amendments to IFRS 17, Insurance Contracts including the Extension of the Temporary Exemption from Applying IRFS 9 (Amendments to IFRS 4)
- Amendments to IFRS 17, Initial application of IFRS 17 and IFRS 9 – Comparative information
- Amendments to IAS 1, Classification of Liabilities as Current or Non-Current;
- Amendments to IAS 1, Non-current liabilities with Covenants
- Amendments to IAS 1 and IFRS Practice statement 2 – Disclosure of Accounting Policies;
- Amendments to IAS 8 – Definition of Accounting Estimates;
- Amendments to IAS 12 – Deferred Tax related to Assets and Liabilities arising from a Single Transaction;
- Amendments to IFRS 16 – Lease liability in a sale and leaseback

None of these are expected to have a material impact on the financial statements of the Group or the Company.

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.

Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The related 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:

Key assumptions used for value-in-use calculations

The Group tests the carrying amounts of individual club non-current assets for impairment for those clubs that meet pre-defined impairment indicators. For the 2022 and 2021 reporting periods, the recoverable amount of the cash-generating units (CGUs) was determined based on value-in-use calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets and business plans approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 1.9% for the UK and 1.4% - 2.2% across Europe. These growth rates are consistent with forecasts specific to the industry and the country in which each CGU operates. The pre-tax discount rates of 11.30% for the UK, 11.75% for Germany, 13.75% for Spain, 11.50% for Holland and 9.25%-14.5% for other European countries have been determined using the Capital Asset Pricing Model (“CAPM”). Sensitivity to changes in assumptions are disclosed within note 16.

Valuation of identifiable assets and liabilities on acquisition

The consideration paid on acquisition is allocated to identifiable assets and liabilities at their estimated fair value, with any excess recognised as goodwill. Fair values are estimates, as active markets do not always exist for assets and liabilities acquired through acquisition and therefore alternative valuation methods are used. The allocation of consideration to identifiable assets and liabilities is made on a provisional basis and is revised based upon improved knowledge in subsequent periods, but no later than one year following the date of acquisition. The key estimate in relation to the acquisitions in the year ended 31 December 2022 is the valuation of the individual acquired clubs as a business. The valuations have been determined by third parties which included certain assumptions around projected revenues, EBITDA and discount rates.

Revision of useful lives of property, plant & equipment

During the year the estimated useful lives of certain items of property, plant and equipment were reviewed and revised. The net effect of the changes in the current financial year was an increase in depreciation expense of £2.4m. Assuming that the assets are held until the end of their estimated useful lives, depreciation in the financial year ended 31 December 2023 in relation to these assets will be increased by £0.2m.

3 Critical accounting estimates and judgements (continued)

Critical judgements in applying the entity's accounting policies

Lease accounting

In determining the lease term, management considers all facts and circumstances that create an economic incentive to exercise an extension option, or not to exercise a termination option. Periods covered by an option to extend the lease term are included in the lease term if the lessee is reasonably certain to exercise that option. The same rationale applies to termination options.

Significant judgement is involved in determining the period over which a lease is considered to be 'enforceable'. Where contracts have a term of greater than 10 years remaining at transition, the Group assesses there to be an unclear indication that it would in substance be deemed to be 'enforceable' beyond the original contractual term, despite the rights provided by The Landlord and Tenant Act 1954. The lease end date has therefore been used as the end date for the lease. For leases due to expire within 10 years of transition, the likelihood of extension is being assessed up to the year end with reference to the facts available and looking at the Group's history of renewing leases beyond the contractual end date. See note 18 for future minimum lease payments in respect of leases with a term of less than 10 years remaining.

For the current leases held by the Group, we currently conclude the minimum lease term to be the term of the lease contract, including any reversionary leases. We assess, based on our current plans or expectations, the situation for each lease for which options to extend, terminate or purchase exist annually and judgement will be applied in the weighting of relevant factors in each case.

Key assumptions used for assessing goodwill for impairment

Goodwill is tested for impairment on an annual basis. Goodwill arising on the acquisition by TDR on 1 November 2013 is tested at the Group level. The Group is considered to be the smallest relevant group of CGUs for goodwill impairment testing, as this is the level at which goodwill is monitored internally. Goodwill has also been recognised in relation to individual club acquisitions or acquisition of a group of clubs. For these acquisitions the relevant club or group of clubs is considered to be the CGU for goodwill impairment testing. The Group has determined the recoverable amount by estimating the value in use of the cash-generating units within the Group. The calculation of value in use requires estimation of future cashflows and a discount rate to determine the present value. Sensitivity to changes in this assumption are disclosed in note 16.

4 Prior year restatements

During the year the Financial Reporting Council (FRC) enquired about Covid-19 related rent concessions and leasehold health club intangible assets in connection with their review of the Deuce Topco Limited (a parent of the Company) 2021 Annual Report and Accounts. As a result of this enquiry, the directors reassessed the accounting treatment adopted for these transactions.

<u>Covid-19 related rent concessions</u>

We had previously recognised a deferred rent prepayment and a trade payable for rent invoices received, but not paid. This resulted in current assets and current liabilities being inappropriately grossed-up, as the lease liability balance already reflected the total outstanding value of lease obligations.

Accordingly, a prior year adjustment has been made and is reflected in the restated 2021 balances as presented. The balance as at 31 December 2020 has also been restated through the presentation of a third statement of financial position.

The effect of the prior year restatement on the 2021 financial statements is to decrease trade and other receivables by £28.5m (31 December 2020: £17.3m) and decrease trade and other payables by £28.5m (31 December 2020: £17.3m). There is no impact on the income statement or net assets.

4 Prior year restatements (continued)

Leasehold health club intangible assets

The intangible asset described as “leasehold health clubs intangible” represents amounts recognised under acquisition accounting, predominantly before IFRS 16 became effective, in respect of the value of right-of-use assets/leasehold interests. On transition to IFRS 16 these amounts should have been derecognised with a corresponding adjustment to the right-of-use assets. This adjustment would better reflect the right of use assets' value and correctly reflect that there is no intangible asset separately identifiable from the right of use asset. Accordingly, a prior year adjustment has been made and is reflected in the restated 2021 balances as presented. The balance as at 31 December 2020 has also been restated through the presentation of a third statement of financial position.

The effect of the prior year restatement on the 2021 financial statements is to decrease intangible assets by £40.8m (31 December 2020: £44.5m) and increase right-of-use asset by £40.8m (31 December 2020: £44.5m). There is no impact on net assets and no impact on the face of the income statement. Notes 9, 18 and 19 have been restated to reflect an increase in the depreciation charge of £3.6m and a corresponding decrease in the amortisation charge of £3.6m.

Impairment loss on trade receivables

The FRC also highlighted that the impairment loss on trade receivables should be separately disclosed on the face of the Consolidated Statement of Comprehensive Income. Previously it was included within other operating expenses. This balance (2021: £10.6m) is now shown separately with no impact on profit.

The scope of the FRC’s review was to consider the Group’s compliance with reporting requirements and not to verify the information provided. The review performed by the FRC is solely based on the Deuce Topco Limited 2021 annual report and accounts and does not benefit from a detailed understanding of underlying transactions and provides no assurance that the Annual Report and Accounts are correct in all material respects.

Statement of cashflows

As a result of the Covid-19 related rent concession restatement discussed above, the movement in trade and other receivables and the movement in trade and other payables have decreased by £11.2m within the working capital adjustments on the statement of cash flows for the year ended 31 December 2021. This reclassification has no impact on the net working capital position, no impact on the net increase in cash and cash equivalents, no impact on the income statement and no impact on the statement of financial position.

Other presentation restatements

During the year the directors identified further presentation restatements outside the scope of the FRC’s review as follows:

Staff costs

An issue was identified in the source data used to prepare the staff cost disclosure note. As a result, the prior year staff cost note had been overstated by £6.9m. Accordingly, this has been restated. There is no impact on the income statement as the error was restricted to the disclosure note.

Exceptional items

During the year the directors have reassessed how they present their Alternative Performance Measures and have concluded that given impairment charges may arise on a recurring basis that they should not be considered exceptional and are part of the underlying operating cycle of the business. The directors have therefore changed their accounting policy to remove impairment from their Exceptional APM metric in 2022. Accordingly, the prior year exceptional items note has been restated to remove the impairment lines and present them within the operating profit note. The effect of this prior year restatement on the 2021 financial statements is to decrease exceptional items by £1.4m. There is no impact on the income statement as the restatement was restricted to the disclosure notes.

5 Revenue

The analysis of the Group's revenue for the year from continuing operations is as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Membership subscriptions	528,667	310,306
Retail	62,073	40,830
Other revenue	64,581	39,416
	655,321	390,552

Other revenue primarily relates to provision of personal training, tennis and swimming classes.

Revenue in the year ended 31 December 2022 increased to £655.3m (2021: £390.6m) reflecting (i) the increased number of open trading days compared to the prior year when almost all clubs were closed for most of the first three months of 2021; and (ii) average membership numbers were higher in the year ended 31 December 2022 compared to the prior year.

The analysis of the Group's revenue for the year by geographic location is as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
UK	558,510	340,538
Europe	96,811	50,014
	655,321	390,552

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Revenue recognised that was included in the contract liability balance at the beginning of the period		
Membership subscriptions	29,958	34,152
Joining and other administration fees	2,743	1,972
Other	1,584	1,393
	34,285	37,517

Contract liabilities at the year end were as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Current contract liabilities	36,943	43,025
Non-current contract liabilities	6,905	2,956
	43,848	45,981

Contract liabilities relate to membership subscriptions, joining and administration fees and sales of sports classes and spa vouchers received in advance of performance under the contract. IFRS 15 uses the term 'contract liability' to describe what might more commonly be known as 'deferred revenue'.

The current contract liability balance of £36.9m is expected to be released and recognised within revenue in the next twelve months assuming all performance obligations have been satisfied.

6 Other income

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Construction contract revenue	13,687	-
Government grant income	509	30,428
Insurance proceeds	1,130	-
VAT reclaim	550	-
Research and development tax credit	76	182
	15,952	30,610

The Group's other income includes revenue from construction contracts that are recognised over time by reference to the stage of completion of the contract with the customer.

The Group entered into a forward funding agreement with Knight Frank Investment Management (KFIM) to construct a new club in Bicester. The Group sub-contracted the build of the club to Buckingham Group Contracting Ltd. KFIM re-imbursed the Group for the build costs incurred each month throughout the build. An agreement to lease the land and buildings had been entered into with KFIM for a period of 30 years. The effective date of this agreement was the practical completion date being 23 December 2022.

On 11 April 2022, the Group purchased land in Shawfair, near Edinburgh for £1.8m. Subsequently, on 22 July 2022 the Group sold the land and entered into a funding agreement to construct a new club on the site. At the same time an agreement for lease was entered into for a period of 30 years. The effective date of this agreement is the practical completion date which is expected to be July 2023.

The construction of the clubs meets the definition of a sale under IFRS 15, with the Group recognising right-of-use assets arising from the leasebacks as the proportion relating to the right of use retained. The overall gain the Group has recognised is limited to the proportion of the total gain that relates to the rights transferred to the buyer.

During the year, £0.5m was recognised in relation to UK and European government grants, £1.1m was in relation to Irish COVID-19 interruption insurance claim proceeds and £0.6m proceeds from a VAT claim. Government grant income of £30.4m was recognised in the year ended 31 December 2021 of which £17.4m was recognised in relation to the Coronavirus Job Retention Scheme, £4.3m in relation to other UK Government grants and £8.7m in relation to European employee support schemes.

7 Exceptional items

	Note	Year ended 31 December 2022 £ 000	Restated Year ended 31 December 2021 £ 000
IT implementation costs		3,821	-
Legal claim provisions	29	2,500	5,000
Costs of lease re-negotiations		-	1,567
Refinancing transaction and acquisition related costs		-	2,119
Exceptional costs		6,321	8,686

Exceptional items are included within other operating expenses in the income statement. IT implementation costs relate to costs of various IT projects classified as software as a service (SaaS) arrangements. These items are considered by the directors due to their size and nature to be exceptional and are therefore separately disclosed.

The tax effect of the exceptional items disclosed above was a £nil (2021: Charge of £0.1m due to the increase in deferred tax assets).

Exceptional items listed above generated a net cash outflow of £3.8m (2021: £3.7m).

The prior year has been restated to remove impairment charges from exceptional items as they do not meet the Group’s definition of exceptional items due to their recurring nature (note 4).

8 Loss on disposal of PP&E

The analysis of the Group's loss on disposal of PP&E (excluding gym equipment) for the year is as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Loss on disposal of other PP&E	(4,037)	(3,991)
Profit on sale and leaseback of UK land and buildings	40	-
Loss on disposal of land	(351)	(323)
Profit on exiting lease	252	-
Profit on recognition of finance lease receivable	-	1,192
	(4,096)	(3,122)

The Group recorded a profit on disposal of gym equipment of £0.1m (2021: £0.1m) for the year ended 31 December 2022 which is recognised within other operating expenses.

On 11 April 2022 the Group purchased land in Shawfair, Edinburgh for £1.8m. On 22 July 2022, the Group sold the land and recognised a loss of £0.4m in relation to professional fees incurred on the transaction.

On 23 November 2022 the Dordrecht lease was terminated at a cost of £1.7m (€2.0m), the remaining lease liability of £2.3m (€2.6m) was released at this date resulting in a profit on disposal of £0.3m.

Loss on disposal of other PP&E (excluding gym equipment) of £4.0m (2021: £4.0m) relates to disposals of assets in the normal course of business.

9 Operating profit

Arrived at after charging:

	Note	Year ended 31 December 2022 £ 000	Restated Year ended 31 December 2021 £ 000
Depreciation and amortisation expense	17, 18, 19	88,714	83,275
Impairment of goodwill	19	3,372	-
Impairment of property, plant and equipment	17	1,484	56
Impairment/(Net impairment reversal) of right-of-use assets	18	308	(458)
Staff costs	12	177,020	150,668
IFRS 16 operating lease expense		3,126	3,105
Exceptional costs	7	6,321	8,686

The cost of inventories recognised as an expense and included in cost of sales amounted to £21.3m (2021: £13.3m). This includes inventory write downs of £1.2m (2021: £1.0m).

In accordance with IFRS 16 operating lease expense represents turnover rent, service charge and service charge insurance.

10 Business combinations

On 16 September 2022, the Group entered into an agreement to purchase the entire issued share capital of ASL Fitness SL and Alfabeto 19 SL which hold two health and fitness clubs from leasehold premises in Madrid, Spain. The purchase was effected through DLL Greenwich Ltd, an entity within the Group.

The total cash consideration was £12.9m (€14.8m) transferred to the sellers for the shares. The purchase was funded from existing cash reserves. This was classified as acquisition of business (net of cash) under investing activities in the consolidated statement of cash flows. Immediately following acquisition, DLL Greenwich Limited settled external loans of £6.6m (€7.5m) held by the companies which has been classified as repayment of bank & other borrowings in the consolidated statement of cashflows.

The La Finca and Serrano clubs have been acquired for the purpose of expanding the David Lloyd Clubs' ("DLC" the brand) market share. By applying DLC best practice to these clubs, it is believed that synergies and economies of scale can be obtained.

10 Business combinations (continued)

The provisional fair value of the identified assets and liabilities of the acquired companies as at the date of acquisition were:

	Book value £ 000	Provisional fair value adjustment £ 000	Provisional fair value on acquisition £ 000
Assets			
Customer contracts	-	518	518
Intangible assets	20	-	20
Property, plant & equipment	3,112	(156)	2,956
Right of use assets	-	36,795	36,795
Cash and cash equivalents	208	-	208
Inventories	151	(98)	53
Trade and other receivables	533	(175)	358
Deferred tax assets	-	5,342	5,342
Liabilities			
IFRS 16 Lease liabilities	-	(20,769)	(20,769)
Bank loans	(6,592)	-	(6,592)
Trade and other payables	(1,859)	(272)	(2,131)
Deferred tax liabilities	-	(9,328)	(9,328)
Total identifiable net (liabilities)/assets at acquisition	(4,427)	11,857	7,430
Consideration transferred			12,922
Goodwill recognised at acquisition			5,492

Provisional fair value adjustments principally relate to:

Customer contracts: On acquisition the Group recognised an intangible asset for customer contracts that were acquired as part of the transaction.

Right-of-use assets and lease liabilities: Upon acquisition the Group recognised lease liabilities under the principles of IFRS 16 Leases. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate as of 16 September 2022. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 16 September 2022 was between 6.0% and 6.9%. The right-of-use asset was initially measured at the amount of the lease liability and adjusted by the value of the leasehold interest as determined by a third party valuation.

Deferred tax assets and liabilities: The deferred tax liabilities arising on acquisition predominantly relate to the right-of-use asset. The deferred tax asset arising on acquisition relates to IFRS 16 lease liabilities.

Goodwill is considered to represent the value of the assembled workforce and the benefits that will be generated from combining these sites with the existing portfolio of brands and clubs. None of the goodwill recognised is expected to be deductible for income tax purposes. The Group incurred acquisition-related costs of £0.6m related to external legal and professional fees. These transaction costs have been charged to operating costs in the income statement for the year ended 31 December 2022 and treated as an operating cash flow in the cash flow statement.

10 Business combinations (continued)

If the clubs had been acquired from 1 January 2022, they would have contributed pro-forma revenue for the financial year of €11.6m (£10.1m) and an adjusted EBITDA pre-IFRS16 of €0.8m (£0.7m).

11 Auditor's remuneration

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Fees payable to the Company's auditor for the audit of the Company's annual accounts	10	5
The audit of the Company's subsidiaries pursuant to legislation	1,009	796
	1,019	801
Other fees to auditor		
Audit related assurance services	10	10
	10	10
	1,029	811

12 Staff costs

The aggregate payroll costs were as follows:

	Year ended 31 December 2022 £ 000	Restated Year ended 31 December 2021 £ 000
Wages and salaries	154,942	134,688
Social security costs	15,781	11,048
Other pension costs	3,357	2,764
Long-term incentive plan charges	2,940	2,168
	177,020	150,668

Prior year staff costs have been restated to correct an issue identified with the source data (note 4).

The average number of persons (full-time equivalents) employed by the Group (including directors) during the year, analysed by category was as follows:

	2022 No.	2021 No.
Club Support	365	333
Clubs	5,876	5,242
	6,241	5,575

There were no employees within the Company

13 Directors' remuneration

The remuneration for the Directors for the year was as follows:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Aggregate remuneration	1,425	1,292
Pension costs	36	36
	1,461	1,328

In respect of the highest paid Director:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Aggregate remuneration	482	441
Pension costs	-	-
	482	441

14 Finance income and costs

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Finance income		
Interest income on bank deposits	792	43
Dividend income	9	8
Foreign exchange gains	-	5,112
Other interest income	96	-
Total finance income	897	5,163
Finance costs		
Interest on bank overdrafts and borrowings	(50,289)	(81,461)
Interest on lease liabilities	(70,161)	(65,899)
Amortisation of loan arrangement fees	(3,088)	(4,019)
Unwinding of discount on provisions	(34)	(10)
Foreign exchange losses	(14,115)	-
Other interest payable	(482)	(781)
Total finance costs	(138,169)	(152,170)
Net finance costs	(137,272)	(147,007)

Foreign exchange losses in the year (2021: gain) primarily relate to the loss on translation of the Euro senior secured notes.

15 Income tax

Tax charge in the income statement:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Current taxation		
UK corporation tax	-	-
Foreign corporation tax	902	1,292
Adjustment in respect of prior periods	(1,591)	173
	(689)	1,465
Deferred taxation		
Arising from origination and reversal of temporary differences	6,996	(5,522)
Adjustment in respect of prior periods	1,093	(56)
Change in tax rate	-	15,743
Total deferred taxation	8,089	10,165
Tax charge in the income statement	7,400	11,630

UK corporation tax is calculated at 19% (2021: 19%) of the estimated taxable profit for the year. Taxation for other corporation jurisdictions is calculated at the rates prevailing in the respective jurisdictions.

The tax charge for the year is higher (2021: higher) than the standard rate of corporation tax. The differences are explained below:

	Year ended 31 December 2022 £ 000	Year ended 31 December 2021 £ 000
Loss before tax	(1,560)	(141,358)
Corporation tax at standard rate 19% (2021: 19%)	(296)	(26,858)
Effect of non deductible expenses	6,727	5,850
Impact of tax depreciation in excess of cost	(2,939)	-
Effect of tax losses	4,286	8,209
Deferred tax not recognised	1,541	-
Interest restriction not recognised in full	-	12,699
Group relief with parent company for no consideration	8	(2,517)
Effect of different tax rates	(1,429)	(1,613)
Deferred tax expense relating to changes in tax rates or laws	-	15,743
Adjustments in respect of prior periods	(498)	117
Total tax charge	7,400	11,630

The adjustment in respect of prior periods of £0.5m credit (2021: £0.1m charge) primarily relates to the analysis of the tax treatment of the interest restriction and fixed assets where further information is subsequently available on the nature of these costs.

16 Impairment testing

Goodwill and brands with indefinite lives are subject to an annual impairment test. Goodwill and brands are allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. Goodwill arising on the acquisition by TDR on 1 November 2013 is monitored internally by management at the Group level. The Group is considered to be the smallest relevant group of cash generating units (CGUs) for goodwill impairment. Goodwill has also been recognised in relation to individual club acquisitions or acquisitions of a group of clubs. For these acquisitions the relevant club or group of clubs is considered to be the CGU. Club impairments of property, plant and equipment and right-of-use assets are charged to individual clubs as these are considered to be separate CGUs at which the Group monitors performance.

Key assumptions used in value in use calculations

The recoverable amount of property, plant and equipment and right-of-use assets is determined based on a value in use calculation using cash flow projections from financial budgets approved by senior management for a five year period. Cash flows beyond the five-year period are extrapolated using a range from 1.9% for the UK and between 1.4% and 2.2% across Europe (2021: 1.9% for UK and between 0.7% and 2.1% across Europe). The pre-tax discount rates applied to cash flow projections used to extrapolate the cash flows beyond the five-year period are:

Country	**2022**	**2021**
UK	11.30%	10.50%
Germany	11.75%	10.00%
Spain	13.75%	10.50%
Holland	11.50%	10.50%
Other European countries	9.25-14.50%	8.50-12.00%

Discount rate - the discount rate has been determined using the Capital Asset Pricing Model ("CAPM").

Sensitivity to changes in assumptions for goodwill, property, plant and equipment and right-of-use assets

Any change to the above key assumptions could have a material impact on the recoverable amount; which is then compared to the carrying value of the cash generating unit to determine if there is an impairment. The Group has determined the recoverable amount by estimating the value in use of the cash-generating units within the Group. The calculation of value in use requires estimation of future cashflows and a discount rate to determine the present value. The impairment calculation is most sensitive to changes in assumptions used for pre-tax discount rate.

If the pre-tax discount rates applied to cash flow projections was to increase by 2% (200 basis points), a reasonably possible change in assumption considered by the directors, the Group would have to recognise a further impairment charge against goodwill of £16.7m, property, plant and equipment of £2.3m and right-of-use assets of £5.1m:

The further goodwill impairment of £16.7m is attributable to the Germany CGU (goodwill arising on the acquisition of 8 Meridian Spa and Health clubs in 2020), where headroom is nil.

Other significant goodwill CGUs relate to the Group (goodwill arising on acquisition by TDR in 2013) and UK (goodwill arising on the acquisition of 14 Virgin Active clubs in 2017).

For the headroom of £1,160.1m, relating to the Group, to have been fully eliminated, the pre-tax discount rates applied to cash flow projections across the Group would have to increase by 7.45% (745 basis points).

For the headroom of £74.3m, relating to the UK, to have been fully eliminated, the pre-tax discount rates applied to cash flow projections across the UK would have to increase by 5.48% (548 basis points).

17 Property, plant and equipment

Group

	Land and buildings £ 000	Fixtures & fittings and equipment £ 000	Assets under construction £ 000	Work in progress £ 000	Total £ 000
Cost					
At 1 January 2021	261,006	278,823	-	2,356	542,185
Acquired through business combinations	10,901	1,893	-	-	12,794
Additions	7,109	16,893	-	26,514	50,516
Transfers	2,561	2,527	-	(7,671)	(2,583)
Disposals	(6,605)	(9,728)	-	-	(16,333)
Foreign exchange movements	(5,992)	(3,781)	-	(470)	(10,243)
As at 31 December 2021	268,980	286,627	-	20,729	576,336
Acquired through business combinations	1,633	1,323	-	-	2,956
Additions	20,295	59,868	12,233	29,951	122,347
Transfers	9,142	10,991	-	(20,133)	-
Disposals	(5,804)	(13,205)	-	-	(19,009)
Foreign exchange movements	5,983	3,275	169	804	10,231
As at 31 December 2022	300,229	348,879	12,402	31,351	692,861
Depreciation					
At 1 January 2021	53,385	153,710	-	-	207,095
Charge for the year	10,550	32,656	-	-	43,206
Impairments	49	7	-	-	56
Transfers	(413)	(2,170)	-	-	(2,583)
Disposals	-	(9,687)	-	-	(9,687)
Foreign exchange movements	(1,551)	(3,035)	-	-	(4,586)
As at 31 December 2021	62,020	171,481	-	-	233,501
Charge for the year	11,428	35,821	-	-	47,249
Impairments	1,284	200	-	-	1,484
Transfers	5,000	(5,000)	-	-	-
Disposals	(2,070)	(10,896)	-	-	(12,966)
Foreign exchange movements	2,145	2,342	-	-	4,487
As at 31 December 2022	79,807	193,948	-	-	273,755
Carrying amount					
At 31 December 2022	220,422	154,931	12,402	31,351	419,106
At 31 December 2021	206,960	115,146	-	20,729	342,835

17 Property, plant and equipment (continued)

For the purposes of property, plant and equipment impairment reviews, the Group considers each club to be an individual cash-generating unit (CGU), with each CGU reviewed annually for indicators of impairment. The Group compared the carrying value of property, plant and equipment to the estimated value-in-use. The calculations use cash flow projections based on financial budgets and business plans approved by management covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated growth rate of 1.9% for the UK and 1.4% - 2.2% across Europe. These growth rates are consistent with forecasts specific to the industry and the country in which each CGU operates. The pre-tax discount rates of 11.30% for the UK, 11.75% for Germany, 13.75% for Spain, 11.50% for Holland and 9.25% - 14.5% for other European countries have been determined using the Capital Asset Pricing Model ("CAPM").

On 25 February 2022, the Group exchanged contracts to build a club in Rugby. On 28 July 2022, the Group purchased the land in Rugby for £2.4m and construction has commenced. Construction costs of £5.4m and the cost of land are included within assets under construction.

On 11 April 2022, the Group purchased land in Shawfair, near Edinburgh for £1.8m. Subsequently, on 22 July 2022 the Group sold the land and entered into a funding agreement to construct a new club on the site.

On 1 June 2022, the Group acquired the former Club Santana site in Boadilla, Madrid. Refurbishment costs of £0.1m and the cost of land of £4.2m (€4.9m) are included within assets under construction.

18 Leases

The amounts recognised in the financial statements in relation to the leases are as follows:

(i) Amounts recognised in the Statement of Financial Position

Right-of-use assets

	Restated Land and buildings £ 000	Assets under construction £ 000	Equipment £ 000	Total £ 000
Cost				
At 1 January 2021 (restated)	1,114,893	-	2,231	1,117,124
Acquired through business combinations	2,419	-	60	2,479
Additions	28,555	-	780	29,335
Disposals	(5,058)	-	(78)	(5,136)
Transfers to finance lease receivable	(753)	-	-	(753)
Foreign exchange movements	(9,943)	-	(71)	(10,014)
As at 31 December 2021	1,130,113	-	2,922	1,133,035
Acquired through business combinations	36,795	-	-	36,795
Additions	63,499	3,495	280	67,274
Disposals	(2,983)		(381)	(3,364)
Transfers	961	(961)	-	-
Foreign exchange movements	8,377	-	9	8,386
As at 31 December 2022	1,236,762	2,534	2,830	1,242,126
Depreciation				
At 1 January 2021 (restated)	111,902	-	1,737	113,639
Charge for the year	32,317	-	538	32,855
Disposals	-	-	(78)	(78)
Transfers to finance lease receivable	(109)	-	-	(109)
Net impairment reversal	(458)	-	-	(458)
Foreign exchange movements	(1,280)	-	(4)	(1,284)
As at 31 December 2021	142,372	-	2,193	144,565
Charge for the year	32,506	-	602	33,108
Disposals	(991)	-	(354)	(1,345)
Impairment charge	308	-	-	308
Foreign exchange movements	2,392	-	4	2,396
As at 31 December 2022	176,587	-	2,445	179,032
Carrying amount				
At 31 December 2022	1,060,175	2,534	385	1,063,094
At 31 December 2021 (restated)	987,741	-	729	988,470

18 Leases (continued)

Lease liabilities	31 December 2022 £ 000	31 December 2021 £ 000
Current	(5,979)	(49,004)
Non-current	(1,042,485)	(953,451)
	(1,048,464)	(1,002,455)

The Group entered into new leases for clubs in Cricklewood and Bicester in the UK, Modena in Italy and a new lease of property adjacent to our Brussels club during the financial year. Lease liabilities of £24.7m were recognised for these leases with a corresponding right of use asset of £21.4m. Lease modifications relating to lease extensions for clubs in Eppendorf, Hampton, Beckenham and Port Solent resulted in lease liabilities and a corresponding right of use asset being recognised of £11.8m. On 16 September 2022, the Group acquired two clubs in Madrid, Spain. Lease liabilities of £20.8m and right-of-use assets of £36.8m were recognised on acquisition. Other additions in the financial year relate to remeasurements as a result of rent reviews of £30.6m and a further £3.5m of right-of-use asset additions have been recognised in respect of assets under construction.

(ii) Amounts recognised in the income statement

The income statement shows the following amounts relating to leases:

	31 December 2022 £ 000	Restated 31 December 2021 £ 000
Depreciation charge on right-of-use assets		
Land and buildings	32,506	32,318
Equipment	602	538
	33,108	32,856
Interest expense (included in finance cost)	70,161	65,899
Expenses relating to variable lease payments not included in lease liabilities	334	98
Net impairment charge/(reversal)	308	(458)

18 Leases (continued)

(iii) Future minimum lease payments as at 31 December 2022 are as follows:

The total cash outflow for leases for the period was £116.7m (2021: £65.1m). This included £30.5m repayments of deferrals agreed with landlords as a result of COVID-19.

	31 December 2022 £ 000	31 December 2021 £ 000
Not later than one year	88,950	113,413
Later than one year and not later than five years	360,441	329,920
Later than five years and not later than ten years	440,704	405,193
Later than ten years and not later than twenty five years	1,090,786	1,000,259
Later than twenty five years and not later than fifty years	612,773	589,335
Later than fifty years	1,243,558	1,207,690
Total gross payments	3,837,212	3,645,810
Impact of finance expenses	(2,788,748)	(2,643,355)
Carrying amount of liability	1,048,464	1,002,455

Significant judgement is involved in determining the period over which a lease is considered to be 'enforceable'. We apply different assessments to leases that expire within ten years. The cash outflow for leases expiring in less than ten years and greater than ten years is as follows:

31 December 2022

	Less than 10 years £ 000	More than 10 years £ 000	Total £ 000
Gross payments	82,919	3,754,293	3,837,212
Impact of finance expenses	(18,635)	(2,773,710)	(2,792,345)
Carrying amount of liability	64,284	980,583	1,044,867

31 December 2021

	Less than 10 years £ 000	More than 10 years £ 000	Total £ 000
Gross payments	29,401	3,616,409	3,645,810
Impact of finance expenses	(5,691)	(2,637,664)	(2,643,355)
Carrying amount of liability	23,710	978,745	1,002,455

(iv) Amounts recognised in relation to operating leases:

The Group has entered into a number of concession agreements. Lease income from these arrangements recognised in the year ended 31 December 2022 was £4.3m (2021: £3.1m).

19 Intangible assets

Group

	Goodwill £ 000	Customer contracts £ 000	Trademarks £ 000	Brands £ 000	Software & other internally generated intangibles £ 000	Restated Total £ 000
Cost or valuation						
At 1 January 2021 (restated)	163,368	4,430	14,961	43,347	16,194	242,300
Acquired through business combinations	1,984	685	-	-	464	3,133
Additions	238	-	-	-	7,374	7,612
Disposals	-	-	-	-	(2,262)	(2,262)
Foreign exchange movements	(4,810)	(302)	(1,152)	-	(225)	(6,489)
As at 31 December 2021	160,780	4,813	13,809	43,347	21,545	244,294
Acquired through business combinations	5,492	518	-	-	20	6,030
Additions	37	-	-	-	15,998	16,035
Disposals	-	-	-	-	(452)	(452)
Foreign exchange movements	3,929	271	760	-	163	5,123
As at 31 December 2022	170,238	5,602	14,569	43,347	37,274	271,030
Amortisation						
At 1 January 2021 (restated)	277	577	931	-	9,632	11,417
Amortisation charge	-	606	967	-	5,641	7,214
Disposals	-	-	-	-	(2,262)	(2,262)
Foreign exchange movements	(15)	(49)	(88)	-	(546)	(698)
As at 31 December 2021	262	1,134	1,810	-	12,465	15,671
Amortisation charge	-	992	890	-	6,475	8,357
Disposals	-	-	-	-	(452)	(452)
Impairment	3,372	-	-	-	-	3,372
Foreign exchange movements	78	101	134	-	78	391
As at 31 December 2022	3,712	2,227	2,834	-	18,566	27,339
Carrying amount						
At 31 December 2022	166,526	3,375	11,735	43,347	18,708	243,691
At 31 December 2021 (restated)	160,518	3,679	11,999	43,347	9,080	228,623

Goodwill and brands are not amortised but tested annually for impairment. The brand is considered to have an indefinite life due to the history and market position of the trade name. The Group recognised an impairment charge of £3.4m during the year (2021: £nil). This relates to Meridian (£2.5m) and La Finca/Serrano (£0.9m).

On 16 September 2022, the Group entered into an agreement to purchase the entire issued share capital of ASL Fitness SL and Alfabeto 19 SL. Goodwill of £5.5m, customer contracts of £0.5m and software and licenses of £0.02m were recognised on acquisition.

Prior year balances have been restated to reflect the reclassification of leasehold health club intangible assets to right-of-use assets (see note 4).

20 Investments

Summary of Group investments

See note 21 for other investments held by the Group as at 31 December 2022.

Summary of the Company investments

	31 December 2022 £ 000	31 December 2021 £ 000
At start of year	667,248	665,030
Additions	2,940	2,218
At end of year	670,188	667,248

A share-based payment charge of £2.9m (2021: £2.2m) was recognised in the subsidiary David Lloyd Leisure Limited during the year which has been recorded as a debit to investments and a credit in the share based payment reserve of the Company.

Group subsidiaries

Details of the Group subsidiaries as at 31 December 2022 are as follows:

Name of subsidiary	Principal activity	Country of incorporation	Holding 2022	Holding 2021
Deuce Acquisitions Limited*	Dormant	England and Wales	100%	100%
Deuce FinCo Plc*	Holding Company	England and Wales	100%	100%
David Lloyd Leisure Operations Holdings Ltd	Dormant	England and Wales	100%	100%
David Lloyd Leisure Properties No.1 Ltd	Dormant	England and Wales	100%	100%
David Lloyd Leisure Properties No.2 Ltd	Property company	England and Wales	100%	100%
David Lloyd Leisure Properties No.3 Ltd	Property company	England and Wales	100%	100%
David Lloyd Leisure Properties No.4 Ltd	Property company	England and Wales	100%	100%
David Lloyd Leisure Group Ltd	Dormant	England and Wales	100%	100%
David Lloyd Leisure Ltd	Leisure clubs	England and Wales	100%	100%
David Lloyd Leisure Farnham Ltd	Leisure clubs	England and Wales	100%	100%
David Lloyd Leisure GR Ltd	Property company	England and Wales	100%	100%
Next Generation Clubs Ltd	Leisure clubs	England and Wales	100%	100%
Harbour Club Ltd	Leisure clubs	England and Wales	100%	100%
David Lloyd Clubs Limited	Leisure clubs	England and Wales	100%	100%

20 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation	Holding	
David Lloyd Clubs Holdings Limited	Holding company	England and Wales	100%	100%
David Lloyd Leisure JV Holdings Ltd	Dormant	England and Wales	100%	100%
David Lloyd Leisure Development Sites Ltd	Dormant	England and Wales	100%	100%
Next Generation Amida Beckenham Ltd	Dormant	England and Wales	100%	100%
Next Generation Amida Hampton Ltd	Dormant	England and Wales	100%	100%
Core Exercise Clinics Ltd	Dormant	England and Wales	100%	100%
Odyssey Glory Mill Ltd	Dormant	England and Wales	100%	100%
Next Generation Amida Services Ltd	Dormant	England and Wales	100%	100%
Next Generation Amida Fleet Ltd	Dormant	England and Wales	100%	100%
Burton Waters (HL&R) Limited	Dormant	England and Wales	100%	100%
Markson Tennis and Leisure Centres Limited	Dormant	England and Wales	100%	100%
Castledene Leisure Limited	Dormant	England and Wales	100%	100%
Grasspost Limited	Dormant	England and Wales	100%	100%
Design Collective Limited	Dormant	England and Wales	100%	100%
Gatehouse Nursery Holdings Limited	Dormant	England and Wales	100%	100%
Tennis Club Management International Limited	Dormant	England and Wales	100%	100%
Farnridge Limited	Dormant	England and Wales	100%	100%
David Lloyd Sports Centres Limited	Dormant	England and Wales	100%	100%
Racquets and Healthtrack Group Limited	Dormant	England and Wales	100%	100%
Brooklands Healthtrack Limited	Dormant	England and Wales	100%	100%
Solihull Racquets & Healthtrack Limited	Dormant	England and Wales	100%	100%
Cheshire Oaks Racquets and Healthtrack Limited	Dormant	England and Wales	100%	100%
Ealing Racquets and Healthtrack Limited	Dormant	England and Wales	100%	100%
Manchester Racquets and Healthtrack Limited	Dormant	England and Wales	100%	100%
Nottingham Racquets & Healthtrack Limited	Dormant	England and Wales	100%	100%
David Lloyd Leisure Nurseries Limited	Dormant	England and Wales	100%	100%
David Lloyd Leisure Nominee No.1 Limited	Dormant	England and Wales	100%	100%
David Lloyd Leisure Nominee No 2 Limited	Dormant	England and Wales	100%	100%
Nextgen Limited	Dormant	England and Wales	100%	100%

20 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation	Holding	
Newhaven Restaurant Limited	Dormant	England and Wales	100%	100%
N.G.C. Project Management Limited	Dormant	England and Wales	100%	100%
Smilewood Limited	Dormant	England and Wales	100%	100%
Celsius Spa Limited	Dormant	England and Wales	100%	100%
Harbour Club Operations Limited	Dormant	England and Wales	100%	100%
David Lloyd Leisure Nominee No 3 Limited	Dormant	England and Wales	100%	100%
David Lloyd Leisure Nominee No 4 Limited	Dormant	England and Wales	100%	100%
DLL Greenwich Limited	Holding Company	England and Wales	100%	100%
Sports Management (Scotland) Ltd	Dormant	Scotland	100%	100%
DLL Talwalkars Club Private Limited	Dormant	India	50%	50%
David Lloyd Leisure Operations SPRL	Leisure clubs	Belgium	100%	100%
David Lloyd Leisure Ter Elst BVBA	Leisure clubs	Belgium	100%	100%
David Lloyd Riverview Operations Ireland Ltd	Leisure clubs	Ireland	100%	100%
David Lloyd Riverview Holdings Ireland Ltd	Dormant	Ireland	100%	100%
David Lloyd Riverview Ltd	Dormant	Ireland	100%	100%
David Lloyd Riverview Property Ireland Ltd	Dormant	Ireland	100%	100%
David Lloyd Leisure Nederland BV	Holding company	Holland	100%	100%
David Lloyd Health & Fitness BV	Leisure clubs	Holland	100%	100%
David Lloyd Leisure Property Holdings BV	Holding company	Holland	100%	100%
David Lloyd Leisure Property BV	Property company	Holland	100%	100%
David Lloyd Clubs France SAS	Leisure clubs	France	100%	100%
LK International SARL	Restaurant	France	100%	100%
David Lloyd Clubs Deutschland GmbH	Leisure clubs	Germany	100%	100%
Meridian Academy GmbH	Leisure clubs	Germany	0%	100%
Meridian Mezzanine GmbH	Leisure clubs	Germany	0%	100%
Meridian Spa & Fitness Frankfurt GmbH	Leisure clubs	Germany	100%	100%
Meridian Spa & Fitness Berlin GmbH	Leisure clubs	Germany	0%	100%
Meridian Spa & Fitness Hamburg GmbH	Leisure clubs	Germany	100%	100%

Notes to the Financial Statements for the Year ended 31 December 2022

20 Investments (continued)

Name of subsidiary	Principal activity	Country of incorporation	Holding	
Meridian Spa & Fitness Kiel GmbH	Leisure clubs	Germany	0%	100%
Meridian Spa & Fitness Deutschland GmbH	Leisure clubs	Germany	100%	100%
DLL Greenwich Holding GmbH	Holding Company	Germany	100%	100%
DLL Greenwich GmbH	Holding Company	Germany	100%	100%
Geneva Country Club SA	Leisure clubs	Switzerland	100%	100%
David Lloyd Clubs Italia SRL	Leisure clubs	Italy	100%	0%
David Lloyd Leisure Espana II	Leisure clubs	Spain	100%	100%
Bonasport SA	Leisure clubs	Spain	5%	5%
DLL Leisure Espana III SL	Holding Company	Spain	100%	100%
DLL Clubs Malaga SL	Leisure clubs	Spain	100%	100%
DLL Clubs Zaragoza SL	Leisure clubs	Spain	100%	100%
DLL Clubs Gava Mar SL	Leisure clubs	Spain	100%	100%
ASL Fitness SL	Leisure clubs	Spain	100%	0%
Alfabeto 19 SL	Leisure clubs	Spain	100%	0%

* indicates direct investment of the company.

All of the above subsidiary companies are included within the consolidated Group financial statements.

The registered offices of Group companies are as follows:

Sports Management (Scotland) Limited & Newhaven Restaurant Limited: 302 St Vincent St, Glasgow, G2 5RZ
All other UK Group companies: The Hangar, Hatfield Business Park, Hatfield, Herts, AL10 9AX
All companies incorporated in Holland: Peter zuidlaan 30 5502NH, Veldhoven, Netherlands
All companies incorporated in Ireland: Beech Hill, Clonskeagh, Dublin 4, 662822
All companies incorporated in France: 740 Route des Plantets, 74140 Veigy-Foncenex, France
David Lloyd Leisure Espana II SL: Av. Diagonal 673-685 08028 Barcelona, Spain
David Lloyd Leisure Operations SPRL: 41 Drève de Lorraine, 1180 Uccle, Belgium
David Lloyd Leisure Ter Elst BVBA: Kattenbroek 3, 2650 Edegem, Belgium
David Lloyd Clubs Deutschland GmbH: c/o NHS GmbH WPG, Am Wehrhahn 100, 40211 Düsseldorf
DLL Talwalkars Club Private Limited: 801-813, Mahalaxmi Chambers, 22, Bhulabhai Desai Road, Mumbai – 400026
Bonasport SA: Calle Vistabella, 11, 08022 Barcelona, Spain
All Meridian Spa & Fitness companies: 87-89 Wandsbeker Zollstrasse, Germany
Geneva Country Club SA: Rte de Collex 47, 1293 Bellevue, Switzerland
DLL Clubs Malaga SL: Calle Juan Sebastian Elcano 129-131, 29017 Malaga
DLL Clubs Zaragoza SL, DLL Clubs Gava Mar SL and DLL Leisure Espana III SL: Calle Maria Montessori 13, 500018 Zaragoza
ASL Fitness SL: Paseo Club Deportivo, 4, 28223 Pozuelo de Alarcón, Madrid, Spain
Alfabeto 19 SL: C. de Serrano, 61, 28006 Madrid, Spain
David Lloyd Clubs Italia SRL: Stradello S. Marone, 50, 41100 Modena MO, Italy

On 1 January 2022 Meridian Academy GmbH, Meridian Mezzanine GmbH, Meridian Spa & Fitness Berlin GmbH and Meridian Spa & Fitness Kiel GmbH were merged into Meridian Spa & Fitness Deutschland GmbH.

20 Investments (continued)

On 16 September 2022, the Group acquired the entire issued share capital of ASL Fitness SL and Alfabeto 19 SL.

The Group received dividends of £9,000 (2021: £8,000) from Bonasport SA during the year.

21 Other investments

	31 December 2022 £ 000	31 December 2021 £ 000
Guarantees	4,342	-

Other investments held by the Group consist of bank guarantees in relation to leasehold premises in Germany, Spain and Italy.

22 Other receivables

	Group		Company	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Amounts due from parent companies	2,870	2,706	-	-
Amounts due from subsidiaries	-	-	736,085	707,337
Other receivables	-	3,042	-	-
Total non-current other receivables	2,870	5,748	736,085	707,337

The amounts due from parent companies and amounts due from subsidiaries are repayable on demand and accrue interest of 3.5% for the year ended 31 December 2022. They are included within non-current other receivables as there is no current intention for them to be repaid despite them being due within one year.

23 Trade and other receivables

	Group		Company	
	31 December 2022 £ 000	Restated 31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Trade receivables	21,629	16,917	-	-
Provision for impairment of trade receivables	(17,483)	(8,750)	-	-
Net trade receivables	4,146	8,167	-	-
Contract assets	6,133	1,925	-	-
Prepayments	5,164	5,071	-	-
Other receivables	2,392	1,570	-	-
Social security and other taxes	-	-	109	-
Total current trade and other receivables	17,835	16,733	109	-

Prepayments have been restated in the prior year to reclassify deferred rent prepayments of £28.5m to trade payables (note 4).

23 Trade and other receivables (continued)

Contract assets includes a £5.2m receivable arising from construction contracts for leaseback.

The carrying value of trade and other receivables classified as receivables approximates fair value.

The Group assesses the expected recoverability of trade receivables and applies a provision based on the historical recoverability rate. The Group also assesses the latest information it has available on customer collections post the balance sheet date in order to evaluate whether there has been any impact on its customers from changes in the prevailing macro-economic situation.

The impairment charge of trade and other receivables (now separately identified on the income statement as impairment losses on financial assets) reflects the expected credit losses in accordance with IFRS 9. The increase against prior year is driven by the increase in member count and subscription income. The charge of £17.5m (2021: £10.6m) represents 3.3% (2021: 3.4%) of membership subscription revenues.

The movement in the allowances during the year is as follows :

	31 December 2022 £ 000	Restated 31 December 2021 £ 000
Allowances at 1 January 2022	8,750	9,355
Allowances used on fully written down receivables	(8,750)	(9,355)
Additions – charged to consolidated income statement	17,483	8,750
Allowances at 31 December 2022	17,483	8,750

An analysis of the impairment losses on financial assets is shown below:

	31 December 2022 £ 000	31 December 2021 £ 000
Additions – charged to consolidated income statement	17,483	8,750
Impairment of finance lease receivable	-	1,847
Impairment losses on financial assets	17,483	10,597

The maximum exposure to credit risk at the reporting date is the carrying value of each class of receivables mentioned above. The Group does not hold any collateral as security.

As of 31 December 2022, trade receivables of £898,000 (2021: £895,000) were past due but not impaired. The ageing of these receivables is as follows:

	31 December 2022 £ 000	31 December 2021 £ 000
1 to 3 months	752	872
Over 3 months	146	23
	898	895

23 Trade and other receivables (continued)

The carrying amounts of the Group's trade and other receivables are denominated in the following currencies:

	31 December 2022 £ 000	Restated 31 December 2021 £ 000
UK Pounds	14,597	13,207
Euros	3,158	3,315
Swiss Francs	80	211
	17,835	16,733

24 Cash and cash equivalents

	Group		Company	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Cash at bank and in hand	11,495	121,183	6	6
Restricted cash	-	3,030	-	-
	11,495	124,213	6	6

Restricted cash at 31 December 2021 related to cash held in escrow for the repayment of the Mezzanine loan notes which were repaid in January 2022.

25 Trade and other payables

	Group		Company	
	31 December 2022 £ 000	Restated 31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Trade payables	18,176	32,537	69	170
Accrued expenses	52,754	52,575	531	690
Amounts due to Group companies	-	-	947,109	915,202
Social security and other taxes	13,903	11,979	-	-
Other payables	1,453	2,571	-	-
Contract liabilities	36,943	43,025	-	-
	123,229	142,687	947,709	916,062

Trade payables have been restated in the prior year to reclassify deferred rent prepayments to trade payables (note 4).

Accrued expenses includes £2.4m (2021: £2.6m) of accrued interest on loans and borrowings.

The amounts due to parent company and amounts due to Group companies are repayable on demand and accrued interest of 3.5% for the year ended 31 December 2022.

26 Loans and borrowings

	Group		Company	
	31 December 2022 £ 000	31 December 2021 £ 000	31 December 2022 £ 000	31 December 2021 £ 000
Current loans and borrowings				
Bank borrowings and loans	487	3,384	-	-
Non-current loans and borrowings				
Loan	915,898	903,429	-	-
Loan arrangement fees	(13,372)	(16,262)	(2,498)	(3,064)
	902,526	887,167	(2,498)	(3,064)

Loan arrangement fees for the Company of £2.5m relate to the super senior revolving credit facility that was undrawn at 31 December 2022.

Non-current loans and borrowings consist of £645m of Senior Secured Notes ("the Sterling Notes") and €300m of Senior Secured Notes ("the Euro Notes"), issued by Deuce FinCo plc (a subsidiary of the Company). The Notes are listed on The International Stock Exchange, for which Deuce FinCo plc is the issuer and certain subsidiaries of the Group are guarantors. Interest on the Sterling Notes accrues at a rate of 5.50%, payable semi-annually. Interest on the Euro Notes accrues at 4.75% plus three-month EURIBOR, payable quarterly in arrears. The Notes are due to be repaid in full on 15 June 2027.

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

Non-current loans and borrowings also include loans from Spanish banks (€2.8m and €3.6m). The loans from Kratus Inversiones and Unicaja Banco were assigned to the Group on acquisition of the Accura group. Interest accrues at 1.75% and 2.35% respectively, payable monthly. The loans are paid in monthly instalments and will be fully repaid by 31 March 2043 and 31 March 2029. Capital payments for the next 12 months are included in current loans and borrowings.

On 16 September 2022, the Group acquired the entire issued share capital of ASL Fitness S.L. and Alfabeto 19 S.L. which hold two health and fitness clubs in Madrid. Immediately following acquisition, the Group repaid external borrowings held by the companies of £6.6m (€7.5m).

Current loans and borrowings, as at 31 December 2021, consisted of a Mezzanine Bond (€3.5m) and a loan from the Swiss Government (CHF 0.5m). The Mezzanine Bond was issued in October 2010 accruing interest at 7%. Formal notice was given to repay the Mezzanine Bond in December 2021 with repayment made in January 2022. The loan from the Swiss Government was obtained to support the Swiss club as a result of COVID-19. The loan was interest free and was fully repaid in April 2022.

In addition, the Group has access to a £125m super senior revolving credit facility ("SSRCF") which has a maturity date of 18 December 2026. As at 31 December 2022, this facility was undrawn.

26 Loans and borrowings (continued)

The loans and borrowings have expiry dates between 2026 and 2043 and are secured with a fixed charge against the assets of the Group. The loans and borrowings attract interest as shown in the table below:

	Loan amount	Maturity	Interest	Amount drawn
Sterling senior secured notes	£645.0m	15/06/2027	5.50%	£645.0m
Euro senior secured notes	€300.0m	15/06/2027	4.75% + EURIBOR	€300.0m
Super senior revolving credit facility	£125.0m	18/12/2026	3.25% + SONIA	£Nil
Kratus Inversiones D.A.C loan	€2.8m	31/03/2043	1.75%	€2.8m
Unicaja Banco loan	€3.6m	31/03/2029	2.35%	€3.6m

	Book value 31 December 2022 £ 000	Fair value 31 December 2022 £ 000	Book value 31 December 2021 £ 000	Fair value 31 December 2021 £ 000
Sterling senior secured notes	645,000	513,356	645,000	639,066
Euro senior secured notes	265,745	241,058	251,889	249,924
Loans – other	5,640	5,624	9,924	9,367
	916,385	760,038	906,813	898,357

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.

27 Financial risk management objectives and policies

The Group’s principal financial instruments comprise cash and cash equivalents, trade and other receivables and payables, borrowings and lease liabilities. The main financial risks faced by the Group relate to the risk of default by counterparties following financial transactions, to the availability of funds for the Group to meet its obligations as they fall due, and to fluctuations in interest and foreign exchange rates.

This note presents information about the Group’s exposure to each of the above risks and describes the Group's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

The Board has overall responsibility for the determination of the Group's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Group's finance function. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Group's competitiveness and flexibility.

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.

27 Financial risk management objectives and policies (continued)

<u>Interest rate risk</u>

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to interest rate risk because the Group's €300m Euro senior secured notes are subject to a variable interest rate element being EURIBOR. The Group's super senior revolving credit facility ("SSRCF") is at floating interest rates based on GBP SONIA (Sterling Overnight Index Average), however this facility is currently undrawn. There is no exposure on the £645m Sterling senior secured notes as the interest rate is fixed.

The Group monitors interest rates and reacts accordingly. The Group would look to mitigate any material interest rate risk through entering into an interest rate swap contract.

The increase in the finance cost charge of a reasonable possible increase in the EURIBOR is as follows:

	Interest for the year ended 31 December 2022	Impact of change in EURIBOR % +50 Bps	+100 Bps	+200 Bps	+300 Bps
	£ 000	£ 000	£000	£ 000	£ 000
Interest on euro senior secured notes	13,492	1,078	2,378	4,980	7,581

<u>Exchange rate risk</u>

Foreign exchange risk arises when individual Group entities enter into transactions denominated in a currency other than their functional currency. The Group's policy is, where possible, to allow Group entities to settle liabilities denominated in their functional currency with the cash generated from their own operations in that currency. Where Group entities have liabilities denominated in a currency other than their functional currency (and have insufficient reserves of that currency to settle them), cash already denominated in that currency will, where possible, be transferred from elsewhere within the Group.

Financial instruments affected by exchange rate risk include the Euro Notes. At 31 December 2022, the €300 million Euro Notes had a carrying amount of £265.7m based on an exchange rate of 1.1289.

Had the exchange rate at 31 December 2022 been 10% lower, then the Group's loss for the year on the Euro notes would have increased by £29.5m.

Sensitivity analysis

Sensitivity of balance sheet movements in the Euro exchange rate are shown below:

	Sterling	Euros	Total	+10%	-10%
	£ 000	£ 000	£000	£ 000	£ 000
Assets	1,560,906	377,958	1,938,864	(34,203)	41,804
Liabilities	(1,932,092)	(393,207)	(2,325,299)	35,589	(43,498)
	(371,186)	(15,249)	(386,435)	1,386	(1,694)
Loss for the financial year	(6,596)	(2,364)	(8,960)	215	(263)

<u>Price risk</u>

The Group is exposed to increases in the price of electricity and gas. The Group manages its exposure by purchasing its utility requirements in advance through industry leading advisers. For FY23, 91% of the UK electricity and gas volumes have been purchased. Unused utility volumes are sold back to the market with the Group liable for any losses due to lower pricing. Our electricity supply contract ends October 2025, and our gas contract ends October 2024.

27 Financial risk management objectives and policies (continued)

Price risk (continued)

Inflation risk is the risk that the cost of key services and products procured by the Group will rise with inflation and affect the Group's margin. A large proportion of the Group's leasehold rents are subject to RPI or CPI increases which presents an ongoing risk. The Group has comprehensive cost control processes in place to ensure these inflation driven risks are minimised.

If membership price changes do not reflect market sensitivities and elasticities, this may result in decreased revenue and profit through increased attrition or eroded margins. The Group has a comprehensive pricing policy which is reviewed annually to ensure this risk is mitigated.

The Group's UK employees are subject to the Working Time Regulations which controls the hours they are legally allowed to work. In addition, on 1 April 2022 the National Living Wage increased to £9.50 for those aged 23 and over and increased to £10.42 effective from 1 April 2023. The Group introduced a minimum hourly rate above the national minimum wage and national living wage. From 1 April 2022, our minimum wage increased to £9.60 for all hourly paid employees regardless of age. From 1 April 2023, our minimum wage increased to £10.52 for all hourly paid employees. This minimises the Group's exposure to further increases in the national living wage.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group manages liquidity risk by performing detailed cash flow forecasts and monitoring this monthly, matching the maturity profiles of financial assets and operational liabilities and by maintaining cash balances (or agreed facilities) to meet expected requirements.

The Group also has access to a £125m super senior revolving credit facility ("SSRCF") which has a maturity date of 18 December 2026 and is undrawn at the statement of financial position date. The SSRCF is subject to a financial covenant relating to Consolidated Leverage Ratio (EBITDA to Net Debt ratio) only if the SSRCF is at least 40% drawn. As there is no current scenario where the SSRCF would be 40% drawn the likelihood of any covenant breach is considered remote.

Maturity analysis

The following table sets out the contractual undiscounted maturities including cashflows of the financial assets and liabilities of the Group as at 31 December 2022:

Financial assets

31 December 2022	Weighted average effective interest rate	Less than 1 year £ 000	2 to 5 years £ 000	Over 5 years £ 000	Total £ 000
Other investments	0%	-	-	4,342	4,342
Other receivables	0%	-	-	2,870	2,870
Trade and other receivables	0%	17,835	-	-	17,835
Cash and cash equivalents	0%	11,495	-	-	11,495
		29,330	-	7,212	36,542

27 Financial risk management objectives and policies (continued)

Maturity analysis (continued)

Financial assets (continued)

Restated 31 December 2021	Weighted average effective interest rate	Less than 1 year £ 000	2 to 5 years £ 000	Over 5 years £ 000	Total £ 000
Other receivables	0%	-	-	5,748	5,748
Trade and other receivables	0%	16,733	-	-	16,733
Cash and cash equivalents	0%	124,213	-	-	124,213
		140,946	-	5,748	146,694

Financial liabilities:

31 December 2022	Weighted average effective interest rate	Less than 1 year £ 000	2 to 5 years £ 000	Over 5 years £ 000	Total £ 000
Loans and borrowings	5.9%	54,135	1,098,392	3,433	1,155,960
Trade and other payables	0%	33,532	-	-	33,532
Lease liabilities*	6.5%	88,950	360,441	3,387,821	3,837,212
Contingent consideration in business combination	7.1%	77	245	-	322
		176,694	1,459,078	3,391,254	5,027,026

Restated 31 December 2021	Weighted average effective interest rate	Less than 1 year £ 000	2 to 5 years £ 000	Over 5 years £ 000	Total £ 000
Loans and borrowings	5.3%	47,553	190,252	893,489	1,131,294
Trade and other payables	0%	47,087	-	-	47,087
Lease liabilities	6.5%	113,413	329,920	3,202,479	3,645,812
Contingent consideration in business combination	7.1%	178	268	-	446
		208,231	520,440	4,095,968	4,824,639

Trade and other payables includes trade payables, social security and other taxes, and other payables as disclosed in note 25.

*Further disaggregation of lease liabilities over 5 years is shown in note 18.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Group's credit risk is primarily attributable to its trade receivables. The amounts presented in the statement of financial position are net of allowances for doubtful receivables, which are made where there is evidence of a reduction in the recoverability of the cash flows.

27 Financial risk management objectives and policies (continued)

Credit risk (continued)
Credit risk also arises from cash and cash equivalents and deposits with banks and financial institutions. For banks and financial institutions, only independently rated parties with a minimum rating "A" are accepted. The Group assesses the credit quality of customers, taking into account their financial position, past experience and other factors. The credit risk of the Group is minimised due to exposure spread over a large number of customers who generally pay by direct debit in advance.

Capital risk
Capital risk arises from the management of the capital structure, which consists mainly of the loans and borrowings detailed in note 26 and shareholder equity. The capital structure should be managed to ensure the Group can remain a going concern, and to maximise shareholder funds. Detailed cash flow forecasts based on expected working capital requirements and expected capital projects are maintained throughout the year to ensure that the Group has sufficient funds to operate as a going concern using the available facilities.

Financial instruments not measured at fair value
Due to their short-term nature, the carrying value of cash and cash equivalents, trade and other receivables and trade and other payables approximates their fair value.

Fair value measurement
Any fair value measurement is categorised within the fair value hierarchy:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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.

Where the fair valuations are on a recurring basis the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

There have not been any transfers between levels in the hierarchy for any financial instruments.

28 Share-based payments

Scheme details and movements
Under the Management Incentive Plan ("MIP") senior executives of the Group are entitled to purchase B, C, D and E ordinary shares. The B, C, D and E ordinary shareholders are entitled to participate in proceeds on a sale of the Group in accordance with the Articles of the Company. Members of the plan must remain employees of the Group in order to retain their full entitlement to participate in proceeds. There are no other vesting conditions. The intrinsic value (being the difference between the cash paid and the fair value) at the date of grant is recognised as an equity-settled share-based payment and spread on a straight-line basis over the vesting period. The vesting period expires in the event of an exit.

28 Share-based payments (continued)

On 19 July 2022, Deuce Holdco Limited (a parent of the Group) issued 655,135 ordinary shares with a nominal value of £0.01, consisting of B4B, C2B, C4B, D2 and E2 shares. Subsequently, on 15 November 2022 and 6 December 2022, 239,833 and 67,859 C2B shares with a nominal value of £0.01 were issued. The shares were issued for total consideration of £4.8m which remains unpaid as at 31 December 2022. The share issues are treated as a modification of the existing scheme and an additional share based payment charge of £1.5m has been recognised in the year ended 31 December 2022.

The fair value of shares issued during the year was calculated using an option pricing model. The key valuation assumptions used were:

Risk free rate	2.2%
Estimated time to liquidity event	1.5 years

The following table shows the shares granted and outstanding at the beginning and end of the year:

	31 December 2022		31 December 2021	
	Weighted average exercise price	No. of shares	Weighted average exercise price	No. of shares
	£		£	
Outstanding at start of year	7.68	1,150,989	7.75	1,184,439
Granted during the year	5.02	962,827	-	-
Forfeited during the year	10.00	(4,850)	10.00	(33,450)
Outstanding at end of year	6.46	2,108,966	7.68	1,150,989
Exercisable at the end of the year		2,108,966		1,150.989

The shares can only be exercised in the event of an exit. The fair value of the shares outstanding at the end of the year ranges between £0.90 to £33.58 per share.

On 30 April 2022, Deuce Holdco bought back and cancelled 4,850 E shares with a nominal value of £1 each, for consideration of £0.05m. The consideration was equal to the outstanding balance of the limited recourse loan used to fund the purchase of these shares, plus accrued interest. The cancellation of shares has been recognised as a credit to the capital redemption reserve of Deuce Holdco Limited.

The expense recognised in employee expenses during the year is £2.9m (2021: £2.2m). This has increased on prior year due to the additional shares issued during the financial year.

29 Provisions

Group

	Legal claims £ 000	Senior Management Incentive Plan £ 000	Other £ 000	Total £ 000
At 1 January 2021 (restated)	-	138	712	850
New provisions created	5,000	-	995	5,995
Utilisation of provision	-	-	(42)	(42)
Release of provision	-	(80)	(173)	(253)
Unwinding of discount	-	-	11	11
Exchange differences	-	-	(23)	(23)
At 31 December 2021	5,000	58	1,480	6,538
New provisions created	2,500	102	-	2,602
Release of provision	-	-	(1,053)	(1,053)
Unwinding of discount	-	-	34	34
Exchange differences	-	-	47	47
At 31 December 2022	7,500	160	508	8,168

	31 December 2022 £ 000	31 December 2021 £ 000
Current provisions	310	691
Non-current provisions	7,858	5,847
Total provisions	8,168	6,538

a) Legal claims

Following a tragic accident on 21 April 2018 at David Lloyd Leeds, Leeds City Council has served prosecution papers upon the Company alleging a Health & Safety offence. The case has been listed for trial from 17 July 2023. A provision continues to be recognised on a prudent assessment of the potential outcome and included within legal claims provisions in the table above.

b) Senior Management Incentive Plan

The Senior Management Incentive Plan "SMIP" is an incentive plan for senior managers. Participants do not receive equity shares but rather an invitation to share in a bonus pool upon exit. The bonus on exit is calculated on the same basis as the amount receivable in respect of an E share, except it will be paid net of employment taxes.

c) Other provisions

Other provisions relate to a retention guarantee that has been withheld by the Group in relation to the Aravaca land purchase and estimated dilapidation costs for the Solihull and Maidstone clubs. Release of provisions during the year primarily relate to a reassessment of the Solihull and Maidstone dilapidations.

30 Deferred tax

Deferred tax assets and liabilities are offset where the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances (after offset) for financial reporting purposes. These Deferred tax assets and liabilities are not offset because these balances do not unwind on the same basis.

Deferred tax liabilities

	Land and buildings	IFRS 16: Leases	Brand	Leasehold intangible	Total
	£ 000	£ 000	£ 000	£ 000	£ 000
At 1 January 2021	51,748	116,842	14,156	7,927	190,673
Acquired through acquisitions of subsidiaries	-	620	-	-	620
(Credit)/charge to the income statement	(1,488)	(6,806)	1,416	(702)	(7,580)
Change in tax rate	16,342	35,030	4,470	2,501	58,343
Foreign exchange movements	-	(428)	-	-	(428)
At 31 December 2021	66,602	145,258	20,042	9,726	241,628
Acquired through acquisitions of subsidiaries	-	9,328	-	-	9,328
Charge/(credit) to the income statement	796	(13,555)	(5,428)	1,693	(16,494)
Foreign exchange movements	-	256	-	-	256
At 31 December 2022	67,398	141,287	14,614	11,419	234,718

30 Deferred tax (continued)

Deferred tax assets	**Fixtures and fittings**	**Losses**	**IFRS 16: Leases**	**Other**	**Total**
	£ 000	**£ 000**	**£ 000**	**£ 000**	**£ 000**
At 1 January 2021	32,707	9,906	87,059	23,636	153,308
Acquired through acquisitions of subsidiaries	-	-	379	-	379
Credit/(charge) to the income statement	34	402	(12,154)	9,716	(2,002)
Change in tax rate	9,663	3,128	22,380	7,429	42,600
Foreign exchange movements	(149)	-	(1,138)	-	(1,287)
At 31 December 2021	42,255	13,436	96,526	40,781	192,998
Acquired through acquisitions of subsidiaries	-	-	5,342	-	5,342
Credit/(charge) to the income statement	(3,585)	(3,732)	(22,419)	5,153	(24,583)
Foreign exchange movements	126	-	774	-	900
At 31 December 2022	38,796	9,704	80,223	45,934	174,657

In addition to the recognised deferred tax assets and liabilities above, the Group has unrecognised deferred tax assets of £2.3m (2021: £2.3m) in respect of the UK property portfolio, and unrecognised deferred tax assets of £49.2m (2021: £35.2m) in relation to carried forward losses where it is not sufficiently probable they will be utilised against future profits.

31 Share capital and equity reserves

Allotted, called up and fully paid shares

	31 December 2022		31 December 2021	
	No. 000	£ 000	No. 000	£ 000
Ordinary shares of £1 each	425,798	425,798	425,798	425,798

Share premium

Share premium represents the premium arising on issue of ordinary shares.

Capital contribution reserve

The capital contribution reserve represents the sale of shares from David Lloyd Group Employee Share Trust in 2018.

Merger reserve

The Merger reserve represents balances arising on group common control transactions.

Foreign currency translation reserve

Foreign exchange differences arising on translating the net assets of foreign operations.

Share based payment reserve

The share based payment reserve represents the credit to equity for equity-settled share based payments.

Other reserves

Other reserves represents proceeds from parent companies for the issue of shares by DLL Greenwich Limited, a subsidiary of the Company.

Accumulated losses

Accumulated losses represent cumulative losses recognised up to the balance sheet date.

32 Commitments

Group

Capital commitments

The Group had committed to providing spa retreats at existing sites in Dublin, Bushey and Heston, and providing a significant refurbishment at five existing sites in Barcelona, Gava, Geneva, Malaga and Zaragoza. At the statement of financial position date, the amount contracted for but not provided in the financial statements was £5.9m (2021: £nil).

In 2021, the Group had committed to providing a padel court at an existing site in Raynes Park, a resort concept at Hampton and providing a significant refurbishment of one existing site in Geneva and one new site in Cricklewood. The total amount contracted but not provided in the financial statements as at 31 December 2021 was £7.2m. These projects have subsequently been completed and the costs are shown within additions in the PP&E note.

The Group has committed to building new clubs in Rugby and Shawfair. At the statement of financial position date, the amount contracted for but not provided in the financial statements was £13.5m (2021: £nil).

33 Post balance sheet events

On 18 January 2023, the Group exchanged contracts to acquire freehold land in Bury St Edmunds, subject to planning permission.

On 10 February 2023, the Group purchased the entire issued share capital of Country Clubs (UK) Limited and Country Clubs and Leisure Limited for cash consideration of £6.0m, which operates a club named Wickwoods Country Club in West Sussex. The direct costs of acquisition which will be charged to the income statement are £0.6m. The identification of the fair value of assets and liabilities on acquisition is ongoing.

On 15 February 2023 we announced that our Maidstone club would close on 31 May 2023 and on 1 April 2023 we closed our Blaze Studio in Birmingham. All related assets were fully impaired as at 31 December 2022.

On 22 March 2023 the Group purchased land for the carpark for the club in Aravaca, Spain for €1.6m.

On 3 April 2023, the Group entered into an agreement to lease a new site in Meerbusch, Dusseldorf subject to planning permission.

34 Contingent liabilities

During the year there was a tragic fatal accident at the David Lloyd Luton Club. Presently it is too early to conclude whether there is an obligation that will require an outflow of resources embodying economic benefits.

35 Related pary transactions

Key management personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activity of the Group, including the Directors and senior management of the Group listed on pages 24 to 26.

The remuneration for key management personnel for the year was as follows:

	31 December 2022 £ 000	**31 December 2021 £ 000**
Short-term employee benefits	2,663	2,292
Post-employment benefits	59	55
	2,722	2,347

Summary of transactions with other related parties

Since 1 November 2013, TDR (employees of which sit on the Board) has provided managerial advice to the Group, for which a fee is due annually. For the year ended 31 December 2022, £2,000,000 (2021: £2,000,000) was charged, of which £500,000 (2021: £500,000) remains unpaid as at the statement of financial position date.

TDR also provided operating partner services for the year ended 31 December 2021, for which £19,000 was charged. No services were provided for the year ended 31 December 2022.

36 Parent and ultimate parent undertaking

At the statement of financial position date the Company's immediate parent is Deuce Parentco Limited, a Company incorporated in the United Kingdom and registered in England and Wales. The financial statements of Deuce Parentco Limited can be obtained from the Register of Companies, Companies House, Crown Way, Maindy, Cardiff, CF14 3YZ.

Deuce Midco Limited is the smallest and Deuce Topco Limited is the largest group undertaking for which group financial statements are prepared and of which the Company is a member. The financial statements of Deuce Midco Limited and Deuce Topco Limited can be obtained from the Registrar of Companies, Companies House, Crown Way, Maindy, Cardiff CF14 3UZ.

The ultimate parent of the Company is Deuce Holding S.à r.l. and the ultimate controlling party is a group of investment funds managed by TDR Capital LLP (registered office: 20 Bentinck Street, London W1U 2EU).